

TALLINNA FARMAATSIATEHASE AS

*Interim report for
the period 01 January – 30 June 2000*

Balance sheets			
In kroons	Notes	30.06.2000	31.12.1999
A S S E T S			
CURRENT ASSETS			
Cash and bank accounts	1	922 346	1 782 453
Customer receivables			
ACCOUNTS RECEIVABLE		2 021 350	3 443 052
ALLOWANCE FOR DOUBTFUL RECEIVABLES	2	(461 774)	-
Total		1 559 576	3 443 052
Other receivables			
RECEIVABLES FROM PARENT COMPANY	19	22 964 676	22 601 230
OTHER SHORT-TERM RECEIVABLES		1 601 723	3 047 857
Total		24 566 399	25 649 087
Accrued income			
INTEREST		36 680	36 680
DIVIDENDS		-	-
Total		36 680	36 680
Prepaid expenses			
PREPAID TAXES		331 941	386 029
OTHER PREPAID EXPENSES		27 346	86 639
Total		359 287	472 668
Inventories	3		
RAW MATERIAL		11 872 418	12 380 073
WORK-IN-PROGRESS		770 358	879 183
FINISHED GOODS		19 073 224	12 415 396
PREPAYMENTS TO SUPPLIERS		181 718	1 265 723
Total		31 897 718	26 940 375
TOTAL CURRENT ASSETS		59 342 006	58 324 315
NON-CURRENT ASSETS			
Long-term investments			
OTHER LONG-TERM RECEIVABLES	6	482 170	480 257
Total		482 170	480 257
Fixed assets	4		
FIXED ASSETS IN NET BOOK VALUE		31 629 115	33 561 347
CONSTRUCTION IN PROGRESS		2 128 280	1 344 000
Total		33 757 395	34 905 347
Intangible assets			
LICENCES, PATENTS	5	2 687 540	3 218 194
Total		2 687 540	3 218 194
TOTAL NON-CURRENT ASSETS		36 927 105	38 603 798
TOTAL ASSETS		96 269 111	96 928 113

The notes 1-21 are integral parts of financial statements

Balance sheets

In kroons	Notes	30.06.2000	31.12.1999
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
CURRENT LIABILITIES			
Short-term loans and notes	7		
CURRENT PORTION OF LONG-TERM DEBT		3 851 539	7 703 078
SHORT-TERM BANK LOANS		-	417 912
Total		3 851 539	8 120 990
Customers prepayments		-	44 513
Accounts payable			
ACCOUNTS PAYABLE		14 161 937	13 130 146
Total		14 161 937	13 130 146
Other payables			
PAYABLES TO PARENT COMPANY	19	508 766	1 005 831
Total		508 766	1 005 831
Taxes payable	8	1 315 757	1 574 862
Accrued expenses			
PAYABLES TO EMPLOYEES		681 820	1 395 529
INTEREST PAYABLE		130 967	126 768
DIVIDENDS PAYABLE		446 814	446 814
OTHER ACCRUED EXPENSES		292 744	357
Total		1 552 345	1 969 468
TOTAL CURRENT LIABILITIES		21 390 344	25 845 810
NON-CURRENT LIABILITIES			
Long-term debt obligations			
BANK LOANS	9	30 812 315	30 812 315
Total		30 812 315	30 812 315
Other long-term payables			
PAYABLES TO PARENT COMPANY	19	28 232 433	28 232 433
Total		28 232 433	28 232 433
TOTAL NON-CURRENT LIABILITIES		59 044 748	59 044 748
TOTAL LIABILITIES		80 435 092	84 890 558
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	10	12 500 000	12 500 000
RESERVES	11		
Mandatory legal reserve		1 250 000	1 250 000
Other reserves		1 066 210	1 066 210
Total		2 316 210	2 316 210
RETAINED EARNINGS (ACCUMULATED DEFICIT)		(2 778 655)	(8 560 442)
PROFIT (LOSS) FOR FINANCIAL YEAR		3 796 464	5 781 787
SHAREHOLDERS' EQUITY TOTAL		15 834 019	12 037 555
LIABILITIES AND SHAREHOLDERS' EQUITY TOTAL		96 269 111	96 928 113

