

TALLINNA
FARMAATSIATEHASE AS

Annual Report for
The Financial Year
Ended 31 December 2002

TALLINNA FARMAATSIATEHASE AS

ANNUAL REPORT

Beginning of the financial year	1 January 2002
End of the financial year	31 December 2002
Name of the company	TALLINNA FARMAATSIATEHASE AS
Registration number	10093221
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Field of activity	Production of pharmaceuticals
Auditors	AS Deloitte & Touche Audit

TALLINNA FARMAATSIATEHASE AS

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TALLINNA FARMAATSIATEHASE AS

BOARD DECLARATION

The Chairman of the Board of Tallinna Farmaatsiatehase AS has prepared management report and annual accounts for the financial year ended on 31 December 2002.

The annual accounts have been prepared according to Estonian Accounting Law and International Financial Reporting Standards (IFRS), and present a true and fair view of the assets, liabilities, shareholders' equity and performance of Tallinna Farmaatsiatehase AS.

The preparation of the annual accounts according to the Generally Accepted Accounting Principles involves estimates made by the Chairman of the Board on the Company's assets and liabilities as at balance sheet date, and on income and expenses during the financial year. These estimates are based on the up-to-date information about the state of the Company and consider the plans and risks as at the date of the financial statements' preparation. The actual results of these business transactions recorded may differ from the estimates.

The significant circumstances that have effect on the valuation of assets and liabilities until the preparation of the financial statements on 24 March 2003 are recorded in the statements.

The Chairman of the Board considers Tallinna Farmaatsiatehase AS to operate on a going concern basis.

Name	Position	Signature	Date
Ibrahim Muhtši	Chairman of the Board	_____	_____

TALLINNA FARMAATSIATEHASE AS

MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

GENERAL DATA

As at 31 December 2002, the share capital of Tallinna Farmaatsiatehase AS was 12 500 000 EEK.

The number of employees as at 31 December 2002 was 138. Salaries and wages paid to the employees during the financial year amounted to 11 741 006 EEK.

SHAREHOLDERS

The list of Tallinna Farmaatsiatehase AS shareholders holding more than 2% of shares as at 31 December 2002 is as follows:

<u>Shareholder</u>	<u>Number of shares</u>	<u>% of shares</u>
PJSC Grindeks	801 681	64,14
Banque Carnegie Luxembourg SA Clients	184 747	14,78
Nordea Bank Finland Plc Clients	33 554	2,69
Pyramid Software AS	30 073	2,40

COUNCIL

Based on the decision of shareholders of Tallinna Farmaatsiatehase AS the following Council members were elected from 27 June 2002:

Jelena Borcova	-	Chairman of the Council;
Karina Springe	-	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.

Salaries paid to the Council members during the financial year amounted to 240 000 EEK.

BOARD

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

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

Since 19 March 2003 the member of the Board is the following:

Ibraim Muhtši	-	Chairman of the Board.
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Salaries paid to the Board members during the financial year amounted to 414 557 EEK.

TALLINNA FARMAATSIATEHASE AS

MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

MANAGEMENT (as at 31 December 2002)

Raivo Unt	-	Finance Director
Priit Allikajaka	-	Technical Director
Irene Pehk	-	Head of production department
Allan Ahtloo	-	Head of logistic department
Heidi Pedosk	-	Deputy Manager of development and registration department
Ibraim Muhtši	-	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
Helle Mäe	-	Chief Accountant
Katrin Näär	-	Quality Control Manager

FINANCIAL RESULTS IN 2002

Comments to the Statements of Profit and Loss

During the year 2002 net sales of the production amounted to 93,875 thousand EEK (5,999 thousand EUR). Compared to the year 2001 net sales increased by 8,085 thousand EEK (516 thousand EUR) or 9,4% (in the year 2001 net sales was 85,790 thousand EEK (5,483 thousand EUR)). Total revenue increased by 5,203 thousand EEK (333 thousand EUR) (5,5%).

Operating expenses have increased compared to the year 2001 by 15,346 thousand EEK (980 thousand EUR), (in the year 2001 operating expenses were 79,079 thousand EEK or 5,054 thousand EUR and in the year 2002 operating expenses were 94,426 thousand EEK or 6,034 thousand EUR), of which increase of expenses for raw materials makes up 7,598 thousand EEK (485 thousand EUR), miscellaneous operating expenses increase was 2,256 thousand EEK (144 thousand EUR) and other business expenses increase was 5,796 thousand EEK (370 thousand EUR).

Operating profit decreased in the year 2002 compared to the year 2001 by 10,143 thousand EEK (648 thousand EUR) (in the year 2001 operating profit was 16,207 thousand EEK or 1,035 thousand EUR) and in the year 2002 operating profit was 6,064 thousand EEK or 387 thousand EUR) and net profit for the financial year decreased by 5,274 thousand EEK (337 thousand EUR) compared to the year 2001 (in the year 2001 net profit was 10,269 thousand EEK or 656 thousand EUR and in the year 2002 net profit was 4,995 thousand EEK or 319 thousand EUR).

