

TALLINNA
FARMAATSIATEHASE AS

*Annual Report for
the Financial Year
Ended 31 December 2001*

TALLINNA FARMAATSIATEHASE AS

BOARD AND COUNCIL APPROVAL OF THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

Beginning of the financial year	1 January 2001
End of the financial year	31 December 2001
Name of the Company	Tallinna Farmaatsiatehase AS
Registration number	10093221
Address	Tondi 33 11316 Tallinn
Managing director	Ibrahim Muhtsi
Telephone	6 120 201
Facsimile	6 120 330
Field activity	Production of pharmaceuticals
Auditors	AS Deloitte & Touche Audit

The Management Board of Tallinna Farmaatsiatehase AS has prepared the management report and the annual accounts on 7 March 2002. The annual accounts have been prepared in accordance with Estonian Accounting Law, International Accounting Standards (IAS) and Generally Accepted Accounting Principles, and present true and fair view of Tallinna Farmaatsiatehase AS assets, liabilities, shareholders' equity and the result of operations. The Management Board deems Tallinna Farmaatsiatehase AS as a going concern entity.

The Council of Tallinna Farmaatsiatehase AS has reviewed the annual report of the financial year, prepared by the Management Board, consisting of the management report, annual accounts and the accompanying notes, proposal for the allocation of net profit and independent auditors' report, and has approved the annual report for presentation on the General Meeting.

The annual report has been signed by all members of the Management Board and the Council.

Name	Title	Signature	Date
Ibrahim Muhtsi	Chairman of the Board	_____	_____
Raivo Unt	Member of the Board	_____	_____
Jelena Borcova	Chairman of the Council	_____	_____
Alar Kiilmaa	Member of the Council	_____	_____
Ivo Beikmanis	Member of the Council	_____	_____
Lipman Zeligman	Member of the Council	_____	_____
Andres Toome	Member of the Council	_____	_____
Marcel Vichmann	Member of the Council	_____	_____

TALLINNA FARMAATSIATEHASE AS

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TALLINNA FARMAATSIATEHASE AS

MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

GENERAL DATA

As at 31 December 2001, the share capital of Tallinna Farmaatsiatehase AS was 12 500 000 EEK.

The number of employees as at 31 December 2001 was 178.

SHAREHOLDERS

The list of Tallinna Farmaatsiatehase AS shareholders holding more than 2% of shares as at 31 December 2001 is as follows:

<u>Shareholder</u>	<u>Number of shares</u>	<u>% of shares</u>
PJSC Grindeks	686 996	55.0
Floridian Trading International Ltd.	184 747	14.8
Sampo Pank	114 685	9.2
Nordea Bank Finland Plc clients	30 306	2.4
Pyramid Software AS	30 073	2.4

COUNCIL

Based on the decision of shareholders, the following Council members were elected from 3 June 2000:

Elita Liela	-	Chairman of the Council;
Ivo Beikmanis	-	Member of the Council;
Lipman Zeligman	-	Member of the Council;
Andres Toome	-	Member of the Council;
Marcel Vichman	-	Member of the Council.

Based on the decision of shareholders, the following Council members were elected from 20 March 2001:

Jelena Borcova	-	Chairman of the Council;
Ivo Beikmanis	-	Member of the Council;
Lipman Zeligman	-	Member of the Council;
Andres Toome	-	Member of the Council;
Marcel Vichmann	-	Member of the Council;
Alar Kiilmaa	-	Member of the Council.

BOARD

Until 19 March 2001, the members of the Board were following:

Jelena Borcova	-	Chairman of the Board;
Alar Kiilmaa	-	Member of the Board.

Since 19 March 2001, the members of the Board are following:

Ibraim Muhtsi	-	Chairman of the Board;
Raivo Unt	-	Member of the Board.

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MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

MANAGEMENT (as at 31 December 2001)

Raivo Unt	-	Finance Director;
Priit Allikajaka	-	Technical Director;
Irene Pehk	-	Head of production department;
Allan Ahtloo	-	Head of logistic department;
Maret Sihv	-	Head of development and registration department;
Ibraim Muhtsi	-	Head of sales planning department;
Raivo Kurs	-	Head of sales and marketing department;
Kadri Randveer	-	Head of personnel department;
Galina Kutepova	-	Head of quality control department.

FINANCIAL RESULTS IN 2001

The net sales of the Company was 85,790 million EEK in 2001. Tallinna Farmaatsiatehase AS developed itself continuously in the Latvian, Russian and CIS pharmaceuticals' markets. Compared to 2000 the corrected net sales (94,930 million EEK) decreased by 9,140 million EEK or 9,6%. The decrease of the net sales of Estonia's domestic market was 30,8% compared to the previous period. The volume of the sales of export decreased by 1,8%.

Tallinna Farmaatsiatehase AS concluded the financial year of 2001 with the net profit of 10,269 million EEK, which is 0,318 million EEK less than in the previous period.

Compared to 2000 the total operating expenses decreased by 6,009 million EEK of which the decrease in the cost of materials, consumables and supplies was 5,591 million EEK (11,7%) and the decrease in other expenses was 0,832 million EEK (11,7%). Interest expenses decreased by 0,939 million EEK or 14,3%. All other costs remained at the same level compared to year 2000.

Current assets decreased by 8,296 million EEK (13,3%), where optimizing raw materials gave effect of 5,720 million EEK. Non-current assets increased by 6,714 million EEK (17,9%). Current liabilities decreased by 5,433 million EEK (18,8%), where accounts payable to suppliers decreased by 7,516 million EEK (54,8%) and debt liabilities increased by 2,400 million EEK (29,3%). Non-current liabilities decreased by 6,419 million EEK (13,3%), which took place in accordance with the planned payment schedules. Shareholders' equity increased by 10,269 million EEK (45,4%), reaching total amount of 32,894 million EEK. Total assets decreased by 1,583 million EEK or 1,6%.

