

TALLINNA
FARMAATSIATEHASE AS

*Annual Report for
the Financial Year
Ended 31 December 2005*



TALLINNA FARMAATSIATEHASE AS

ANNUAL REPORT

Beginning of the financial year	1 January 2005
End of the financial year	31 December 2005
Name of the company	TALLINNA FARMAATSIATEHASE AS
Registration number	10093221
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E-mail	farma@tft.ee
Web-page	www.tft.ee
Field of activity	Production of pharmaceuticals
Auditors	AS Deloitte Audit Eesti
Documents enclosed with the annual report	Independent auditors' report



TALLINNA FARMAATSIATEHASE AS

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TALLINNA FARMAATSIATEHASE AS

MANAGEMENT REPORT

General Data

The core activity of Tallinna Farmaatsiatehase AS is the production of pharmaceuticals. Tallinna Farmaatsiatehase AS is focusing mostly on the production of ointments since the second half of 2003.

As of 31 December 2005 the majority shareholder of Tallinna Farmaatsiatehase AS was PJSC Grindeks holding 95.006% of the share capital or 1 187 577 shares.

The number of employees as of 31 December 2005 was 71. The number of employees has not changed compared with the end of 2004.

Management Board and Supervisory Council

In 2005 there were no changes in the Management Board or Supervisory Council. The Director of Tallinna Farmaatsiatehase AS was Ibraim Muhtši, members of the Council were Kirovs Lipmans, Vitalijs Gavrilovs and Valdis Jakobsons.

Based on the resolution of the Supervisory Council of Tallinna Farmaatsiatehase AS the Director of the Company starting from 15 February 2006 is Raivo Unt.

Sales

The net sales of Tallinna Farmaatsiatehase AS in 2005 could be considered satisfactory. The sales of all finished goods were arranged as agreed between PJSC Grindeks and Tallinna Farmaatsiatehase AS on 21 July 2003. Subject to the agreement, the sales of the group's production have been arranged through the sales structures of Grindeks since financial year 2004. PJSC Grindeks is also responsible for the sales of the production of Tallinna Farmaatsiatehase AS in all markets. The same strategy was followed in 2005.

In 2005 the sales of ointments decreased by 14,594 thousand EEK or 23.9% compared with 2004. The most successful ointments continue to be Viprosal B and Capsicam.

Production and Product Development

On 1 July 2003 the Ministry of Social Affairs issued operating license No. 3667 to the Company until 1 July 2008 for the production of pharmaceuticals.

At the extraordinary shareholders' meetings on 25 July 2003 and 10 November 2003 the long-term strategy of the Company was approved, meaning that the Company concentrates on the production of ointments in the group.

In 2005 Tallinna Farmaatsiatehase AS produced over 9 different ointments. The output of the Company was approximately 8,4 million packages of ointments. Compared with 2004, the production of ointments decreased by 1.2%. In 2005 the main products were Viprosal B and Capsicam ointments, accounting for 51% and 32.7% of the total ointment production, respectively.

MANAGEMENT REPORT

In 2005 the Company continued the validation of the production procedures of ointment and new investments were made to modernize the quality control laboratory.

In 2005 attention was paid to internal personnel training: principles of management, production management and implementation according to GMP.

A lot of work has continuously been done to ensure that documentation complies with European Union requirements. In 2005, 7 pharmaceuticals were submitted for registration and 17 pharmaceuticals for re-registration, all together in 11 countries. Sales permission was renewed for 9 pharmaceuticals and 5 pharmaceuticals were deleted from register of pharmaceuticals. At the end of 2005 the Company had registered 98 pharmaceuticals in different markets. The number of registered pharmaceuticals at the end of 2004 was 131 indicating the decrease by 33 or 25.1%.

Financial Results

Comments to the Balance Sheet

As of 31 December 2005 the Company's total assets amounted to 56,451 thousand EEK, down by 5,423 thousand EEK or 8.8%.

The largest decrease in assets has occurred in receivables and prepayments made of 6,032 thousand EEK or 22.5%. At the same time the inventories increased by 1,509 thousand EEK or 32.4%. Current assets in total decreased by 4,684 thousand EEK or 14.8%.

Non-current assets decreased from 30,146 thousand EEK at the beginning of 2005 to 29,407 thousand EEK at the end of 2005. Non-current assets accounted for 48.7% of total assets at the beginning of 2005 and 52.1% at the end of 2005. In 2005 the major investments were made for improvement of ventilation system and modernizing the quality control laboratory.

At the end of 2005 non-current liabilities amounted only to 31 thousand EEK. The current liabilities decreased from 10,114 thousand EEK at the beginning of the year to 6,180 thousand EEK at the end of the year. Total current liabilities decreased in amount of 3,934 thousand EEK or 38.9%. The Company's working capital (current assets – current liabilities) decreased from 21,614 thousand EEK to 20,864 thousand EEK by the end of 2005. The liquidity ratio (current assets – inventories / current liabilities) has increased by the end of 2005 to 3.38 compared with 2.68 at the beginning of the year.

The equity decreased in 2005 in amount of the net loss for the financial year. Equity was down by 1.9% to 50,239 thousand EEK. At the beginning of 2005 equity accounted for 82.8% of total assets compared with 90% at the end of 2005.