Comments to the Balance Sheet

As at 31 December 2002 Company's total assets were 87,832 thousand EEK (5,613 thousand EUR). Compared to opening balances the biggest decrease in assets has occurred in fixed assets by 5,492 thousand EEK (351 thousand EUR) (13,4%), in receivables from parent by 4,015 thousand EEK (257 thousand EUR) (13,7%) and in raw materials balance by 3,006 thousand EEK (192 thousand EUR) (46,9%). Current assets in total decreased by 4,517 thousand EEK (289 thousand EUR) (8,3%).

TALLINNA FARMAATSIATEHASE AS

MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

In liabilities and shareholders' equity, current liabilities decreased by 3,316 thousand EEK (212 thousand EUR), i.e. 14,2%, including increase in accounts payable by 1,303 thousand EEK (83 thousand EUR). Non-current liabilities decreased by 12,155 thousand EEK (777 thousand EUR), i.e. 29,0%. Shareholders' equity increased by 4,995 thousand EEK or 319 thousand EUR (15,2%), as result of the year 2002 net profit.

Return on equity (ROE) was 13,2% and earnings per share was 4,0 EEK.

INVESTMENTS

Main investments in 2002 were directed for finishing the reconstruction in the ointment department and the renewing equipment in the quality control and development department laboratories. In the ointment department designing and installation of washing waters' cleaning system was finished. Spectrophotometer, automatic pipettes for high efficiency liquid and gas chromatography system and other different equipment for the laboratory were bought for the quality control and development department.

Investments were recorded in the year 2002 in purchase value of 6 639 049 EEK, that includes investments to fixed assets in the amount of 6 314 580 EEK and to intangible assets in the amount of 324 469 EEK.

PRODUCTION AND PRODUCT DEVELOPMENT

In 2002 Tallinna Farmaatsiatehase AS produced over 40 different pharmaceuticals, including injections, tablets and ointments. The output of the Company was 14,162 million packages. Compared to the year 2001 production of injections increased by 12%, ointment production increased by 36%. Increase in production volume is directly related to the increase in sales.

In 2002 in the ointment department was installed and also started operating new reactor for the ointment production (Koruma).

The tablet department worked until 1 July 2002. In the second half of the year 2002 according to the concern agreement between Tallinna Farmaatsiatehase AS and PJSC Grindeks, signed on 8 February 2002 and approved in the extraordinary shareholders' meeting on 5 March 2002, the production of tablets with TFT brand was transferred to PJSC Grindeks. Due to the restructuring of the tablet production, the number of employees reduced from 178 to 138.

During the year 2002, 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).

Lot of work has been done in improving and harmonisation of the documentation to be in compliance with European Union requirements.

In 2002, 20 pharmaceuticals were submitted for registration or reregistration in six countries.

TALLINNA FARMAATSIATEHASE AS

MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

SALES

Year 2002 sales results may be called satisfactory. Compared to the year 2001 general sales volume increased more than 7%. Export increased by 8,6%, sales in Estonia increased by 12,7%. In all export markets active sales policy was implemented. The Company was actively seeking new markets and cooperation partners. In 2002 important changes occurred in the sales nomenclature. The share of ointments of the overall sales structure was 52,3%. More than 7,7 million tubes of different ointments were sold as total in all the markets. The most successful sales articles of the ointments are Capsicam and Viprosal B, that are also original pharmaceuticals developed in Tallinna Farmaatsiatehas and also known brand names.

For 2003, the sales department has a target to assure positions of Tallinna Farmaatsiatehase AS in all the markets.

FUTURE OUTLOOK

The main goals in the year 2003 will be organising Company's production activities according to the international requirements and standards. The priority will be the production of ointments. The main task is to develop new ointments for the production. Year 2003 budget is prepared in the line to meet the priorities.

The investment plan foresees development of the laboratories of the quality control and development and registration department.

In marketing and sales area the priority in 2003 will be to strengthen the positions in the export markets and active development of the products in cooperation with the partners.

Ibrahim Muhtši
Chairman of the Board

TALLINNA FARMAATSIATEHASE AS

**BALANCE SHEETS
AS AT 31 DECEMBER 2002 AND 2001**

ASSETS	Note	31.12.2002 EEK	31.12.2001 EEK
Current assets			
Cash and bank accounts	2	77 664	390 337
Customer receivables			
Accounts receivable		2 405 714	3 331 335
Other receivables			
Receivables from parent	22	25 217 139	29 231 612
Other short-term receivables		388 851	97 228
Total		25 605 990	29 328 840
Accrued income			
Interest receivable		3 321	-
Prepaid expenses			
Prepaid taxes	3	1 434 496	551 744
Other prepaid expenses		64 573	135 249
Total		1 499 069	686 993
Inventories	4		
Raw material		3 409 309	6 415 268
Work-in-progress		315 850	402 580
Finished goods		15 041 542	13 303 460
Prepayments to suppliers		1 298 751	315 597
Total		20 065 452	20 436 905
Total current assets		49 657 210	54 174 410
Non-current assets			
Long-term financial investments			
Miscellaneous long-term receivables	5	380 679	424 119
Fixed assets	6		
Land and buildings		34 162 157	33 679 350
Plant and equipment		28 899 553	32 115 398
Other equipment and fixtures		3 594 294	4 129 469
Accumulated depreciation		(31 269 720)	(32 978 249)
Unfinished construction		-	3 821 374
Prepayments for fixed assets		205 751	316 747
Total		35 592 035	41 084 089
Intangible assets	7		
Purchased concessions, patents, licenses, trademarks etc.		1 307 931	2 249 259
Prepayments for intangible assets		894 194	375 950
Total		2 202 125	2 625 209
Total non-current assets		38 174 839	44 133 417
TOTAL ASSETS		87 832 049	98 307 827