Return on equity (ROE) became 31,2%, earnings per share 8.22 EEK.

INVESTMENTS IN FIXED AND INTANGIBLE ASSETS

Main investments in year 2001 was building of a new warehouse for raw materials and finished goods. In the building process all the international building requirements for this kind of building in pharmacy industry were followed.

In the ointment department were prepared for installing and implementing of new ointment production equipment DISHO.

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MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

Company's heating system was fully renovated, resulting in a new steam-generator fuelled by natural gas being taken into use. This investment enabled to avoid completely the pollution of the surrounding environment with the combustion residue from the crude oil and decreased the current expenditures on heating.

Investments in fixed assets were made in the total amount of 12,096 million EEK, that included intangible fixed assets (licenses) in amount of 0,675 million EEK, fixed assets in amount of 7,246 million EEK and fixed assets acquired through financial lease in amount of 4,175 million EEK.

PRODUCTION AND PRODUCT DEVELOPMENT

In 2001, Tallinna Farmaatsiatehase AS produced over 40 different pharmaceuticals, including injections, tablets and ointments. The output was 14,799 million packages which is 20% less than in previous year. The fact can be explained with the reduction in sales volumes in some regions, also during previous periods sufficient quantities of finished goods were produced, this means enough stock was held for sale.

During the year 2001, the synchronisation of the production documentation with international requirements and standards continued. Lots of attention was paid to the training of employees: principles of management, financial reporting, production management in accordance with the Good Manufacturing Practice (GMP).

In 2001, 47 pharmaceuticals were submitted for registration or reregistration in 10 countries. In 2001, 13 pharmaceuticals were registered (in 7 countries).

In connection with the requirements regarding standardised packaging in the Baltic States, a baltic package was developed and designed in year 2001, which was implemented in sales to all Baltic States.

SALES

Year 2001 was not so successful for the sales as previous. Comparing to year 2000 the export sales remained almost at the same level. In all export markets active sales policy was implemented. The Company was actively seeking new markets and cooperation partners.

During the year 2001 competition in Estonian market was increased significantly. Also from 1 January 2001 new amendment of the law became into force adding 5% value added tax to pharmaceuticals. This also affected sales results of the first half year in Estonia. Total sales for the year in domestic market decreased approximately by 7 million EEK. To stabilise the sales in Estonia, the structure of sales organisation was changed. As the result the sales results of the second half of the year became stable.

The activities undertaken created a firm foundation for more successful sales in 2002 in all markets.

TALLINNA FARMAATSIATEHASE AS

MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

FUTURE OUTLOOK

Main goals in year 2002 will be organising Company's production activities according to the international requirements and standards. The priority in this area will be continuously production of ointments. One of the main tasks is to obtain the license of the Good Manufacturing Practice (GMP) in the production of ointments, which will make it possible to solve problems regarding registration of ointments and obtaining sales permits in Central-European countries.

According to the decree from 29.11.1999 of the Minister of Social Affairs of the Republic of Estonia, the production of tablets should be in accordance with the GMP standards. To follow the decree of the Minister of Social Affairs, Tallinna Farmaatsiatehase AS and PJSC Grindeks concluded license agreement regarding removing tablet production to Grindeks, where all production conditions are in accordance with the GMP requirements.

Starting from 1 July 2002 the decree of the Minister of Social Affairs will become into force regarding injection production in accordance with the GMP requirements. Currently the management of Tallinna Farmaatsiatehase AS is searching for possible partners for organising the injection production under a license agreement.

Investment program foresees the development of the quality control department and development of the laboratories of the registration department. Active work for developing new ointments will be continued.

In marketing and sales area the priority in 2002 will be to strengthen positions in export markets and active activities in the product development area in cooperation with partners.

Ibraim Muhtsi
Chairman of the Board

[Translation from Estonian]

INDEPENDENT AUDITORS' REPORT

To the Board and the shareholders of Tallinna Farmaatsiatehase AS:

We have audited the accompanying balance sheets of Tallinna Farmaatsiatehase AS ("the Company") as of 31 December 2001 and 2000, and the related statements of income, cash flows and changes in equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

The fixed assets of the Company include tablet production machinery with a net book value of 4 million Estonian kroon as of 31 December 2001. The management of the Company has announced its decision to discontinue tablet production as stated in Note 24, and signed a license agreement for the outsourcing the manufacturing of tablets, therefore such machinery should be valued at net realizable value. The attached financial statements contain no adjustment for bringing these assets to the net realizable value and disclosures required under IAS 35 relating to the discontinuation of tablet production.

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December, 2001 and 2000, and the results of its operations, cash flows and changes in equity for the years then ended in accordance with International Accounting Standards and Estonian Accounting Law.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. In accordance with the Regulations for Production of Pharmaceuticals, instituted by decree No. 74 from 29 November 1999 by the Minister of Social Affairs of the Republic of Estonia, the production of pharmaceuticals of the Company must comply with the Good Manufacturing Practice from 1 July 2001. Appendix 1 to the above decree states that the production of sterile pharmaceuticals must be in compliance with the Good Manufacturing Practice by 1 July 2002. The inability of the Company to comply with the above decree raises substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are described in Note 23 and the management report. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Villu Vaino
Certified Auditor
Tallinn,
2 April 2002