Comments to the Income Statement

During 2005 the net sales amounted to 49,717 thousand EEK, down by 16,238 thousand EEK or 24.6% compared with 2004.

Materials, consumables and supplies dropped by 2,224 thousand EEK or 6.9% compared with 2004. Compared with 2004 miscellaneous operating expenses decreased by 6,366 thousand EEK or 59.9%. Personnel expenses increased by 912 thousand EEK or 7.6%.



TALLINNA FARMAATSIATEHASE AS

MANAGEMENT REPORT

In 2005, operating profit declined by 4,614 thousand EEK or 144% compared with 2004. In 2005, the net loss amounted to 984 thousand EEK or 0.79 EEK per share.

Future Outlook

The main goal for 2006 will be to ensure that the production would continuously meet the international requirements and standards. The main priority of Tallinna Farmaatsiatehase AS will be the production of ointments. The main task is the development of new ointments and their implementation to production.



Raivo Unt
Director



TALLINNA FARMAATSIATEHASE AS

DIRECTOR'S DECLARATION

The Director hereby declares his responsibility for the preparation of the annual accounts of Tallinna Farmaatsiatehase AS for the financial year ended on 31 December 2005.

The annual accounts are prepared in accordance with International Financial Reporting Standards as adopted by the EU and present a true and fair view of the financial position, economic performance and cash flows of Tallinna Farmaatsiatehase AS.

Preparation of the annual accounts in accordance with International Financial Reporting Standards assumes the Director to make estimates on the assets and liabilities of Tallinna Farmaatsiatehase AS as of the balance sheet date, and on income and expenses for the reporting period. These estimates are based on up-to-date information about the state of Tallinna Farmaatsiatehase AS and consider the plans and risks as of the date of the annual accounts' preparation. The ultimate outcome of the business transactions recorded may differ from those estimates.

The annual accounts reflect those significant circumstances that have an effect on the valuation of assets and liabilities until the preparation date of the annual accounts, 30 March 2006.

The Director considers Tallinna Farmaatsiatehase AS to carry its activities as a going concern.

Name	Position	Signature	Date
Raivo Unt	Director		<u>15.05.2006</u>

TALLINNA FARMAATSIATEHASE AS

BALANCE SHEETS
AS OF 31 DECEMBER 2005 AND 2004

Signed for identification purposes:


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ASSETS	Note	31.12.2005 EEK	31.12.2004 EEK	31.12.2005 EUR*	31.12.2004 EUR*
Current assets					
Cash and bank accounts	2	147 574	308 230	9 432	19 700
Trade and other current receivables	3	20 733 670	26 766 362	1 325 123	1 710 682
Inventories	4	6 163 095	4 653 850	393 893	297 435
Total current assets		27 044 339	31 728 442	1 728 448	2 027 817
Non-current assets					
Other long-term receivables		-	104 573	-	6 684
Investment property	5	5 117 947	-	327 097	-
Tangible assets	6	23 750 735	29 648 870	1 517 949	1 894 908
Intangible assets	7	538 343	392 124	34 406	25 061
Total non-current assets		29 407 025	30 145 567	1 879 452	1 926 653
TOTAL ASSETS		56 451 364	61 874 009	3 607 900	3 954 470
LIABILITIES AND EQUITY					
Current liabilities					
Short-term debt obligations	8	505 009	767 529	32 276	49 054
Trade and other current payables	9	5 675 487	9 346 252	362 729	597 334
Total current liabilities		6 180 496	10 113 781	395 005	646 388
Non-current liabilities					
Long-term debt obligations	8	31 431	536 440	2 009	34 285
Total non-current liabilities		31 431	536 440	2 009	34 285
Total liabilities		6 211 927	10 650 221	397 014	680 673
Equity					
Share capital (nominal value)	10	12 500 000	12 500 000	798 896	798 896
Reserves	11	2 316 210	2 316 210	148 033	148 033
Retained earnings		36 407 578	33 301 057	2 326 868	2 128 325
Net profit (loss) for the financial year		(984 351)	3 106 521	(62 911)	198 543
Total equity		50 239 437	51 223 788	3 210 886	3 273 797
TOTAL LIABILITIES AND EQUITY		56 451 364	61 874 009	3 607 900	3 954 470

* In accordance with the rules of Tallinn Stock Exchange, the main statements are presented also in Euro (EUR), which presents unaudited supplementary information that does not form part of the Company's annual accounts.

The notes presented on pages 11 to 27 form an integral part of the annual accounts.


TALLINNA FARMAATSIATEHASE AS
INCOME STATEMENTS
FOR THE FINANCIAL YEARS 2005 AND 2004

Signed for identification purposes:

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	Note	2005 EEK	2004 EEK	2005 EUR*	2004 EUR*
Revenue	12	49 716 965	65 955 001	3 177 493	4 215 293
Other income		370 177	1 839 890	23 659	117 591
Change in inventories of finished goods and work-in-progress		(1 087 106)	(5 614 810)	(69 479)	(358 852)
Materials, consumables and supplies	13	(29 987 779)	(32 211 917)	(1 916 568)	(2 058 717)
Miscellaneous operating expenses	14	(4 265 684)	(10 632 646)	(272 627)	(679 550)
Personnel expenses	15	(12 837 639)	(11 925 515)	(820 475)	(762 179)
Depreciation, amortisation and value adjustments	5,6,7	(3 064 317)	(3 723 138)	(195 845)	(237 952)
Other expenses		(250 969)	(478 707)	(16 040)	(30 595)
Operating profit (loss)		(1 406 352)	3 208 158	(89 882)	205 039
Financial income and expense	16	422 001	(101 637)	26 971	(6 496)
Net profit (loss) for the financial year		(984 351)	3 106 521	(62 911)	198 543
Earnings per share	17	(0.79)	2.49	(0.05)	0.16

* In accordance with the rules of Tallinn Stock Exchange, the main statements are presented also in Euro (EUR), which presents unaudited supplementary information that does not form part of the Company's annual accounts.