TALLINNA FARMAATSIATEHASE AS

**BALANCE SHEETS
AS AT 31 DECEMBER 2002 AND 2001**

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31.12.2002 EEK	31.12.2001 EEK
Current liabilities			
Debt obligations			
Debentures	8	1 098 046	1 184 417
Current portion of long-term debt	10	9 414 873	9 414 873
Total		<u>10 512 919</u>	<u>10 599 290</u>
Supplier payables			
Accounts payable		7 500 876	6 198 330
Other payables			
Payables to parent	22	-	4 203 863
Taxes payable	3	-	39 159
Accrued expenses			
Due to employees		1 334 146	1 541 254
Dividends payable	9	446 814	446 814
Interest payable		58 813	92 155
Other accrued expenses		257 154	305 975
Total		<u>2 096 927</u>	<u>2 386 198</u>
Total current liabilities		<u>20 110 722</u>	<u>23 426 840</u>
Non-current liabilities			
Long-term debt obligations			
Non-convertible debt	8	1 912 182	3 010 227
Bank loans	10	9 414 875	18 829 749
Total		<u>11 327 057</u>	<u>21 839 976</u>
Other long-term payables			
Payables to parent	22	18 505 029	20 146 885
Total non-current liabilities		<u>29 832 086</u>	<u>41 986 861</u>
Total liabilities		<u>49 942 808</u>	<u>65 413 701</u>
Shareholders' equity			
Share capital	13	12 500 000	12 500 000
Reserves			
Statutory legal reserve	14	1 250 000	1 250 000
Other reserves		1 066 210	1 066 210
Retained earnings		18 077 916	7 808 463
Net profit for the financial year		4 995 115	10 269 453
Total shareholders' equity		<u>37 889 241</u>	<u>32 894 126</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>87 832 049</u>	<u>98 307 827</u>

TALLINNA FARMAATSIATEHASE AS

**STATEMENTS OF PROFIT AND LOSS
FOR THE YEAR 2002 AND 2001**

	Note	2002 EEK	2001 EEK
Revenue			
Net sales	15	93 875 016	85 789 929
Change in work-in-progress and finished goods inventories		1 651 352	1 487 092
Other revenue	16	4 962 883	8 009 363
Total revenue		100 489 251	95 286 384
Operating expenses			
Materials, consumables and supplies	17	(49 781 308)	(42 183 653)
Miscellaneous operating expenses	18	(9 612 578)	(7 356 410)
Personnel expenses	19		
Salaries		(12 792 084)	(13 322 227)
Social taxes		(4 454 827)	(4 578 937)
Depreciation			
Depreciation, amortisation and value adjustments	6,7	(5 700 566)	(5 350 057)
Other expenses	20	(12 084 187)	(6 287 905)
Total operating expenses		(94 425 550)	(79 079 189)
Operating profit		6 063 701	16 207 195
Financial income			
Foreign exchange gain	22	3 786 757	8 249
Other interest and similar income		40 509	37 881
Total financial income		3 827 266	46 130
Financial expenses			
Interest expenses		(4 555 708)	(5 616 244)
Foreign exchange loss		(228 237)	(197 185)
Other financial expenses		(111 907)	(170 443)
Total financial expenses		(4 895 852)	(5 983 872)
Net profit for the financial year		4 995 115	10 269 453
Earnings per share	21	4.00	8.22

TALLINNA FARMAATSIATEHASE AS**STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEAR 2002 AND 2001**

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 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
Transfer of net profit to retained earnings	-	-	10 269 453	(10 269 453)	-
Net profit for the financial year	-	-	-	4 995 115	4 995 115
31 December 2002	12 500 000	2 316 210	18 077 916	4 995 115	37 889 241

TALLINNA FARMAATSIATEHASE AS

**STATEMENTS OF CASH FLOWS
FOR THE YEAR 2002 AND 2001**

	Note	2002 EEK	2001 EEK
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the financial year		4 995 115	10 269 453
Adjustments to reconcile net profit to net cash provided by operating activities:			
Deprecation and amortisation	6,7	5 700 566	5 350 057
Profit on disposal of fixed assets	16	(10 424)	-
Loss on disposal of fixed assets	20	3 439 495	7 204
Interest income		(40 509)	(37 881)
Interest expense		4 555 708	5 616 244
Changes in current assets and liabilities:			
Accounts receivable		925 621	1 648 011
Other receivables		3 720 351	1 115 925
Prepaid expenses		(812 076)	(104 679)
Inventories		371 453	5 248 033
Supplier payables		1 302 546	(7 516 065)
Taxes payable		(39 159)	(661 740)
Accrued expenses (excl. interest)		(255 929)	45 087
Net cash provided by operating activities		23 852 758	20 979 649
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of fixed and intangible assets	6,7	(3 224 923)	(12 095 803)
including with finance lease (+)	8	-	4 175 450
Proceeds from disposal of fixed assets		10 424	-
Loans granted		-	(2 000)
Repayments of loans granted		45 939	54 761
Interests received		37 188	74 565
Net cash used in investing activities		(3 131 372)	(7 793 027)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayments of loans		(15 260 593)	(6 449 378)
Finance lease payments	8	(1 184 416)	(1 422 965)
Interests paid		(4 589 050)	(5 638 856)
Net cash used in financing activities		(21 034 059)	(13 511 199)
Total cash flow		(312 673)	(324 577)
CASH AT THE BEGINNING OF THE YEAR		390 337	714 914
CASH AT THE END OF THE YEAR		77 664	390 337

TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

NOTE 1. ACCOUNTING POLICIES

The annual accounts of Tallinna Farmaatsiatehase AS (hereinafter also “the Company”) have been prepared in accordance with Estonian Accounting Law and International Financial Reporting Standards (IFRS). 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 2002 there were 138 employees in the Company. The parent of the Company is PJSC Grindeks. The shares of the Company 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	31.12.2002	31.12.2001
USD	14,93642	17,69182
EUR	15,6466	15,6466
RUR	0,4676	0,5796

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 considered to be doubtful are expensed during the financial year. Receivables having previously been written off but 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, which consists of direct and indirect manufacturing costs.

Inventories are recorded using 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.

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

TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

Fixed assets

Fixed assets are assets with useful life over one year and with the value over 5 000 EEK. Fixed assets are recorded at the acquisition cost consisting of purchase price, non-recoverable duties and taxes, and other direct costs attributable to bring 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 annum;
- machinery and equipment - 10-25% per annum;
- other equipment - 25% per annum.

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 five years.

Revenue recognition

Net sales are recorded on the 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 non-current liabilities. Other liabilities are recorded as current.

Holiday allowance is recorded when liability arises, 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.

Reserves

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

Use of estimates

The preparation of the annual accounts according to the Generally Accepted Accounting Principles involves estimates made by the Chairman of the Board on the Company's assets and liabilities as at balance sheet date, and on income and expenses during the financial year. These estimates are based on the up-to-date information about the state of the Company and consider the plans and risks as at the date of the financial statements' preparation. The actual results of these business transactions recorded may differ from the estimates.

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 and location of Company's activities is Republic of Estonia. 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 products or services;
- characteristics of manufacturing processes;
- characteristics of consumers 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.

In determination of business and geographical segments the principle is followed that into one segment is not included economical environments or businesses with different returns and risks.

Potential income tax on dividends

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to tax, instead the tax is due on dividend distribution. Pursuant to the Income Tax Act Section 50 effective since 1 January 2003 resident legal entities are liable to income tax on all dividends paid and other profit distribution irrespective of the recipient. The tax rate applicable is 26/74 on the top of the dividends paid.

The potential tax liability that may occur if all distributable retained earnings should be paid out as dividends is not reported on the balance sheet. The income tax due on dividend distribution is recorded as tax cost of the month in the statement of profit and loss when dividend is actually paid out.

The Company's retained earnings that may be distributed as at 31 December 2002 amounted to 23 073 031 EEK. Consequently, the maximum possible tax liability which would become payable if retained earnings were fully distributed is 8 106 741 EEK.

TALLINNA FARMAATSIATEHASE AS

**NOTES TO THE ANNUAL ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002**

NOTE 2. CASH AND BANK ACCOUNTS

	31.12.2002	31.12.2001
	EEK	EEK
Cash	27 251	38 509
Bank accounts (in EEK)	44 835	345 871
Bank accounts in foreign currency	207	580
Other cash equivalents	5 371	5 377
Total	<u>77 664</u>	<u>390 337</u>

NOTE 3. PREPAID TAXES AND TAXES PAYABLE

Balances of prepaid taxes and taxes payable are the following:

	31.12.2002	31.12.2001
	EEK	EEK
Prepaid taxes		
Value-added tax	973 479	334 760
Value-added tax for future periods	30 380	16 909
Personal income tax	247 929	135 638
Social tax	182 668	64 437
Income tax on fringe benefits	40	-
Total	<u>1 434 496</u>	<u>551 744</u>
Taxes payable		
Income tax on fringe benefits	-	39 159
Total	<u>-</u>	<u>39 159</u>

TALLINNA FARMAATSIATEHASE AS

**NOTES TO THE ANNUAL ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002**

NOTE 4. INVENTORIES

	31.12.2002	31.12.2001
	EEK	EEK
Raw material in stock	3 409 309	6 415 268
Work-in-progress	315 850	402 580
Finished goods at Estonian plant	6 418 812	5 346 266
Finished goods at consignment stock	8 100 256	7 632 726
Finished goods in the quality control	522 474	324 468
Total finished goods	15 041 542	13 303 460
Prepayments to suppliers	1 298 751	315 597
Total	<u>20 065 452</u>	<u>20 436 905</u>

By the end of 2002 there were three consignment contracts concluded, based on that two warehouses are situated in Estonia and one abroad.

In 2002 and 2001 the materials unsuitable for production and realization have been written off in the amount of 1 908 338 EEK and 585 500 EEK respectively.