Deloitte & Touche

TALLINNA FARMAATSIATEHASE AS

**BALANCE SHEETS
AS AT 31 DECEMBER 2001 AND 2000**

	Note	31.12.2001 EEK	31.12.2000 EEK
ASSETS			
Current assets			
Cash and bank accounts	2	390 337	714 914
Customer receivables			
Accounts receivable		3 331 335	4 979 346
Other receivables			
Receivables parent company	21	29 231 612	30 374 686
Other short-term receivables		97 228	98 000
Total		29 328 840	30 472 686
Accrued income			
Interest receivable		-	36 684
Prepaid expenses			
Prepaid taxes	3	551 744	212 837
Other prepaid expenses		135 249	369 477
Total		686 993	582 314
Inventories	4		
Raw material		6 415 268	12 134 774
Work-in-progress		402 580	565 142
Finished goods		13 303 460	11 653 806
Prepayments to suppliers		315 597	1 331 216
Total		20 436 905	25 684 938
Total current assets		54 174 410	62 470 882
Non-current assets			
Long-term financial investments			
Miscellaneous long-term receivables	5	424 119	448 959
Fixed assets	6		
Land and buildings		33 679 350	27 567 278
Plant and equipment		32 115 398	31 484 221
Other equipment and fixtures		4 129 469	3 497 784
Accumulated depreciation		(32 978 249)	(28 919 683)
Unfinished construction		3 821 374	119 000
Prepayments for fixed assets		316 747	6 018
Total		41 084 089	33 754 618
Intangible assets	6		
Purchased concessions, patents, licenses, trade marks, etc.		2 249 259	2 494 398
Prepayments for intangible assets		375 950	721 740
Total		2 625 209	3 216 138
Total non-current assets		44 133 417	37 419 715
TOTAL ASSETS		98 307 827	99 890 597

The notes on pages 14-30 are integral parts of financial statements

TALLINNA FARMAATSIATEHASE AS

**BALANCE SHEETS
AS AT 31 DECEMBER 2001 AND 2000**

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31.12.2001 EEK	31.12.2000 EEK
Current liabilities			
Short-term loans and notes			
Unsecured debt	7	1 184 417	496 486
Current portion of long-term debt	9	9 414 873	7 703 078
Total		<u>10 599 290</u>	<u>8 199 564</u>
Supplier payables			
Accounts payable		6 198 330	13 714 395
Other payables			
Payables to parent company	21	4 203 863	3 881 685
Taxes payable	3	39 159	700 899
Accrued expenses			
Due to employees		1 541 254	1 495 369
Dividends payable	8	446 814	446 814
Interest payable		92 155	114 767
Other accrued expenses		305 975	306 773
Total		<u>2 386 198</u>	<u>2 363 723</u>
Total current liabilities		<u>23 426 840</u>	<u>28 860 266</u>
Non-current liabilities			
Long-term liabilities			
Non-convertible debt	7	3 010 227	945 673
Bank loans	9	18 829 749	23 109 237
Total		<u>21 839 976</u>	<u>24 054 910</u>
Other long-term payables			
Payables to parent company	21	20 146 885	24 350 748
Total non-current liabilities		<u>41 986 861</u>	<u>48 405 658</u>
Total liabilities		<u>65 413 701</u>	<u>77 265 924</u>
Shareholders' equity			
Share capital	12	12 500 000	12 500 000
Reserves	13		
Statutory legal reserve		1 250 000	1 250 000
Other reserves		1 066 210	1 066 210
Retained earnings (accumulated deficit)		7 808 463	(2 778 655)
Net profit for the financial year		10 269 453	10 587 118
Total shareholders' equity		<u>32 894 126</u>	<u>22 624 673</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>98 307 827</u>	<u>99 890 597</u>

The notes on pages 14-30 are integral parts of financial statements

TALLINNA FARMAATSIATEHASE AS

**STATEMENTS OF PROFIT AND LOSS
FOR THE YEAR 2001 AND 2000**

	Note	2001 EEK	2000 EEK
Revenue			
Net sales	14	85 789 929	94 930 186
Change in work-in-progress and finished goods inventories		1 487 092	(1 075 631)
Other revenue	15	8 009 363	8 501 869
Total revenue		95 286 384	102 356 424
Operating expenses			
Materials, consumables and supplies	16	(42 183 653)	(47 774 873)
Miscellaneous operating expenses	17	(7 356 410)	(7 631 914)
Personnel expenses	18		
Salaries		(13 322 227)	(12 838 933)
Social taxes		(4 578 937)	(4 397 569)
Depreciation			
Depreciation, amortisation and value adjustments	6	(5 350 057)	(5 324 814)
Other expenses	19	(6 287 905)	(7 120 104)
Total operating expenses		(79 079 189)	(85 088 207)
Operating profit		16 207 195	17 268 217
Financial income			
Foreign exchange gain		8 249	11 966
Other interest and similar income		37 881	52 368
Total financial income		46 130	64 334
Financial expenses			
Interest expenses		(5 616 244)	(6 555 419)
Foreign exchange loss		(197 185)	(130 212)
Other financial expenses		(170 443)	(59 802)
Total financial expenses		(5 983 872)	(6 745 433)
Net profit for the financial year		10 269 453	10 587 118
Earnings per share	20	8.22	8.47

The notes on pages 14-30 are integral parts of financial statements

TALLINNA FARMAATSIATEHASE AS**STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEAR 2001 AND 2000**

Statements of Shareholders' Equity is the following:

	Share capital EEK	Reserves EEK	Retained earnings (accumulated deficit) EEK	Net profit for the financial year EEK	Total EEK
31 December 1999	12 500 000	2 316 210	(8 560 442)	5 781 787	12 037 555
Transfer of net profit to accumulated deficit	-	-	5 781 787	(5 781 787)	-
Net profit for the financial year	-	-	-	10 587 118	10 587 118
31 December 2000	12 500 000	2 316 210	(2 778 655)	10 587 118	22 624 673
Transfer of net profit to accumulated deficit	-	-	10 587 118	(10 587 118)	-
Net profit for the financial year	-	-	-	10 269 453	10 269 453
31 December 2001	12 500 000	2 316 210	7 808 463	10 269 453	32 894 126