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TALLINNA FARMAATSIATEHASE AS

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEARS 2005 AND 2004

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	Share capital EEK	Reserves EEK	Retained earnings EEK	Total EEK
31 December 2003	12 500 000	2 316 210	33 301 057	48 117 267
Net profit for the financial year	-	-	3 106 521	3 106 521
31 December 2004	12 500 000	2 316 210	36 407 578	51 223 788
Net loss for the financial year	-	-	(984 351)	(984 351)
31 December 2005	12 500 000	2 316 210	35 423 227	50 239 437


	Share capital EUR*	Reserves EUR*	Retained earnings EUR*	Total EUR*
31 December 2003	798 896	148 033	2 128 325	3 075 254
Net profit for the financial year	-	-	198 543	198 543
31 December 2004	798 896	148 033	2 326 868	3 273 797
Net loss for the financial year	-	-	(62 911)	(62 911)
31 December 2005	798 896	148 033	2 263 957	3 210 886

* In accordance with the rules of Tallinn Stock Exchange, the main statements are presented also in Euro (EUR), which presents unaudited supplementary information that does not form part of the Company's annual accounts.

The notes presented on pages 11 to 27 form an integral part of the annual accounts.



TALLINNA FARMAATSIATEHASE AS
**CASH FLOW STATEMENTS
 FOR THE FINANCIAL YEARS 2005 AND 2004**

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	Note	2005 EEK	2004 EEK	2005 EUR*	2004 EUR*
OPERATING ACTIVITIES					
Net profit (loss) for the financial year		(984 351)	3 106 521	(62 911)	198 543
Adjustments for:					
Depreciation and amortisation	5,6,7	3 064 317	3 723 138	195 845	237 952
Gain from disposal of tangible assets		-	(17 086)	-	(1 092)
Loss from write-off of prepayments for intangible assets		-	342	-	22
Write-off of loan	18	-	237 410	-	15 173
Interest income	16	(3 314)	(10 534)	(212)	(673)
Interest expense	16	71 511	125 393	4 570	8 014
Changes in current assets and current liabilities:					
Trade and other current receivables		6 001 977	(13 783 581)	383 596	(880 931)
Inventories		(1 509 245)	5 842 043	(96 458)	373 374
Trade and other current payables		(3 670 765)	2 535 683	(234 605)	162 060
Cash flows from operating activities		2 970 130	1 759 329	189 825	112 442
INVESTING ACTIVITIES					
Acquisition of tangible and intangible assets	6,7	(2 430 348)	(1 733 436)	(155 328)	(110 786)
Proceeds from disposal of tangible assets		-	21 000	-	1 342
Repayments of loans granted		135 366	22 548	8 652	1 441
Interest received		3 236	12 320	207	787
Cash flows used in investing activities		(2 291 746)	(1 677 568)	(146 469)	(107 216)
FINANCING ACTIVITIES					
Repayments of finance lease principals		(767 529)	(916 262)	(49 054)	(58 560)
Interest paid		(71 511)	(125 393)	(4 570)	(8 014)
Cash flows used in financing activities		(839 040)	(1 041 655)	(53 624)	(66 574)
Net change in cash		(160 656)	(959 894)	(10 268)	(61 348)
CASH AT THE BEGINNING OF THE YEAR		308 230	1 268 124	19 700	81 048
CASH AT THE END OF THE YEAR		147 574	308 230	9 432	19 700

* In accordance with the rules of Tallinn Stock Exchange, the main statements are presented also in Euro (EUR), which presents unaudited supplementary information that does not form part of the Company's annual accounts.

The notes presented on pages 11 to 27 form an integral part of the annual accounts.

NOTE 1. ACCOUNTING POLICIES

The annual accounts of AS Tallinna Farmaatsiatehase AS (hereinafter also referred to as "the Company") for the financial year 2005 have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the EU.

The annual accounts have been prepared in Estonian kroons (EEK). In accordance with the rules of Tallinn Stock Exchange, the main statements are presented also in Euro (EUR), which presents unaudited supplementary information that does not form part of the Company's annual accounts. The Estonian kroon is pegged to the Euro at the rate of EEK 15,6466 to EUR 1 which does not generate foreign exchange translation differences.

The annual accounts have been prepared on the historical basis, except for the revaluation of certain properties and financial instruments.

According to the Commercial Code the annual report, which has been prepared by the Director and approved by the supervisory council and which also contains annual accounts, shall be ratified by a general meeting of shareholders. The shareholders are entitled to reject the annual report prepared by the director and approved by the supervisory council and demand that a new report be prepared.