NOTE 5. LONG-TERM LOANS GRANTED

The Company has granted following loans:

	31.12.2002	31.12.2001
	EEK	EEK
Long-term unsecured loans to private persons with annual interest rate of 8%	<u>424 119</u>	<u>470 058</u>
Including short-term portion	43 440	45 939
Long-term portion	<u>380 679</u>	<u>424 119</u>

As at 31 December 2002, two employees have been granted long-term loans, including the Chairman of the Board, Ibraim Muhtši, in amount of 358 262 EEK. The short-term part in the amount of 43 440 EEK is recorded as "Other short-term receivables".

The repayments of granted loans are divided as follows:

	EEK
Less than 1 year	43 440
1-5 years	107 240
Over 5 years	<u>273 439</u>
Total	<u>424 119</u>

TALLINNA FARMAATSIATEHASE AS

**NOTES TO THE ANNUAL ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002**

NOTE 6. FIXED ASSETS

The statement of fixed assets is the following:

	Land and buildings EEK	Plant and equipment EEK	Other equipment and fixtures EEK	Unfinished construction EEK	Pre- payments for fixed assets EEK	Total EEK
Acquisition cost						
31 December 2000	27 567 278	31 484 221	3 497 784	119 000	6 018	62 674 301
Additions	-	540 015	626 585	8 119 470	2 134 952	11 421 022
Disposals	(32 985)	-	-	-	-	(32 985)
Reclassification	6 145 057	91 162	5 100	(4 417 096)	(1 824 223)	-
31 December 2001	33 679 350	32 115 398	4 129 469	3 821 374	316 747	74 062 338
Additions	281 127	849 656	138 829	113 173	999 425	2 382 210
Disposals	-	(8 902 389)	(680 404)	-	-	(9 582 793)
Reclassification	201 680	4 836 888	6 400	(3 934 547)	(1 110 421)	-
31 December 2002	34 162 157	28 899 553	3 594 294	-	205 751	66 861 755
Accumulated depreciation						
31 December 2000	5 480 949	20 412 383	3 026 351	-	-	28 919 683
Depreciation	1 281 142	2 407 870	395 335	-	-	4 084 347
Disposals	(25 781)	-	-	-	-	(25 781)
31 December 2001	6 736 310	22 820 253	3 421 686	-	-	32 978 249
Depreciation	1 552 612	2 655 173	226 984	-	-	4 434 769
Disposals	-	(5 463 132)	(680 166)	-	-	(6 143 298)
31 December 2002	8 288 922	20 012 294	2 968 504	-	-	31 269 720
Net book value						
31 December 2001	26 943 040	9 295 145	707 783	3 821 374	316 747	41 084 089
31 December 2002	25 873 235	8 887 259	625 790	-	205 751	35 592 035

Due to the transfer of the tablet production to PJSC Grindeks from 1 July 2002 fixed assets in the net book value of 3 397 730 EEK were disposed during the financial year. Loss from the fixed assets disposal is recorded as "Other expenses" (see also Note 20).

TALLINNA FARMAATSIATEHASE AS

**NOTES TO THE ANNUAL ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002**

NOTE 7. INTANGIBLE ASSETS

The statement of intangible assets is the following:

	Intangible assets EEK	Prepay- ments for intangible assets EEK	Total EEK
Acquisition cost			
31 December 2000	5 832 436	721 740	6 554 176
Additions	39 056	635 725	674 781
Reclassification	981 515	(981 515)	-
31 December 2001	6 853 007	375 950	7 228 957
Additions	78 978	763 735	842 713
Reclassification	245 491	(245 491)	-
31 December 2002	7 177 476	894 194	8 071 670
Accumulated depreciation			
31 December 2000	3 338 038	-	3 338 038
Amortisation	1 265 710	-	1 265 710
31 December 2001	4 603 748	-	4 603 748
Amortisation	1 265 797	-	1 265 797
31 December 2002	5 869 545	-	5 869 545
Net book value			
31 December 2001	2 249 259	375 950	2 625 209
31 December 2002	1 307 931	894 194	2 202 125

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 127 258 EEK and 492 014 EEK, in 2002 and 2001, respectively.

In 2002, the following pharmaceuticals were registered in different countries:

Estonia	B1-vitamin inj, Novacain inj, Analgin 500 TFT tbl, Dimedrol tbl, Ibuprofen 200 TFT caps, Piroxicam tbl, Prasosin tbl
Georgia	Sulfokcamphocain inj, Apilak ointment, Capsicam ointment, Viprosal B ointment, Digoxin TFT tbl
Latvia	Apilak tbl, Benzylbensoat ointment, Viprosal B ointment
Kazakhstan	Apilak ointment, Capsicam ointment, Paracetamol tbl
Belarus	Cyclodol tbl
Ukraine	Capsicam ointment

TALLINNA FARMAATSIATEHASE AS**NOTES TO THE ANNUAL ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002**

As at 31 December 2002 and 2001, the pharmaceuticals have been registered in different countries as follows:

	31.12.2002	31.12.2001
Estonia	37	31
Russia	36	36
Belarus	30	27
Latvia	18	26
Georgia	15	10
Kazakhstan	13	9
Ukraine	9	8
Moldova	8	20
Lithuania	6	8
Armenia	5	5
Poland	1	1