The notes on pages 14-30 are integral parts of financial statements

TALLINNA FARMAATSIATEHASE AS

**STATEMENTS OF CASH FLOWS
FOR THE YEAR 2001 AND 2000**

	Note	2001 EEK	2000 EEK
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit		10 269 453	10 587 118
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation and amortisation	6	5 350 057	5 324 814
Expenses from increase of allowance for doubtful receivables		-	1 414 939
Profit on disposal of fixed and intangible assets	15	-	(249 688)
Loss on write-off and disposal of fixed assets		7 204	4 063
Interest income		(37 881)	(52 364)
Interest expense		5 616 244	6 555 419
Changes in current assets and liabilities:			
Accounts receivable		1 648 011	(2 951 233)
Other receivables		1 115 925	(4 843 978)
Prepaid expenses		(104 679)	(109 646)
Inventories		5 248 033	1 255 437
Customer prepayments for goods and services		-	(44 513)
Supplier payables		(7 516 065)	584 249
Other payable		-	(8 183)
Taxes payable		(661 740)	(873 963)
Accrued expenses (excl. interest)		45 087	406 256
Net cash provided by operating activities		20 979 649	16 998 727
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of fixed and intangible assets	6	(12 095 803)	(4 278 779)
including with finance lease (+)	7	4 175 450	2 146 967
Proceeds from disposal of fixed and intangible assets		-	352 375
Loans granted		(2 000)	(17 500)
Repayments of loans granted		54 761	69 177
Interests received		74 565	52 360
Net cash used in investing activities		(7 793 027)	(1 675 400)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayments of loans		(6 449 378)	(9 118 638)
Finance lease payments	7	(1 422 965)	(704 808)
Interests paid		(5 638 856)	(6 567 420)
Net cash used in financing activities		(13 511 199)	(16 390 866)
Total cash flow		(324 577)	(1 067 539)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		714 914	1 782 453
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		390 337	714 914

The notes on pages 14-30 are integral parts of financial statements

TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

NOTE 1. ACCOUNTING PRINCIPLES AND ESTIMATES

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

The annual accounts have been prepared in Estonian kroons (EEK).

The Company produces and markets pharmaceuticals in Estonia and Latvia. As at 31 December 2001 the Company had 178 employees. The parent company of Tallinna Farmaatsiatehase AS is PJSC Grindeks. The shares of Tallinna Farmaatsiatehase AS are listed in the secondary list of Tallinn Stock Exchange.

Foreign currency transactions

Transactions denominated in foreign currency are translated into EEK at the official exchange rate of the Bank of Estonia on the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the rate of exchange on the balance sheet date. Profits and losses from changes in foreign currency exchange rates are recorded in the statement of profit and loss for the period they occur as income or expenses. The following are the applicable rates of the principal currencies in EEK:

Currency	31.12.2001	31.12.2000
USD	17,69182	16,8198
DEM	8,0000	8,0000
FIM	2,6316	2,6316
RUR	0,5796	0,5871

Cash and bank accounts

Cash and bank accounts comprise of petty cash and deposits in credit institutions. Cash flow statement is prepared using the indirect method.

Valuation of receivables

Receivables recorded on the balance sheet are valued on the basis of the estimated receivable amount. Accounts receivable what are considered to be doubtful are expensed during the financial year. Receivables what have previously been written off but what have been received during the accounting period are recorded on the same expense account as a reverse entry.

Inventories

Purchased goods, raw materials and supplies are recorded at acquisition cost consisting of direct and indirect purchasing expenses incurred in order to bring the inventories to their present state and condition. Work in progress and unfinished goods are initially recorded at the cost of the production what consists of direct and indirect manufacturing costs.

Inventories are recorded using to the weighted average cost method. Inventories are valued on the balance sheet at the lower of cost or net realizable value. Inventories in the consignment stocks are recorded at production cost.

TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

A warranty reserve is made for the write off of the pharmaceuticals, which have passed the expiry date and do not meet quality standards.

Fixed assets

Fixed assets are assets with useful life over one year and with the value over 5 000 EEK. The fixed assets are recorded at the acquisition cost consisting of purchase price, non-recoverable duties and taxes, and other direct cost attributable to bringing the asset to working condition for its intended use.

Depreciation has been calculated on the cost of fixed assets according to their expected useful life using the straight-line method, applying the following annual rates to different groups of fixed assets:

- buildings - 4% per year;
- machinery and equipment - 10-25% per year;
- other equipment - 25% per year.

Additional expenditure on fixed assets is capitalized and added to the cost of fixed assets if these increase the productivity of the fixed asset and it is probable that future economic benefits in excess of the originally assessed performance will flow to the Company. Ordinary repair and maintenance expenditure is expensed when incurred.

Intangible assets

The sales and production licenses of pharmaceuticals are recorded as intangible assets. Licenses are recorded at the acquisition cost and amortised using straight-line method during their validity period. All recorded licenses are valid up to 5 years.

Revenue recognition

Net sales are recorded on to accrual basis. Net sales comprise of the income received from the goods and services sold of which sales discounts and taxes have been subtracted. Sales of services are recorded in the period when the service has been provided.

Interest income is recorded on the accrual basis.

Research and development costs

Research and development costs are expensed in the period they occur.

Liabilities

Liabilities with payment terms over one year after the end of the balance sheet date are considered to be long-term liabilities. Other liabilities are recorded as short-term.

Holiday allowance is recorded when liability arisen, that is when an employee has right for a holiday. Holiday payment earned is recorded in the statement of profit and loss as an expense and on the balance sheet as a short-term liability.

TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

Reserves

Statutory legal reserve is recorded based on the requirements of the Commercial Code and is comprised of the provisions made of the net profit. The annual provision must be at least 1/20 of the approved net profit of the financial year until the legal reserve reaches to 1/10 from paid in share capital.

Accounting for leases

A lease transaction is accounted as operating lease if both conditions are met:

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

A lease contract is treated as finance lease if all relevant risks and returns from the contract are transferred to the lessee.

Earnings per share

Calculation of earnings per share is based on the net profit for the financial year, adjusted with dividends on preferred shares.