The Director considers that new standards and interpretations or amendments to standards relating to the operations of the Company, which have been adopted by the EU by the date of preparation of the annual accounts but become effective after the balance sheet date, do not affect the annual accounts of the Company, and the standards are not intended to be applied before their effective date. Such standards include IFRS 7 *Financial Instruments: Disclosures* and amendments in IAS 1 *Presentation of Financial Statements*.

Foreign currency transactions

The accounting currency of the Company is the Estonian kroon, which is the presentation currency of these annual accounts. All other currencies are regarded as foreign currencies.

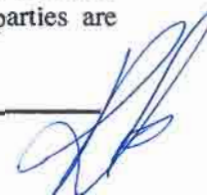
Foreign currency transactions are recorded at the rates of exchange quoted by the Bank of Estonia at the transaction date. Foreign currency monetary items and obligations are retranslated into Estonian kroons at the official foreign currency exchange rates prevailing on the balance sheet date. Gains and losses from foreign currency transactions are recorded in the income statement on net basis.

The following are the applicable rates of the principal currencies in EEK:

Currency	31.12.2005	31.12.2004
USD	13,2206	11,4711
EUR	15,6466	15,6466

Financial assets and financial liabilities

Cash and contractual rights to receive cash from third parties are considered to be financial assets. Contractual obligations to deliver cash or other financial assets to third parties are considered to be financial liabilities.



TALLINNA FARMAATSIATEHASE AS

**NOTES TO THE ANNUAL ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005**

Financial assets and liabilities are initially measured at cost, which is the fair value of consideration given or received to acquire the financial asset or liability. Initial cost of all financial assets and liabilities include direct transaction costs.

Sale and purchase transactions of financial instruments, commenced at regular market terms, are recognized at the trade date. Depending on their category, financial assets and liabilities are subsequently measured at fair value, cost or amortized cost.

Financial instruments carried at fair value are revalued on each balance sheet date. Change in fair value are recognised in the income statement.

The amortized cost of a financial instrument is the amount at which it is measured at initial recognition, discounted using the effective interest method minus principal repayments and any reduction for impairment or uncollectibility.

The derecognition of a financial asset takes place when the Company no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party. Financial liabilities are derecognised when the obligation under the liability is discharged or cancelled or expired.

Cash and bank accounts

Cash and bank accounts comprise cash on hand and demand bank deposits.

Cash flows from operating activities are prepared using the indirect method. Cash flows from investing and financing activities are reported based on gross receipts and disbursements made during the accounting period.

Trade receivables

Current trade receivables are recorded at amortized cost, i.e. at their net present value, from which doubtful accounts are deducted.

Trade receivables, which partly or fully are not expected to be collected, are expensed and reported in the income statement as "Miscellaneous operating expenses". Receivables, collection of which is not feasible nor economically justified, are considered to be non-collectible and written-off from the balance sheet.

Inventories

Purchased goods, raw materials and supplies are recorded at cost, which comprises direct and indirect acquisition expenditures incurred without which the inventories would not be in their present condition and quantity. Finished goods and work-in-progress are recorded at production cost, which consists of direct and indirect manufacturing costs.

Inventories are expensed applying the weighted average method. Inventories are stated on the balance sheet at the lower of cost and net realisable value.

**Investment property**

Land or buildings acquired for the purpose of earning rentals or for capital appreciation and that are not held for the Company's own use or for sale in the ordinary course of business, are reported as investment property. Investment property is accounted for at cost method and stated on the balance sheet at its carrying value. The buildings are depreciated using straight line method over 25 year period, land is not depreciated.

Tangible assets

Assets used for production, rendering services or administrative purposes, with useful life of over one year and with a minimum value of 5 000 EEK are considered to be tangible assets. Tangible assets are recorded at cost, which comprises purchase price and other directly attributable expenditures.

Depreciation is calculated on the straight-line method. Depreciation rates are assigned separately to each tangible asset or its separately identifiable component depending on its estimated useful life as follows:

- buildings – 4% per annum;
- equipment – 5-25% per annum;
- other equipment – 20-25% per annum;

Land is not depreciated.

Improvements to tangible assets are capitalized if they comply with the definition of a tangible asset and the criteria for recognizing an asset on the balance sheet, including the participation of these costs in generating future economic benefits. Maintenance and repairs are expensed when incurred.

Intangible assets

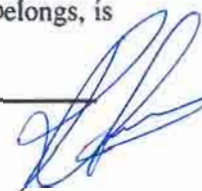
The sales and production licenses of pharmaceuticals are recorded as intangible assets. Licenses are recorded at cost and amortised on a straight-line basis over their validity period. All recorded licenses are valid up to five years. Amortisation is recognised as a decrease of net book value on the balance sheet and expensed in the income statement as "Depreciation, amortisation and value adjustments"

Research and development costs are charged as miscellaneous operating expenses for the period during which they incurred.

Impairment of assets

At each balance sheet date, a review of whether there is any indication that investment property recorded at cost, and tangible and intangible assets are impaired, is performed. If the management of the Company detects any indications that the value of an asset may have declined below its carrying amount, impairment test is carried out.

As a result of impairment test, a recoverable amount is estimated for investment property, tangible and intangible assets. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a cash-generating unit to which the asset belongs, is determined.