The notes 1-21 are integral parts of financial statements

Statements of Profit & Loss

In kroons	Notes	01.04.00- 30.06.00	01.04.99- 30.06.99	01.01.00- 30.06.00	01.01.99- 30.06.99
REVENUE					
NET SALES	12	19 443 289	14 273 499	46 302 134	30 992 314
CHANGE IN WORK-IN-PROGRESS AND FINISHED GOODS INVENTORIES		5 869 170	674 659	6 549 004	(1 466 194)
OTHER OPERATING INCOME	13	2 242 406	914 629	4 254 322	3 755 288
TOTAL		27 554 865	15 862 787	57 105 460	33 281 408
EXPENSES					
MATERIALS, CONSUMABLES AND OTHER OPERATING EXPENSES	14	(14 683 450)	(8 384 835)	(28 637 983)	(14 065 968)
PERSONNEL EXPENSES	15	(2 791 113)	(1 485 040)	(7 334 298)	(2 969 714)
WAGES & SALARIES	16	(3 111 588)	(3 407 092)	(6 255 676)	(6 467 614)
SOCIAL TAXES		(1 074 973)	(1 145 205)	(2 155 559)	(2 167 954)
DEPRECIATION AND AMORTISATION	4,5	(1 333 509)	(1 473 666)	(2 686 908)	(3 069 757)
OTHER OPERATING EXPENSES	17	(2 179 080)	(1 103 155)	(2 888 306)	(2 378 109)
TOTAL		(25 173 713)	(16 998 994)	(49 958 730)	(31 119 116)
OPERATING PROFIT (LOSS)		2 381 152	(1 136 206)	7 146 730	2 162 292
FINANCIAL INCOME					
FINANCIAL INCOME RELATED TO ASSOCIATES		-	(5 838)	-	30 430
FOREIGN EXCHANGE GAIN		8 366	9 775	9 699	60 962
OTHER FINANCIAL AND INTEREST INCOME		22 061	19 856	31 697	31 857
TOTAL		30 427	23 793	41 396	123 249
FINANCIAL EXPENSES					
INTEREST EXPENSES		(1 648 301)	(1 349 779)	(3 316 376)	(2 754 879)
FOREIGN EXCHANGE LOSS		(33 754)	(25 940)	(60 464)	(48 705)
AMORTISATION OF GOODWILL		-	(567 501)	-	(1 135 002)
OTHER FINANCIAL EXPENSES		(13 371)	(12 551)	(14 822)	(46 746)
TOTAL		(1 695 426)	(1 955 771)	(3 391 662)	(3 985 332)
PROFIT (LOSS) BEFORE TAXES		716 153	(3 068 184)	3 796 464	(1 699 791)
INCOME TAX		-	355 782	-	-
NET PROFIT (LOSS) FOR FINANCIAL YEAR		716 153	(2 712 402)	3 796 464	(1 699 791)
EARNINGS (LOSS) PER SHARE	18	0.59		3.04	

The notes 1-21 are integral parts of financial statements

Statements of Shareholders' Equity

Statements of Shareholders' Equity for the years ended 30 June 2000 and 1999 is following:

	Share capital EEK	Reserves EEK	Retained earnings (accumulated deficit) EEK	Net profit (loss) for financial year EEK	Total shareholders' equity EEK
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
Transfer of net loss to retained earnings	-	-	5 781 787	(5 781 787)	-
Net profit for financial period	-	-	-	3 796 464	3 796 464
March 31, 2000	12 500 000	2 316 210	(2 778 655)	3 796 464	15 834 019

As of 31 June 2000 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 1-21 are integral parts of financial statements

Statements of Cash Flows

In kroons	Notes	01.01.00- 30.06.00
CASH FLOW FROM OPERATING ACTIVITIES		
NET PROFIT (LOSS) BEFORE TAXATION		3 796 464
Adjustments to reconcile net profit to net cash provided by (used in) operating activities:		7,353,486
Interest expenses		3 457 966
Interest income		(31 696)
Foreign exchange (profit) loss		50 765
Deprecation	4	2 156 254
Expenses from increase of allowance for receivables	2	1 543 255
Loss (profit) on disposal of fixed assets		(125 424)
Income gained of written off debts		(228 288)
Amortisation	5	530 654
CHANGES IN CURRENT ASSETS AND LIABILITIES:		(3 611 277)
Accounts receivable		340 221
Other receivables		1 082 688
Prepaid expenses		113 381
Inventories		(4 957 344)
Customers prepayments		(44 513)
Accounts payable		1 031 791
Other payables		(497 065)
Accrued expenses		(421 322)
Taxes payable		(259 105)
INCOME TAX PAID		0
NET CASH PROVIDED BY OPERATING ACTIVITIES		7 538 673
CASH FLOW FROM INVESTING ACTIVITIES		
PROCEEDS FROM SALES OF FIXED ASSETS		125 424
ACQUISITION OF TANGIBLE ASSETS	4	(224 022)
UNFINISHED BUILDING		(784 280)
GIVEN LOANS		(1 912)
INTEREST RECEIVED		31 696
NET CASH PROVIDED BY (USED IN) FROM INVESTING ACTIVITIES		(853 094)
CASH FLOW FROM FINANCING ACTIVITIES		
LOANS REPAYMENTS		(4 269 451)
INTEREST PAID		(3 326 999)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		(7 596 450)
NET DECREASE IN CASH		(910 872)
CHAGE IN CASH AND CASH EQUIVALENTS		
AT BEGINING OF THE YEAR		1 782 453
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(50 765)
AT END OF THE YEAR		922 346