Diluted earnings per share are calculated according to the amount of net profit for the period per share, adjusted as follows: net profit for the year will be increased by the dividend and interest expenses adjusted by the income tax resulting from the potential common shares.

Subsequent events

Significant factors influencing the valuation of assets and liabilities what occurred during the period from the balance sheet date 31 December 2001 and the date of the preparation of the annual accounts by the Management Board 7 March 2002, are recorded in the annual accounts.

Use of estimates

The preparation of the annual accounts in accordance with generally accepted accounting principles requires the management use of estimations that affect the assets and liabilities of the Company as of balance sheet date and income and expenses in the accounting period. The estimations are based on up-to-date information regarding the Company's future position, future plans and risks up until the annual accounts preparation date. The actual outcome of transactions may vary from the estimations.

Reclassification

Certain balances in the year 2000 are reclassified according to the year 2001 presentations as follows:

Account balance	Beginning balance EEK	Correction EEK	Corrected balance EEK
Net sales	102 172 444	(7 242 258)	94 930 186
Miscellaneous operating expenses	14 874 172	7 242 258	7 631 914

TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

Fair value of financial instruments

As at the balance sheet date the Company does not have financial instruments, which recording and disclosure would substantially differ before and after the implementation of accounting principles provided in IAS 39. Therefore, the financial statements of the Company do not include revaluation proceeding from the first-time implementation of IAS 39.

Segment reporting

The Company is operating in one business segment – production of pharmaceuticals. In determining the segment, the following circumstances have been considered whereby the activities with different profitability and risks are not included in the single business segment:

- characteristics of a product or a service;
- characteristics of a manufacturing process;
- characteristics of a group of products or services;
- characteristics of the marketing of products or services;
- characteristics of the regulatory environment of the operating activity.

The determination of the geographical segment is based on either the location of the operations or markets. The determination of the geographical segment is based on the following:

- the similarity of economic and political conditions;
- the interdependency of business activity in different geographical areas;
- the similarity (difference) of the business activities;
- the extraordinary risks relating to the conducting business in certain economic environment;
- the regulations of foreign currency transactions;
- the potential foreign currency risks.

The Company conducts business in the Republic of Estonia.

Potential income tax on dividends

According to the income tax law in force from 1 January 2000, the corporate bodies registered in Estonia do not pay income tax on net profit but on distributed profit.

From 1 January 2003 a company pays income tax 26/74 on all distributed dividends.

As of 31 December 2001 retained earnings amount to 18 077 916 EEK. If all retained earnings will be distributed after the year 2003 (see also Note 12), the maximum possible income tax liability amounts to 6 351 700 EEK.

TALLINNA FARMAATSIATEHASE AS**NOTES TO THE ANNUAL ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001**

NOTE 2. CASH AND BANK ACCOUNTS

	31.12.2001	31.12.2000
	EEK	EEK
Cash	38 509	22 992
Bank accounts (in EEK)	345 871	50 637
Bank accounts in foreign currency	580	630 979
Other cash equivalents	5 377	10 306
Total	390 337	714 914

NOTE 3. PREPAID TAXES AND TAXES PAYABLE

Balances of prepaid taxes and taxes payable are following:

	31.12.2001	31.12.2000
	EEK	EEK
Prepaid taxes		
Value-added tax	334 760	212 837
Value-added tax for future periods	16 909	-
Income tax	135 638	-
Social tax	64 437	-
Total	551 744	212 837
Taxes payable		
Social tax	-	369 466
Income tax on fringe benefits	39 159	19 460
Personal income tax	-	311 647
Interests on taxes	-	326
Total	39 159	700 899

TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

NOTE 4. INVENTORIES

	31.12.2001 EEK	31.12.2000 EEK
Raw material in stock	6 415 268	12 134 774
Work-in-progress	402 580	565 142
Finished goods at Estonian plant	5 346 266	5 936 853
Finished goods at consignment stock	7 632 726	5 577 370
Finished goods in the quality control	324 468	139 583
Total finished goods	13 303 460	11 653 806
Prepayments to suppliers	315 597	1 331 216
Total inventories	20 436 905	25 684 938

By the end of 2001 there were three consignment contracts concluded, based on what two warehouses are situated in Estonia and one abroad.

Inventories are recorded on the balance sheet at the lower of cost or net realizable value.

In 2001 and 2000 the materials unsuitable for production and realization have been written off in amount of 585 500 EEK and 1 480 214 EEK respectively.

NOTE 5. LONG-TERM LOANS GRANTED

The Company has granted following loans:

	31.12.2001 EEK	31.12.2000 EEK
Short-term loan to private persons (annual interest rate 8%)	45 939	73 859
Long-term loan to private persons (annual interest rate 8%)	424 119	448 959
Total loans granted	470 058	522 818

As at 31 December 2001, three employees have been granted long-term loans, including the chairman of the board, Ibraim Muhtsi, in amount of 371 501 EEK. The short-term part in the amount of 45 939 EEK is recorded as "Other short-term receivables".