Recoverable amount is the higher of the asset's net selling price and asset's value in use. In assessing the value in use, the estimated future cash flows from continuous use and subsequent disposal are discounted to their present value using a discount rate that reflects expected return on similar investments.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The impairment loss is recognized in the income statement as "Depreciation, amortisation and value adjustments" when incurred.

The Company assesses at each reporting date whether there are any indications that the recoverable amount of an asset has increased and an impairment test is performed. If it appears, as a result of the impairment test, that the recoverable amount has increased and the previously recognized impairment loss is no longer justified, the carrying amount is increased. The reversal should not result in a carrying amount that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

The amount of the reversal of impairment loss is recognized in the income statement as "Depreciation, amortisation and value adjustments" for the financial year on the same expense account as a reverse entry.

Leases

Leases are classified as finance leases whenever the term of the lease transfer substantially all the risks and rewards of ownership to the lessee. Other leases are classified as operating leases.

Company as lessor

Assets leased under the terms of operating lease are reported similarly to other assets reported on the balance sheet. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease despite timing and amounts of actual collection of rentals.

Company as lessee

An asset held under finance lease is recognized as an asset and a liability of the Company at its fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in income statement on accrual basis of accounting.

Assets held under operating lease are not reported on the balance sheet. Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease, irrespectively from disbursements.

Liabilities

Liabilities with payment due after one year from the balance sheet date are considered to be long-term liabilities. Other liabilities are reported as short-term.

Commitments, guarantees and warranties are disclosed in the notes to the annual accounts as contingent liabilities.

Contingent income tax on dividends

According to the Estonian Income Tax Act the net profit of a resident legal entity is not subject to corporate income tax; thus there are no temporary differences between the tax base and carrying values of assets and liabilities that may cause the deferred income tax. Instead of taxation of net profit, all dividends are subject to income tax with the rate of 23/77 (the rate of 24/76 was effective for dividends paid out in 2005 and according to the Estonian Income Tax Act that tax rate decreases by 1% every year down to 20/80 in year 2009). The income tax due on dividend distribution is expensed in the income statement when dividends are declared.

The potential tax liability related to the distribution of the Company's retained earnings as dividends is not recorded in the balance sheet. The amount of potential tax liability related to the distribution of dividends is disclosed in Note 20.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, i.e. represents amounts receivable for goods and services provided, net of discounts and goods returned. Sales of goods are recognised when all significant risks and rewards related to ownership of goods have been transferred to the buyer, collection of related receivables is probable, and income and expenses incurred in respect of the transaction can be measured reliably. Sales of services are recognised in the period when the service was provided, provided that collection of related receivables is probable, and income and expenses incurred in respect of the transaction can be measured reliably.

Interest income is accrued on a time basis.

Segment reporting

The Company operates in the field of ointment production in Estonia. Finished goods are fully sold to the Company's parent company PJSC Grindeks in Latvia. As a result of the reasons mentioned above the Company's operations are handled as one business and geographical segment.

Earnings per share

Basic earning per share is calculated by dividing the net profit of the period by the weighted average number of ordinary shares. The Company has no potential ordinary shares and therefore basic earnings per share and diluted earnings per share are equal.



TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

Signed for identification purposes:


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NOTE 2. CASH AND BANK ACCOUNTS

	31.12.2005 EEK	31.12.2004 EEK
Cash on hand	9 423	4 604
Bank accounts in EEK	117 413	16 970
Bank accounts in foreign currency	15 438	281 277
Other cash equivalents	5 300	5 379
Total	<u>147 574</u>	<u>308 230</u>

NOTE 3. TRADE AND OTHER CURRENT RECEIVABLES

	31.12.2005 EEK	31.12.2004 EEK
Trade receivables	48 038	16 258
Receivables from parent and other group companies (see note 18)	20 384 725	26 311 414
Other short-term receivables	4 588	38 801
Prepaid taxes	245 952	354 418
Other prepaid expenses	50 367	45 471
Total	<u>20 733 670</u>	<u>26 766 362</u>


NOTE 4. INVENTORIES

	31.12.2005 EEK	31.12.2004 EEK
Raw material	4 914 143	2 321 703
Work-in-progress	-	108 177
Finished goods	1 245 041	2 223 970
Prepayments to suppliers	3 911	-
Total	<u>6 163 095</u>	<u>4 653 850</u>

In 2005 and 2004 the materials unsuitable for production and realisation were recognised as impaired in the amount of 78 465 EEK and 77 788 EEK, respectively.



TALLINNA FARMAATSIATEHASE AS
NOTES TO THE ANNUAL ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

Signed for identification purposes:

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NOTE 5. INVESTMENT PROPERTY

The buildings, which stayed idle as a result of the reorganisation of production, were leased out in the last quarter of 2005. Consequently, the tangible assets leased under operating lease were classified to investment property.

The statement of investment property is as follows:

	EEK
Acquisition cost	
31 December 2004	-
Reclassification from tangible assets	<u>9 283 259</u>
31 December 2005	9 283 259
Accumulated depreciation	
31 December 2004	-
Depreciation charge	89 633
Reclassification from tangible assets	<u>4 075 679</u>
31 December 2005	4 165 312
Carrying amount	
31 December 2005	<u>5 117 947</u>

In 2005 the Company earned rental income from that investment property 285 536 EEK. The Company had no direct property management arising on the investment property as such were reimbursed to the lessors.