The notes 1-21 are integral parts of financial statements

Note 1. Cash and bank accounts

	30.06.2000	31.12.1999
Cash	25 815	15 928
Bank accounts (in EEK)	886 200	873 532
Bank accounts in foreign currency	-	882 662
Other	10 331	10 331
Total	922 346	1782 453

Note 2. Allowance for doubtful receivables

	30.06.2000	31.12.1999
Allowance at January	0	6 548 151
Increase in allowance	1 543 255	4 380 618
Disposals	(1 081 481)	(10 928 769)
Allowance at end of financial period	461 774	-

Note 3. Inventories

	30.06.2000	31.12.1999
Raw material in stock	11 872 418	12 380 073
Work-in-progress	770 358	879 183
Finished goods in plant	11 422 536	5 839 055
Finished goods in consignment stock	7 205 806	6 294 190
Finished goods in quality control	444 882	282 151
Total finished goods	19 073 224	12 415 396
Prepayments to suppliers	181 718	1 265 723
Total inventories	31 897 718	26 940 375

Note 4. Fixed assets

	30.06.2000	31.12.1999
At acquisition cost	59 248 516	59 257 652
Leased fixed assets at cost	-	-
Total	59 248 516	59 257 652
Accumulated depreciation	(27 619 401)	(25 696 305)
Depreciation of leased assets	-	-
Total	(27 619 401)	(25 696 305)
Assets under construction	2 128 280	1 344 000
Total net book value	33 757 395	34 905 347

2000	Buildings and facilities	Machinery, equipment	Computer equipment and other	Total
Acquisition cost 01.01.2000	23 569 866	32 040 531	3 647 255	59 257 652
Additions	-	134 160	89 862	224 022
Disposals	-	(233 158)	-	(233 158)
Renovation	-	-	-	-
Acquisition cost 30.06.2000	23 569 866	31 941 533	3 737 117	59 248 516
Accumulated depreciation 01.01.2000	(4 525 927)	(18 487 607)	(2 682 771)	(25 696 305)
Depreciation for the period	(453 896)	(1 406 067)	(296 291)	(2 156 254)
Disposals	-	233 158	-	233 158
Accumulated depreciation 30.06.2000	(4 979 823)	(19 660 516)	(2 979 062)	(27 619 401)
Net book value 30.06.2000	18 590 043	12 281 017	758 055	31 629 115

Note 5. Intangible assets

	30.06.2000	31.12.1999
Acquisition cost at the beginning of year	5 482 873	5 263 594
Addition	-	227 134
Disposal	-	(7 855)
Acquisition cost at the end of financial period	5 482 873	5 482 873
Accumulated amortisation at the beginning of year	(2 264 679)	(1 241 129)
Amortisation for the period	(530 654)	(1 031 405)
Disposals	-	7 854
Accumulated amortisation at the end of financial period	(2 795 333)	(2 264 680)
Net book value at the end of period	2 687 540	3 218 193

Note 6. Other long-term receivables

As at 31.12.1999 and 30.06.2000 long-term receivables consist of long-term portion of the loans to employees in amount of 482 170 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 7. Short-term debt obligations

	30.06.2000	31.12.1999
Current portion of long-term debt	3 851 539	7 703 078
Short-term bank loan	-	417 912
Total	3 851 539	8 120 990

The current portion of long-term debt includes payments due in 2000 of the loan of the Optiva Bank.

Note 8. Taxes payable

	30.06.2000	31.12.1999
Social tax	680 152	675 227
Income tax from fringe benefits	13 706	14 512
Personal income tax	268 338	237 358
Interests on taxes	353 561	647 765
Total	1 315 757	1 574 862

Note 9. Long-term debt obligations

Balance 31.12.1999	Agreement number	Interest rate	Payments 2000	Balance 30.06.2000
2 461 582 EUR	52/97	8 % + EURIBOR	246 158 EUR	2 215 424 EUR
38 515 393 EEK			3 851 539 EEK	34 663 854 EEK

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.

Balance 31.03.2000	34 663 854 EEK	2 215 424 EUR
Interest rate- 8% + EURIBOR		
Payments in 2000	3 851 539 EEK	246 158 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 10. Share capital

As at 30.06.2000 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 30 June 2000 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 11. 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 12. Net sales

Tallinn Pharmaceutical Company in the only full-cycle producer of medicines in Estonia at the current moment. There was produced 43 different medicines in 3 main groups- creams, ampoules and pills (incl. capsules, the production was started in 1997) during first half of 2000. The Company operates only in one segment- production and selling of medicines.