The repayments of granted loans during the next five years, for the periods ending 31 December, are the following:

	EEK
2002	45 939
2003	44 338
2004	35 859
2005	15 528
2006	16 818
Thereafter	311 576
Total	470 058

TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

NOTE 6. FIXED AND INTANGIBLE ASSETS

	Land and buildings EEK	Plant and equipment EEK	Other equipment and fixtures EEK	Unfinished construction EEK	Pre- payments for fixed assets EEK	Intangible assets EEK	Prepay- ments for intangible assets EEK	Total EEK
Acquisition cost								
31 December 1999	23 569 866	32 040 531	3 647 255	1 344 000	-	5 482 873	-	66 084 525
Additions	1 671 968	218 821	76 067	250 687	910 305	429 191	721 740	4 278 779
Disposals	(6 680)	(822 981)	(225 538)	-	-	(79 628)	-	(1 134 827)
Reclassification	2 332 124	47 850	-	(1 475 687)	(904 287)	-	-	-
31 December 2000	27 567 278	31 484 221	3 497 784	119 000	6 018	5 832 436	721 740	69 228 477
Additions	-	540 015	626 585	8 119 470	2 134 952	39 056	635 725	12 095 803
Disposals	(32 985)	-	-	-	-	-	-	(32 985)
Reclassification	6 145 057	91 162	5 100	(4 417 096)	(1 824 223)	981 515	(981 515)	-
31 December 2001	33 679 350	32 115 398	4 129 469	3 821 374	316 747	6 853 007	375 950	81 291 295
Accumulated depreciation								
31 December 1999	4 525 927	18 487 607	2 682 771	-	-	2 264 679	-	27 960 984
Depreciation and amortisation	959 793	2 707 445	567 636	-	-	1 089 940	-	5 324 814
Disposals	(4 771)	(782 669)	(224 056)	-	-	(16 581)	-	(1 028 077)
31 December 2000	5 480 949	20 412 383	3 026 351	-	-	3 338 038	-	32 257 721
Depreciation and amortisation	1 281 142	2 407 870	395 335	-	-	1 265 710	-	5 350 057
Disposals	(25 781)	-	-	-	-	-	-	(25 781)
31 December 2001	6 736 310	22 820 253	3 421 686	-	-	4 603 748	-	37 581 997
Net book value								
31 December 2000	22 086 329	11 071 838	471 433	119 000	6 018	2 494 398	721 740	36 970 756
31 December 2001	26 943 040	9 295 145	707 783	3 821 374	316 747	2 249 259	375 950	43 709 298

TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

The licenses for the sale of pharmaceuticals are recorded as intangible assets. The pharmaceuticals are registered for five years and will be expensed respectively over five years. Expenses on registration of pharmaceuticals totaled 492 014 EEK and 705 265 EEK in 2001 and 2000, respectively.

In 2001, the following pharmaceuticals were registered in different countries:

Russia	Digoxin tbl, Benzylbensoat ointm, Capsicam ointm
Belarus	Vitamin B1 inj, Benzylbensoat ointm
Ukraine	Apilak tbl, Apilak ointm
Georgia	Analgin tbl, Emoxipin inj, Humisol inj, Novakain inj, Benzylbensoat ointm, Apilak tbl
Armenia	Apilak ointm, Benzylbensoat ointm, Fenilin tbl, Paracetamol tbl, Apilak tbl
Estonia	Sulfargin ointm, Cyclodol tbl, Ibuprofen tbl, Dimedrol tbl, Furosemid inj
Lithuania	Sulfargin ointm, Viprosal B ointm
Poland	Viprosal B ointm

As at 31 December 2001 and 2000, the pharmaceuticals have been registered in different countries as follows:

	31.12.2001	31.12.2000
Russia	36	36
Estonia	31	39
Belarus	27	33
Latvia	26	29
Moldova	20	20
Georgia	10	-
Kazakhstan	9	11
Ukraine	8	10
Lithuania	8	3
Armenia	5	-
Poland	1	1

TALLINNA FARMAATSIATEHASE AS

**NOTES TO THE ANNUAL ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001**

NOTE 7. FIXED ASSETS ACQUIRED THROUGH FINANCE LEASE

The fixed assets acquired through finance lease and respective liabilities are the following:

	Land and buildings EEK	Other equipment EEK	Unfinished construction EEK	Total EEK
Acquisition cost				
31 December 2000	3 102 900	-	-	3 102 900
Additions	-	413 570	3 761 880	4 175 450
31 December 2001	<u>3 102 900</u>	<u>413 570</u>	<u>3 761 880</u>	<u>7 278 350</u>
Accumulated depreciation				
31 December 2000	51 715	-	-	51 715
Depreciation of the period	284 433	22 671	-	307 104
31 December 2001	<u>336 148</u>	<u>22 671</u>	<u>-</u>	<u>358 819</u>
Net value as at				
31 December 2001	<u>2 766 752</u>	<u>390 899</u>	<u>3 761 880</u>	<u>6 919 531</u>
Financial lease liability				
as at 31 December 2001	945 674	306 381	2 942 589	4 194 644
Short-term portion	548 476	103 250	532 691	1 184 417
Long-term portion	397 198	203 131	2 409 898	3 010 227
Principal payments for the period	496 485	107 189	819 291	1 422 965
Interest expenses for the period	121 870	6 858	21 944	150 672
Annual interest rate	10%	8.5%	5.6%	

Among unfinished construction is recorded uninstalled equipment acquired through finance lease (ointment-homogenizator DISHO).

Finance lease payments during the next 5 years, for the periods ended on 31 December, are the following:

	EEK
2002	1 184 416
2003	1 098 046
2004	740 846
2005	718 165
2006	453 171
Total	<u>4 194 644</u>

TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

NOTE 8. DIVIDENDS PAYABLE

Dividends payable as at 31 December 2001 and 2000 in the amount of 466 814 EEK consists of unpaid dividends to the state from the year 1994.

NOTE 9. LONG-TERM BANK LOANS

The Company has the following long-term bank loans:

	31.12.2001	31.12.2000
	EEK	EEK
Long-term loan from Sampo Pank, with annual interest rate 7,25% +EURIBOR, monthly payments in amount of 784 573 EEK plus interest, maturity date December 2004. The buildings and facilities of Tallinna Farmaatsiatehase AS located at Tondi 33, Tallinn and Kirna, Türi parish are pledged as collateral of the long-term loan, with acquisition cost of 24 461 378 EEK.	<u>28 244 622</u>	<u>30 812 315</u>
Total long-term bank loans	28 244 622	30 812 315
Including short-term portion	<u>(9 414 873)</u>	<u>(7 703 078)</u>
Long-term portion	<u>18 829 749</u>	<u>23 109 237</u>

Long-term loan repayments for the next 3 years, for the periods ended 31 December, are the following:

	EEK
2002	9 414 873
2003	9 414 874
2004	9 414 875
Total	<u>28 244 622</u>

NOTE 10. OPERATING LEASES

Starting from 2001, the Company has leased passenger cars, which minimum operating lease payments for the periods ended 31 December, are the following:

	EEK
2002	251 337
2003	194 036
2004	78 530
2005	36 029
Total minimum lease payments	<u>559 932</u>

Operating lease expenses amounted 412 292 EEK and 191 137 EEK in 2001 and 2000, respectively.

TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

NOTE 11. LEASED OUT ASSETS

Company has leased out fixed assets with the balance sheet value as follows:

	31.12.2001		31.12.2000	
	EEK		EEK	
	Acquisition cost	Accumulated depreciation	Acquisition cost	Accumulated depreciation
Production building in Kirna village, Järvamaa	2 345 168	203 248	2 345 168	109 441

In the statement of profit and loss depreciation of the leased out fixed assets was 93 807 EEK in 2001 and 2000 and rental income 204 000 EEK and 188 000 EEK in 2001 and 2000, respectively.

NOTE 12. SHARE CAPITAL

As at 31 December 1998, the total share capital of Tallinna Farmaatsiatehase AS was 37 700 340 EEK consisting of 3 770 034 shares with nominal value of 10 EEK per share. According to the decision of the general meeting of the shareholders of Tallinna Farmaatsiatehase AS, held on 30 April 1999, a simplified reduction of share capital took place via the cancellation of shares from 37 700 340 EEK to 12 500 000 EEK during which 2 520 034 individual common shares were cancelled. As at 31 December 2001, the total share capital of Tallinna Farmaatsiatehase AS is 12 500 000 EEK consisting of 1 250 000 shares with the nominal value of 10 EEK per share. The Company's shares are listed in the secondary list of the Tallinn Stock Exchange.

According to the Statutes, the maximum share capital of the Company is 50 000 000 EEK.

As at 31 December 2001 and 2000 the shareholders of the Company are the following:

	31.12.2001	31.12.2000
PJSC Grindeks	55,0%	55,0%
Floridian Trading International Ltd	14,8%	14,8%
Sampo Pank	9,2%	9,2%
Nordea Bank Finland Plc clients	2,4%	-
Skandinaviska Enskilda Banken AB clients	-	2,4%
Pyramid Software AS	2,4%	2,4%
Other small investors	16,2%	16,2%
Total	100,0%	100,0%

Based on §363 "Limitation on profit distribution" of the Commercial Code, the Company does not have the right to pay dividends to shareholders during the financial years of 2001 and 2002.

NOTE 13. RESERVES

According to Commercial Code, the statutory legal reserve is created in the 10% range of the share capital allocated from net profit based on the decision of general meeting of shareholders. Statutory legal reserve cannot be used for the payment of dividends to the shareholders.

In 1999, the share capital was reduced by 25 200 340 EEK and the statutory legal reserve was reduced by 2 520 034 EEK. In 1995, 6,5% of the net profit in the amount of 1 066 210 EEK was allocated to the going concern reserve.

TALLINNA FARMAATSIATEHASE AS**NOTES TO THE ANNUAL ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001**

NOTE 14. NET SALES

Net sales are divided by markets as follows:

	2001 EEK	2000 EEK
Latvia	68 076 005	69 335 867
Estonia	17 713 924	25 594 319
Total	85 789 929	94 930 186

and by product groups as follows:

	2001 EEK	2000 EEK
Ointments	39 147 584	37 467 667
Tablets	34 719 839	45 064 064
Injections	10 981 784	10 865 689
Other	940 722	1 532 766
Total	85 789 929	94 930 186

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

NOTE 15. OTHER REVENUE

	2001 EEK	2000 EEK
Foreign exchange gain	6 836 636	7 686 681
Profit from sales of fixed assets	-	249 688
Other operating income	1 172 727	565 500
Total	8 009 363	8 501 869

NOTE 16. MATERIALS, CONSUMABLES AND SUPPLIES

	2001 EEK	2000 EEK
Energy	1 763 121	2 013 438
Raw materials	38 078 107	43 903 000
Fuel, spare parts	57 491	80 466
Goods	479 163	275 013
Registration of pharmaceuticals, trademarks	833 963	833 410
Transportation of finished goods	375 833	396 000
Other cost of materials	595 975	273 546
Total	42 183 653	47 774 873

TALLINNA FARMAATSIATEHASE AS

**NOTES TO THE ANNUAL ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001**

NOTE 17. MISCELLANEOUS OPERATING EXPENSES

	2001 EEK	2000 EEK
Transportation	411 272	526 229
Repairs	830 979	937 588
Office expenses	190 349	296 470
Marketing	970 443	779 516
Commission fees	89 882	100 501
Training and consultations	1 005 998	819 111
Purchased services	1 920 665	1 964 674
Representation costs	208 790	236 504
Operating lease expense, rent	420 913	149 672
Business trips	245 127	133 570
Miscellaneous fees	338 391	591 496
Other expenses	824 908	261 257
Bad debt expense	-	1 414 939
Income from written off receivables	(101 307)	(579 613)
Total	7 356 410	7 631 914

NOTE 18. PERSONNEL EXPENSES

	Salary		Average number of employees	
	2001 EEK	2000 EEK	2001	2000
Wages and salaries	13 322 227	12 838 933	190	206
incl. workers	5 526 304	5 959 036	128	145
administration	6 403 306	5 874 034	60	60
board	592 138	556 210	2	1
other personnel expenses	800 479	449 653	-	-
Social taxes	4 578 937	4 397 569	-	-
Total	17 901 164	17 236 502	190	206

In 2001, the average number of employees in Tallinna Farmaatsiatehase AS was 190 including 60 working as specialists or in management positions. The average salary in 2001 was 5 156 EEK per month. In 2000, there were 206 employees in average of whom 60 were specialists or in management positions. The average salary in 2000 was 4 767 EEK per month.