According to the management estimations, fair value of the investment property is higher than its carrying amount.

NOTE 6. TANGIBLE ASSETS

The statement of tangible assets is as follows:

	Land and buildings EEK	Machinery and equipment EEK	Other tangible assets EEK	Construction -in-progress EEK	Prepay- ments for tangible assets EEK	Total EEK
Acquisition cost						
31 December 2003	31 554 379	14 921 278	2 980 626	-	2 155 100	51 611 383
Additions	29 300	450 672	26 949	806 267	669 688	1 982 876
Disposals	-	(255 000)	(19 055)	-	-	(274 055)
Reclassification	2 420 616	1 210 439	-	(806 267)	(2 824 788)	-
31 December 2004	34 004 295	16 327 389	2 988 520	-	-	53 320 204
Additions	341 965	507 225	141 953	823 934	278 238	2 093 315
Reclassification	1 018 640	43 931	39 601	(823 934)	(278 238)	-
Reclassification to investment property	(9 283 259)	-	-	-	-	(9 283 259)
31 December 2005	26 081 641	16 878 545	3 170 074	-	-	46 130 260
Accumulated depreciation						
31 December 2003	9 402 856	8 518 735	2 517 966	-	-	20 439 557
Depreciation charge	1 473 878	1 854 312	173 728	-	-	3 501 918
Disposals	-	(255 000)	(15 141)	-	-	(270 141)
31 December 2004	10 876 734	10 118 047	2 676 553	-	-	23 671 334
Depreciation charge	1 245 216	1 402 788	135 866	-	-	2 783 870
Reclassification to investment property	(4 075 679)	-	-	-	-	(4 075 679)
31 December 2005	8 046 271	11 520 835	2 812 419	-	-	22 379 525
Carrying amount						
31 December 2004	23 127 561	6 209 342	311 967	-	-	29 648 870
31 December 2005	18 035 370	5 357 710	357 655	-	-	23 750 735

As of 31 December 2005 and 2004 the carrying amount of tangible assets acquired through finance lease amounted to 2 186 949 EEK and 2 385 601 EEK, respectively.

Since 1 January 2005 the Company changed useful life of three machines from 10 years to 20 years and useful life of one machine from 6,7 years to 20 years. As a result of the change in accounting estimate the depreciation charge in 2005 is less 758 168 EEK.

TALLINNA FARMAATSIATEHASE AS
 NOTES TO THE ANNUAL ACCOUNTS
 FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

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NOTE 7. INTANGIBLE ASSETS

The statement of intangible assets is as follows:

	Patents and licenses EEK	Prepay- ments for intangible assets EEK	Total EEK
Acquisition cost			
31 December 2003	1 349 730	16 442	1 366 172
Additions	-	58 610	58 610
Reclassification	-	(342)	(342)
Disposals	16 100	(16 100)	-
31 December 2004	1 365 830	58 610	1 424 440
Additions	213 156	123 877	337 033
Reclassification	58 611	(58 611)	-
Disposals	(520 848)	-	(520 848)
31 December 2005	1 116 749	123 876	1 240 625
Accumulated amortisation			
31 December 2003	811 096	-	811 096
Amortisation charge	221 220	-	221 220
31 December 2004	1 032 316	-	1 032 316
Amortisation charge	190 814	-	190 814
Disposals	(520 848)	-	(520 848)
31 December 2005	702 282	-	702 282
Carrying amount			
31 December 2004	333 514	58 610	392 124
31 December 2005	414 467	123 876	538 343

The licenses for sale of pharmaceuticals are recorded as intangible assets. The pharmaceuticals are registered for five years and are amortised respectively. Expenses on registration of pharmaceuticals amounted to 435 136 EEK and 524 445 EEK, in 2005 and 2004, respectively.

The Company continues to register the tablet pharmaceuticals until their re-registration to the name of PJCS Grindeks (latest within 24 months).

In 2005, the following pharmaceuticals were registered in different countries:

Estonia	Mamisal ointment, Salicam ointment, Ortofen ointment
Russia	Sulfargin ointment, Ortofen ointment
Uzbekistan	Capsicam ointment, Viprosal B ointment
Latvia	Ortofen ointment
Belarus	Sulfargin ointment
Ukraine	Viprosal B ointment

**NOTES TO THE ANNUAL ACCOUNTS
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As of 31.12.2005 and 31.12.2004, the following number of pharmaceuticals has been registered in different countries:

	31.12.2005	31.12.2004
Belarus	19	23
Estonia	13	19
Georgia	13	17
Russia	13	13
Latvia	10	14
Armenia	7	7
Lithuania	6	5
Ukraine	5	9
Moldova	5	9
Kazakhstan	3	13
Uzbekistan	2	-
Poland	1	1
Hungary	1	1

NOTE 8. LEASES

Finance lease – the Company as lessee

The Company has the following liabilities on financing the acquisition of production equipment:

	31.12.2005 EEK	31.12.2004 EEK
Long-term finance lease liability to Ühisliisingu AS with annual interest rate 5.6%, maturity date July 2006, contract currency EEK. The liability is secured by asset.	453 171	1 171 335
Long-term finance lease liability to Hansa Liising Eesti AS with annual interest rate 4.9%, maturity date July 2007, contract currency EUR. The liability is secured by asset.	83 269	132 634
Total	536 440	1 303 969
Including short-term portion	505 009	767 529
Long-term portion	31 431	536 440

The repayments of the liabilities presented above are as follows:

	EEK
Within 1 year	505 009
1-5 years	31 431
Total	536 440

TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

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Operating lease – the Company as lessee

The Company leases eight cars and one truck with the minimum operating lease obligations as follows:

	EEK
Within 1 year	215 204
1-5 years	139 277
Total	<u>354 481</u>

The Company's operating lease expenses in 2005 and 2004 were 174 487 EEK and 313 091 EEK, respectively.