Breakdown of sales based on product groups:

	01.01.00-30.06.00	01.01.99-30.06.99-
Creams	19 006 025	9 861 564
Ampoules	6 689 084	4 942 292
Pills	20 607 025	15 165 599
Other sales	-	1 022 859
Total	46 302 134	30 992 314

Breakdown of sales based on countries:

	01.01.00-30.06.00	01.01.99-30.06.99
Estonian Republic	24,0 %	30,0 %
Latvian Republic	76,0 %	70,0 %

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

Note 13. Other operating income

01.01.00-30.06.00 01.01.99-30.06.99

Foreign exchange gain	3 434 756	3 742 524
Profit on disposal of fixed assets	125 424	11 911
Commission sales	607 551	-
Other operating income	86 591	853
Total	4 254 322	3 755 288

Note 14. Materials, consumables and supplies

01.01.00-30.06.00 01.01.99-30.06.99

Energy	1 076 402	691 041
Raw materials	25 567 250	11 656 890
Fuel, spare parts	57 419	36 856
Goods	121 169	94 778
Registration of medicines	1 160 390	397 747
Consignment storage fees	-	353 461
Transportation of finished goods	198 000	225 495
Reserve of quarantee	289 838	300 041
Customs expenses	73 060	111 419
Other	94 455	208 240
Total	28 637 983	14 065 968

Note 15. Other operating expenses

01.01.00-30.06.00

01.01.99-30.06.99

Transport	188 070	179 980
Repairs	331 453	244 741
Office expenses	73 683	64 266
Marketing	1 169 965	260 934
Training and consultations	303 469	399 779
Services	785 664	776 190
Representation costs	72 209	130 934
Leasing, rent	2 598	7 821
Travelling expenses	60 538	105 480
Other fees	159 918	171 228
Commission	2 464 010	53 963
Insurance	127 039	100 665
Other expenses	233 028	173 692
Bad debt expense	1 362 654	300 041
Total	7 334 298	2 969 714

Note 16. Personnel expenses

Salary in kroons		Average number of employees	
01.01.2000 - 30.06.2000	01.01.1999 - 30.06.1999	01.01.2000 - 30.06.2000	01.01.1999 - 30.06.1999

	01.01.2000 - 30.06.2000	01.01.1999 - 30.06.1999	01.01.2000 - 30.06.2000	01.01.1999 - 30.06.1999
Workers	3 048 966	2 510 945	151	135
Administration	2 840 169	3 261 539	60	58
Board	210 000	295 652	1	1
Other personnel expenses	156 541	399 478	-	-
Social taxes	2 155 559	2 167 954	-	-
Total	8 411 235	8 635 568	212	194

The average number of employees was 212 in Tallinna Farmaatsiatehase AS during the first half of 2000. The average salary in first half of 2000 was 4 572 kroons.

Note 17. Other expenses

	01.01.2000 - 30.06.2000	01.01.1999- 30.06.1999
Foreign exchange loss	2 379 744	1 627 058
Expensed VAT	275 757	129 116
Author's fees	111 574	-
Fines, penalties	460	300
Member's fees	(17 156)	503 544
Tax interests	27 000	25 000
	89 814	42 834
Other expenses	21 113	24 486
Total	2 888 306	2 378 109

Note 18. Earnings (loss) per share

	01.01.2000 - 30.06.2000	01.01.1999- 30.06.1999
Earnings per share		
Net profit (-loss)	3 796 464	(1 699 791)
Weighted average number of share	1 250 000	3 291 666
Earnings (loss) per share (EPS)	3.04	(0.52)

Note 19. Related party transactions19.1. Purchase transactions (EEK)

Related party	Balance 31.12.1999	Services and goods purchased	Balance 30.06.2000
PJSC Grindeks	8 183	Services and goods purchased 3 561 424 Paid 3 569 607	-

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

19.2. Sale transactions (EEK)

Related party	Balance 31.12.1999	Services and goods sold	Balance 30.06.2000
PJSC Grindeks	22 601 230	Goods sold 35 211 945	22 964 676
		Services sold 607 551	
		Paid 35 456 050	

19.3. 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 30.06.2000	28 741 199 EEK	3 592 650 DEM
Interest rate - 8 %		
Payments in 2000	508 766 EEK	63 596 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 508 766 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 20. 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 31.03.2000 322 131	

Note 21. 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 30 June 2000 accounts receivable from customers in CIS countries was 35 055 USD.

Currency risk

Export makes up 75 % of the sales of Tallinna Farmaatsiatehas 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 30 June 2000 were following:

	Assets	Liabilities
USD	1 534 222	249 559
DEM	-	3 871 370
FIM	59 060	1 604 618
EUR	722	2 215 424

Interest risk

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