NOTE 8. FIXED ASSETS ACQUIRED THROUGH FINANCE LEASE

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

	Land and buildings EEK	Plant and equipment EEK	Other equipment EEK	Total EEK
Acquisition cost				
31 December 2001	3 102 900	3 761 880	413 570	7 278 350
31 December 2002	3 102 900	3 761 880	413 570	7 278 350
Accumulated depreciation				
31 December 2001	336 148	-	22 671	358 819
Depreciation	336 147	517 259	68 012	921 418
31 December 2002	672 295	517 259	90 683	1 280 237
Net book value				
31 December 2001	2 766 752	3 761 880	390 899	6 919 531
31 December 2002	2 430 605	3 244 621	322 887	5 998 113
Financial lease liability as at 31 December 2002	397 198	2 409 899	203 131	3 010 228
Short-term portion	397 198	588 471	112 377	1 098 046
Long-term portion	-	1 821 428	90 754	1 912 182
Principal payments for the period	548 476	532 690	103 250	1 184 416
Interest expenses for the period	69 881	245 676	22 081	337 638
Annual interest rate	10%	6%	8%	

Finance lease payments are divided as follows:

	EEK
Less than 1 year	1 098 046
1-5 years	1 912 182
Total	3 010 228

TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

NOTE 9. DIVIDENDS PAYABLE

Dividends payable as at 31 December 2002 and 2001 in the amount of 446 814 EEK consists of unpaid dividends to the state from the year 1994.

NOTE 10. LONG-TERM BANK LOANS

The Company has the following long-term bank loans:

	31.12.2002	31.12.2001
	EEK	EEK
Long-term loan from AS Sampo Pank with annual interest rate of 6 months EURIBOR+7,25%, from 19 February 2003 6 months EURIBOR+4,5%, monthly payments in amount of 784 573 EEK plus interest, maturity date December 2004. The liability is secured by the buildings and facilities of the Company located at Tondi 33, Tallinn and Kirna, Türi parish, and commercial pledge (in the amount of 65 million EEK).	<u>18 829 748</u>	<u>28 244 622</u>
Total long-term bank loans	18 829 748	28 244 622
Including short-term portion	<u>(9 414 873)</u>	<u>(9 414 873)</u>
Long-term portion	<u>9 414 875</u>	<u>18 829 749</u>

Bank loan repayments are divided as follows:

	EEK
Less than 1 year	9 414 873
1-5 years	<u>9 414 875</u>
Total	<u>18 829 748</u>

NOTE 11. LEASED ASSETS

The Company leases trucks and automobiles with the minimum operating lease obligations as follows:

	EEK
Less than 1 year	80 120
1-5 years	<u>228 475</u>
Total minimum lease payments	<u>308 595</u>

Operating lease expenses amounted to 251 337 EEK and 412 292 EEK in 2002 and 2001, respectively.

TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

NOTE 12. LEASES AS LESSOR

The carrying value of assets leased out under operating lease is as follows:

	31.12.2002		31.12.2001	
	Acquisition cost	Accumulated depreciation	Acquisition cost	Accumulated depreciation
Production building in Kirna village, Järvamaa	2 345 168	297 055	2 345 168	203 248

In the statement of profit and loss depreciation of the leased out fixed assets was 93 807 EEK in 2002 and 2001, and rental income was 111 519 EEK and 204 000 EEK, in 2002 and 2001, respectively. The rental agreement was terminated on 21 June 2002.

NOTE 13. SHARE CAPITAL

As at 31 December 2002 and 2001 the total share capital of the Company is 12 500 000 EEK, that consists of 1 250 000 shares with nominal value of 10 EEK. The shares of the Company are listed in the secondary list of Tallinn Stock Exchange.

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

As at 31 December 2002 and 2001 the shareholders of the Company are the following:

	31.12.2002	31.12.2001
PJSC Grindeks	64,1%	55,0%
Banque Carnegie Luxembourg SA Clients	14,8%	-
Nordea Bank Finland Plc Clients Account Trading	2,7%	2,4%
Pyramid Software AS	2,4%	2,4%
Skandinaviska Enskilda Banken AB Clients	0,2%	-
Floridian Trading International Ltd	-	14,8%
AS Sampo Pank	-	9,2%
Other small investors	15,8%	16,2%
Total	100,0%	100,0%

NOTE 14. 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 2002****NOTE 15. NET SALES**

Net sales are divided by markets as follows:

	2002		2001	
	EEK	%	EEK	%
Latvia	73 917 514	79	68 076 005	79
Estonia	19 957 502	21	17 713 924	21
Total	93 875 016	100	85 789 929	100

and by product groups as follows:

	2002		2001	
	EEK	%	EEK	%
Ointments	49 056 759	52	39 147 584	46
Tablets	28 244 883	30	34 719 839	40
Injections	14 655 452	16	10 981 784	13
Other	1 917 922	2	940 722	1
Total	93 875 016	100	85 789 929	100

From 1999, all export sales of the Company is conducted through parent PJSC Grindeks.