Starting from 8 July 2004 the Company has subleased four cars to PAS Grindeks Estonian branch subject to the agreement with Hansa Liising Eesti AS.

NOTE 9. TRADE AND OTHER CURRENT PAYABLES

	31.12.2005 EEK	31.12.2004 EEK
Accounts payable	4 183 156	7 317 255
Taxes payable	380 038	417 866
Accrued expenses	1 112 293	1 164 317
Dividends payable	-	446 814
Total	<u>5 675 487</u>	<u>9 346 252</u>

As of 31 December 2004, dividends payable consisted of unpaid dividends to the state from the net profit of 1994 in the amount of 446 814 EEK. In 2005, the unpaid dividends to the state were recorded as financial income in accordance with resolution of the Director (see Note 16).

NOTE 10. SHARE CAPITAL

As of 31.12.2005 and 31.12.2004 the share capital of the Company is 12 500 000 EEK consisting of 1 250 000 shares with a nominal value of 10 EEK. The shares have been fully paid for. The shares of the Company are listed in the secondary list of Tallinn Stock Exchange.

As of 31.12.2005 and 31.12.2004 the shareholders of the Company are the following:

	31.12.2005	31.12.2004
PJSC Grindeks	95,0%	93,5%
Other minority shareholders	5,0%	6,5%
Total	<u>100,0%</u>	<u>100,0%</u>

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TALLINNA FARMAATSIATEHASE AS

**NOTES TO THE ANNUAL ACCOUNTS
 FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005**

NOTE 11. RESERVES

Statutory legal reserve of 1 250 000 EEK has been established in accordance with the requirements of the Commercial Code. Every year, companies have to transfer to statutory legal reserve at least 1/20 of their net profit until the reserve amounts to 1/10 of share capital. Statutory legal reserve may be used to cover losses and to increase share capital. Statutory legal reserve cannot be used to make distributions to the shareholders.

Other reserve of 1 066 210 EEK was allocated from the net profit of 1995 to the going concern reserve. The management has not determined the use of other reserve.

NOTE 12. REVENUE

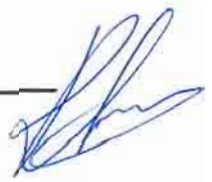
Revenue are divided by markets as follows:

	2005 EEK	2004 EEK
Latvia	49 613 846	65 809 437
Estonia	103 119	145 564
Total	49 716 965	65 955 001

Starting from 2004, all production of the Company is sold through the parent company PJSC Grindeks.


Revenue are divided by product groups as follows:

	2005 EEK	2004 EEK
Ointments	46 509 800	61 103 736
Injections	-	1 717 442
Tablets	-	992 173
Other	3 207 165	2 141 650
Total	49 716 965	65 955 001



TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

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NOTE 13. MATERIALS, CONSUMABLES AND SUPPLIES

	2005 EEK	2004 EEK
Raw materials	(27 300 999)	(29 439 548)
Energy	(1 467 236)	(1 383 145)
Registration of pharmaceuticals, trademarks	(622 094)	(653 512)
Transportation of finished goods	(462 448)	(498 390)
Goods	(10 313)	(34 775)
Fuel and other cost of materials	(124 689)	(202 547)
Total	(29 987 779)	(32 211 917)

NOTE 14. MISCELLANEOUS OPERATING EXPENSES

	2005 EEK	2004 EEK
Outsourced services	(1 624 615)	(1 623 650)
Repairs	(619 309)	(692 257)
Sales and marketing expenses	(329 249)	(612 300)
Miscellaneous fees	(266 671)	(269 138)
Transportation	(247 142)	(243 561)
Training and consultations	(193 816)	(4 059 643)
Leasing, rent	(192 556)	(335 842)
Business trips	(139 326)	(132 212)
Office expenses	(92 790)	(94 101)
Research and development costs	(75 410)	(1 851 022)
Representation costs	(70 493)	(88 837)
Other expenses	(414 307)	(630 083)
Total	(4 265 684)	(10 632 646)



TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS
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NOTE 15. PERSONNEL EXPENSES

	Salary		Average number of employees	
	2005 EEK	2004 EEK	2005	2004
Salaries and wages	(10 278 957)	(8 920 390)	72	83
incl. workers	(1 637 992)	(1 777 691)	32	40
administration	(4 701 601)	(5 555 558)	39	42
board	(688 539)	(570 673)	1	1
other personnel expenses	(3 250 825)	(1 016 468)	-	-
Social taxes	(2 558 682)	(3 005 125)	-	-
Total	(12 837 639)	(11 925 515)	72	83

In 2005, the average number of employees in the Company was 72, of whom 39 were specialists or managers. The average salary in 2005 was 8 134 EEK per month. In 2004, the average number of employees was 83, of whom 42 were specialists or managers. The average salary in 2004 was 7 936 EEK per month.