TALLINNA FARMAATSIATEHASE AS

**NOTES TO THE ANNUAL ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001**

NOTE 19. OTHER EXPENSES

	2001 EEK	2000 EEK
Foreign exchange losses	5 630 942	6 095 909
Expensed value-added tax	23 544	511 550
Authors' fees	268 149	245 473
Fines, penalties	2 905	460
Interests on taxes	15 544	6 585
Other expenses	346 821	260 127
Total	6 287 905	7 120 104

NOTE 20. EARNINGS PER SHARE

	2001 EEK	2000 EEK
Net profit	10 269 453	10 587 118
Weighted average number of share	1 250 000	1 250 000
Earnings per share (EPS)	8.22	8.47

The computation of earnings per share is based upon the weighted average number of shares outstanding during the year, taking into account the reduction of the share capital using the method of simplified reduction in 1999. During both periods, Tallinna Farmaatsiatehase AS had no potential common shares to be issued and therefore the diluted earnings per share is the same as the basic earnings per share.

TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

NOTES 21. RELATED PARTY TRANSACTIONS

The transactions with related parties are transactions with the parent company PJSC Grindeks. The transactions with related parties during 2001 and the respective balances as at 31 December 2001 are as follows:

21.1. Purchases

Related party	Payable 31.12.2000	Services and goods purchased	Payable 31.12.2001
Grindeks		- Services and goods purchased 947 136	-
		Paid 947 136	

Purchase transactions are based on agreed prices that do not differ significantly from market prices.

21.2. Sales

Related party	Receivable 31.12.2000	Services and goods sold	Receivable 31.12.2001
Grindeks	30 374 686	Goods sold 67 013 566	29 231 612
		Services sold 591 461	
		Paid 68 748 101	

21.3. Loan transactions

According to the agreement on transfer of claims between Hanspank AS and PJSC Grindeks, all liabilities to Hanspank AS by Tallinna Farmaatsiatehase AS and Kirna Farmaatsiatehase AS have been taken over by PJSC Grindeks. Maturity date of the loan is December 2006, interest expense of the accounting period amounted to 2 118 315 EEK. As at 31 December 2001, the loan liability of Tallinna Farmaatsiatehase AS to Grindeks is the following:

Loan payable as at 31.12.2001	24 350 748
	EEK
Interest rate – 8%	
Payments in 2002	4 203 863
Payments in 2003	4 552 782
Payments in 2004	4 930 660
Payments in 2005	5 339 903
Payments in 2006	5 323 540

The Company has granted loan to the chairman of the board (see Note 5).

TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

NOTE 22. RISK RELATED TO THE OPERATING ACTIVITIES OF THE COMPANY

Currency risk

Export comprises 79% 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 risk. The company does not use currency options and forward contracts.

Foreign currency positions as at 31 December 2001 were following:

	Assets	Liabilities	Net position
	EEK	EEK	EEK
USD	29 217 754	(1 990 270)	27 227 484
DEM	19 213	(24 589 976)	(24 570 763)
FIM	297 400	-	297 400
EUR	300 399	(288 190)	12 209
SEK	-	(398 563)	(398 563)
Total	29 834 766	(27 266 999)	2 567 767

Interest risk

Interest of long-term loans received depend on the fluctuation of EURIBOR. As at 31 December 2001 and 2000, the EURIBOR was 3,256% and 3,876%, respectively.

NOTE 23. CONTINGENT LIABILITIES

In accordance with the Regulations for Production of Pharmaceuticals, instituted by decree No. 74 from 29 November 1999 by the Minister of Social Affairs of the Republic of Estonia, the production of pharmaceuticals of the Company must comply with the Good Manufacturing Practice from 1 July 2001. Appendix 1 to the above decree states that the production of sterile pharmaceuticals (injections) must be in compliance with the Good Manufacturing Practice by 1 July 2002.

In 1997, the management of Tallinna Farmaatsiatehase AS undertook the task of changing the production to meet the standards of the Good Manufacturing Practice.

The Board of Tallinna Farmaatsiatehase AS drew up a program in order to carry out its production of pharmaceuticals in accordance with the standard of the Good Manufacturing Practice and has submitted the program to the State Agency of Pharmaceuticals on 17 May 2001. The present license for operations of the Company expires on 1 July 2002. The management of the Company believes that the program of ointment production has been implemented in accordance with the program submitted to the State Agency of Pharmaceuticals.

TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

NOTE 24. SUBSEQUENT EVENTS

On the extraordinary shareholders meeting on 5 March 2002 was approved license agreement between the Company and PJSC Grindeks signed on 8 February 2002. Agreement sets out transferring the tablet production to Grindeks from 1 July 2002. As the result of the transfer the expected redundancy fees amount to 2,8 million EEK.

NOTE 25. LITIGATIONS

As at 31 December 2001, the following claims against Tallinna Farmaatsiatehase AS were presented:

- Claim by Woodbridge Enterprises Ltd. against Tallinna Farmaatsiatehase AS in the amount of 2 457 955 EEK;
- Claim by Woodbridge Enterprises Ltd. against Tallinna Farmaatsiatehase AS and OÜ Julianus Inkasso for cancellation of the deal.

* * *

TALLINNA FARMAATSIATEHASE AS

PROPOSAL FOR ALLOCATION OF NET PROFIT

Proposal for the allocation of net profit of Tallinna Farmaatsiatehase AS

The Management Board of Tallinna Farmaatsiatehase AS makes a proposal to allocate the net profit of the year 2001 in the amount of 10 269 453 EEK to retained earnings.

7 March 2002

Ibrahim Muhtsi
Chairman of the Board