NOTE 16. OTHER REVENUE

	2002	2001
	EEK	EEK
Foreign exchange gain	3 874 780	6 836 636
Profit from sales of fixed assets	10 424	-
Royalty	877 594	-
Other operating income	200 085	1 172 727
Total	4 962 883	8 009 363

NOTE 17. MATERIALS, CONSUMABLES AND SUPPLIES

	2002	2001
	EEK	EEK
Energy	1 975 545	1 763 121
Raw materials	43 979 154	38 078 107
Fuel, spare parts	54 321	57 491
Goods	1 855 308	479 163
Registration of pharmaceuticals, trademarks	932 258	833 963
Transportation of finished goods	664 243	375 833
Other cost of materials	320 479	595 975
Total	49 781 308	42 183 653

TALLINNA FARMAATSIATEHASE AS**NOTES TO THE ANNUAL ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002****NOTE 18. MISCELLANEOUS OPERATING EXPENSES**

	2002 EEK	2001 EEK
Transportation	456 387	411 272
Repairs	1 205 682	830 979
Office expenses	187 507	190 349
Marketing	1 925 059	970 443
Commission fees	523 637	89 882
Training and consultations	737 071	1 005 998
Purchased services	2 649 831	1 920 665
Representation costs	280 718	208 790
Operating lease expense, rent	260 434	420 913
Business trips	161 069	245 127
Miscellaneous fees	332 350	338 391
Other expenses	892 833	824 908
Receipts of bad debts expensed in previous periods	-	(101 307)
Total	9 612 578	7 356 410

NOTE 19. PERSONNEL EXPENSES

	Salary		Average number of employees	
	2002 EEK	2001 EEK	2002	2001
Salaries and wages	12 792 084	13 322 227	156	190
incl. workers	4 781 010	5 526 304	95	128
administration	6 959 996	6 403 306	59	60
board	414 557	592 138	2	2
other personnel expenses	636 521	800 479	-	-
Social taxes	4 454 827	4 578 937	-	-
Total	17 246 911	17 901 164	156	190

In 2002, the average number of employees in the Company was 156 including 59 working as specialists or in management positions. The average salary in 2002 was 6 148 EEK per month. In 2001, there were 190 employees in average of whom 60 were specialists or in management positions. The average salary in 2001 was 5 156 EEK per month.

Related to the tablet department reorganisation the Company laid-off 35 employees, to whom redundancy fees were paid in the total amount of 493 572 EEK.

TALLINNA FARMAATSIATEHASE AS

**NOTES TO THE ANNUAL ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002**

NOTE 20. OTHER EXPENSES

	2002 EEK	2001 EEK
Foreign exchange losses	7 637 125	5 630 942
Loss from fixed assets disposal	3 439 495	7 204
Expensed value-added tax	34 198	23 544
Authors' fees	307 299	268 149
Fines, penalties	3 250	2 905
Interests on taxes	567	15 544
Other expenses	662 253	339 617
Total	<u>12 084 187</u>	<u>6 287 905</u>

The loss from disposal of fixed assets increased in 2002 mainly due to the transfer of the tablet production to PJSC Grindeks (see also Note 6).

NOTE 21. EARNINGS PER SHARE

	2002 EEK	2001 EEK
Net profit for the financial year	4 995 115	10 269 453
Weighted average number of shares	1 250 000	1 250 000
Earnings per share (EPS)	<u>4.00</u>	<u>8.22</u>

During both periods, the Company 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 2002

NOTE 22. RELATED PARTY TRANSACTIONS

The transactions with related parties are transactions with the parent PJSC Grindeks. The transactions with related parties during 2002 and the respective balances as at 31 December 2002 are the following:

22.1. Purchases

Related party	Payable 31.12.2001	Services and goods purchased	Payable 31.12.2002
PJSC Grindeks	-	Services and goods purchased	2 386 762
		Paid	2 386 762
			-

Prices used in purchases are agreed prices that do not differ materially from market prices.

22.2. Sales

Related party	Receivable 31.12.2001	Services and goods sold	Receivable 31.12.2002
PJSC Grindeks	29 231 612	Goods sold	73 917 514
		Paid	77 931 987
			25 217 139

22.3. Loan transactions

According to the agreement on transfer of claims between AS Hanspank and PJSC Grindeks, all liabilities to AS Hanspank by the Company and Kirna Farmaatsiatehase AS have been taken over by PJSC Grindeks. As at 31 December 2002 the Company's loan liability to PJSC Grindeks is 18 505 029 EEK. Maturity date of the loan is December 2006, with interest rate of 8%. Loan repayments were stopped until 1 January 2004, therefore total loan balance is recorded as long-term. Interest expense for the financial year was 1 715 988 EEK. From 1 July 2002 the loan was converted to US dollars. Due to that the Company earned foreign exchange gain in the amount of 3 785 680 EEK.

The Company has also 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 2002

NOTE 23. RISK RELATED TO THE OPERATING ACTIVITIES OF THE COMPANY

Currency risk

Export comprises 79% of the sales. 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 2002 were following:

	Assets EEK	Liabilities EEK	Net position EEK
USD	25 656 369	(20 249 235)	5 407 134
EUR	1 043 224	(19 819 933)	(18 776 709)
SEK	125 925	-	125 925
Total	26 825 518	(40 069 168)	(13 243 650)

Interest risk

Interest of long-term loans received depends on the fluctuation of EURIBOR. As at 31 December 2002 and 2001 6 months EURIBOR was 3,247% and 3,256%, respectively.

NOTE 24. LITIGATIONS

As at 31 December 2002 two law suits were presented against the Company:

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

NOTE 25. OTHER ISSUES

Ministry of Social Affairs has issued license for activities until 1 July 2003 for the following production lines: ointments production, capsules production starting from filling capsules, injections production, tablets packaging and releasing.

The Company is submitting the application to Ministry of Social Affairs for continuing activities according to the laws of Republic of Estonia in the regular order. The management of the Company has considered not to apply for the license for the injections production from 1 July 2003 and will be presenting it for the discussion to the shareholders' meeting.

NOTE 26. SUBSEQUENT EVENTS

On 27 January 2003 Financial Supervision Authority made prescription, according to that the Company was instructed to present an explanation about the persons who have acquired holding in Solem LLC, company registered in the United States of America, that holds a stake of 45% of PJSC Grindeks that in turn holds over 50% stake in the Company as well as about a person, who de facto controls Solem LLC or if mentioned company is controlled by citizen of Latvia Kirovs Lipmans.

The Company has done everything that is depending on the Company to obtain the information requested in the prescription of the Financial Supervisory Authority. At the same time the Company does not have any legal possibilities to oblige the person who is not the shareholder of the Company to reveal the requested information to the Company or to Financial Supervision Authority.

Based on the mentioned prescription, the Managing Director of Tallinn Stock Exchange decided to add a watch notation to the shares of the Company on 27 January 2003. According to the decision a watch notation will be removed after revealing the persons owning the shares in Solem LLC and controlling de facto Solem LLC or absence of such persons.

* * *

TALLINNA FARMAATSIATEHASE AS

PROPOSAL FOR PROFIT DISTRIBUTION

The Chairman of the Board of Tallinna Farmaatsiatehase AS proposes to distribute the net profit for 2002 in the amount of 4 995 115 EEK to retained earnings.

24 March 2003

Ibrahim Muhtši
Chairman of the Board

[Translation from Estonian]

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Tallinna Farmaatsiatehase AS:

We have audited the accompanying balance sheets of Tallinna Farmaatsiatehase AS ("the Company") as at 31 December 2002 and 2001, 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 the 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 four million EEK as at 31 December 2001. The management of the Company announced its decision to discontinue tablet production and signed a license agreement for the outsourcing of the tablets manufacturing, therefore such machinery should have been valued at net realizable value. The financial statements for the year ended 31 December 2001 contain no adjustment for bringing these assets to the net realizable value and the disclosures required under IAS 35 relating to the discontinuation of the tablet production. The effect of the valuation adjustment of the machinery is included in the results of the year ended 31 December 2002. The financial statements for the year ended 31 December 2002 do not contain the disclosures under IAS 35 relating to the discontinuation of the tablet production.

In our opinion, except from the effects on the financial statements of the matters referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2002 and 2001, and the results of its operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards and Estonian Accounting Law.

Without qualifying our opinion on the financial statements we draw attention to Notes 15 and 22 to the financial statements according to which sales to PJSC Grindeks ("the Parent") in 2002 comprise 79% of the revenues of the Company, i.e. 73,917,514 EEK and receivables from Parent are as at 31 December 2002 in the amount of 25,217,139 EEK, 6,167,741 EEK of which is overdue. The Parent has confirmed in writing its intention to fulfill its financial obligations derived from and associated with the valid contracts with the Company and assure the continuation of the Company's activities. The continuation of the Company's operations depends on the Parent's implementation of their intentions. The financial statements do not include any adjustment that might result from a negative outcome of the matter described above.

In addition, we draw attention to the matter that the Company and the Parent have on 8 February 2002 concluded a license agreement according to which the Company is entitled to a royalty for the license that equals to 23% of the net sales turnover of the products manufactured by the Parent under the agreement. According to the agreement the Company is entitled to a minimum royalty of not less than three million EEK in the year 2002, 877,594 EEK of which the Company has received. The Company intends to amend the agreement and waive the minimum royalty requirement, which in 2002 results in a reduced income in the amount of 2,122,406 EEK. The latter income is not included in the results for the year ended 31 December 2002. The amendment of the agreement has been approved by the management and the council and will be presented for approval to the shareholders' general meeting in April 2003.

Villu Vaino
Certified Auditor
24 March 2003

AS Deloitte & Touche Audit

TALLINNA FARMAATSIATEHASE AS

BOARD AND COUNCIL SIGNATURES TO THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

Chairman of the Board has prepared the management report and the annual accounts of Tallinna Farmaatsiatehase AS on 24 March 2003.

The Council of Tallinna Farmaatsiatehase AS has reviewed the annual report, prepared by the Chairman of the Board, consisting of the management report, the annual accounts and the notes to the annual accounts, Chairman of the Board's proposal for profit distribution and the independent auditor's report, and has approved the annual report for presentation on the Shareholders' General Meeting.

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

Name	Position	Signature	Date
Ibrahim Muhtši	Chairman of the Board	_____	_____
Jelena Borcova	Chairman of the Council	_____	_____
Alar Kiilmaa	Member of the Council	_____	_____
Lipman Zeligman	Member of the Council	_____	_____
Andres Toome	Member of the Council	_____	_____
Marcel Vichmann	Member of the Council	_____	_____
Karina Springe	Member of the Council	_____	_____