NOTE 16. FINANCIAL INCOME AND EXPENSE

	2005 EEK	2004 EEK
Interest expense	(71 511)	(125 393)
Foreign exchange gain (loss)	(2 558)	13 222
Other financial income	496 070	10 534
Total	422 001	(101 637)

In 2005, the unpaid dividends to the state in the amount of 446 814 EEK were recorded as financial income in accordance with resolution of the Director (see Note 9).

NOTE 17. EARNINGS PER SHARE

	2005 EEK	2004 EEK
Net profit (loss) for the financial year	(984 351)	3 106 521
Weighted average number of shares	1 250 000	1 250 000
Earnings per share (EPS)	(0.79)	2.49



**NOTE 18. TRANSACTIONS WITH RELATED PARTIES**

The transactions with related parties are transactions with the parent company PJSC Grindeks, its Estonian branch, director, members of the management and the Supervisory Council, their relatives and the companies under their control.

The transactions with related parties in 2005 and 2004 were the following:

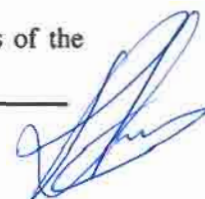
	2005 EEK	2004 EEK
Revenue		
PJSC Grindeks	49 613 846	65 809 437
Other income		
PJSC Grindeks	-	126 765
PAS Grindeks Estonian branch	158 000	49 011
Total	<u>158 000</u>	<u>175 776</u>
Materials, consumables and supplies		
PJSC Grindeks	18 645	260 294
Miscellaneous operating expenses		
PJSC Grindeks	-	180 852
Other expenses		
PJSC Grindeks	13 447	-
Repayment of loan granted		
Director Ibraim Muhtsi	110 430	8 334
Write-off of loan granted		
Director Ibraim Muhtsi	-	237 410

The balances with related parties were the following:

	31.12.2005 EEK	31.12.2004 EEK
Trade receivables		
PJSC Grindeks	20 350 230	26 270 926
PAS Grindeks Estonian branch	34 495	40 488
Total	<u>20 384 725</u>	<u>26 311 414</u>
Loan receivable		
Director Ibraim Muhtsi	-	110 430

Remuneration paid to the Director in 2005 and 2004 amounted to 688 539 EEK and 570 673 EEK, respectively and to members of the Supervisory Council amounted to 3 046 172 EEK and 324 000 EEK, respectively.

Potential liability arising from termination of employment contracts with the members of the management amounts to 332 500 EEK, including taxes.



NOTE 19. FINANCIAL RISKS**Currency risk**

Export accounts for almost 100% of the Company's revenue. Since 2004 the export invoices are issued in EUR. The Company does not use currency options and forward contracts.

Foreign currency positions as of 31.12.2005 were as follows:

	Assets EEK	Liabilities EEK	Net position EEK
USD	7 932	(26 185)	(18 253)
EUR	20 365 917	(2 613 566)	17 752 351
Total	20 373 849	(2 639 751)	17 734 098

Credit risk

Accounts receivable from the parent company are 99% of total receivables. Credit risk is directly related to the solvency of the parent company.

Interest risk

The Company's operating cash flows are substantially independent of changes in market interest rates. The Company has no significant interest-bearing assets.

The activities of the Company are financed with equity instruments. External financing (finance lease) has been used for the purchase of machinery and equipment. The contract currency of leasing agreement is EEK or EUR and interest rates are fixed for the whole lease term.

Since the share of external financing in the total capital structure is insignificant, the related risks are minimal.

Fair value

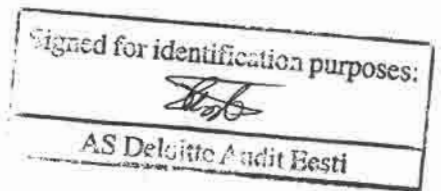
The management believes that the fair values of the Company's financial assets and liabilities as of 31.12.2005 do not differ materially from their carrying amounts.

NOTE 20. CONTINGENT INCOME TAX ON DIVIDENDS

The Company's retained earnings that may be distributed as of 31 December 2005 amounted to 35 423 227 EEK (in 2004: 36 407 578 EEK). Consequently, the maximum possible tax liability which would become payable if retained earnings were fully distributed is 10 580 964 EEK (in 2004: 11 497 130 EEK).

TALLINNA FARMAATSIATEHASE AS

NOTES TO THE ANNUAL ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005



NOTE 21. EVENTS AFTER BALANCE SHEET DATE

On 20 March 2006, in accordance with the resolution of the supervisory council from 11 January 2006, the Company signed a sale agreement with parent company PJSC Grindeks under which the Company sold to the parent company all registration documents and other intellectual property (know-how, trademarks, documentation, etc.) concerning ointments production. This sale is in compliance with Grindeks business strategy confirmed for years 2005 to 2009 that defines ointments production separation from marketing activity.

Events mentioned above have no significant influence on the financial performance of the Company.

* * *

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INDEPENDENT AUDITORS' REPORT

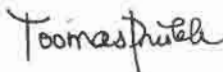
To the Shareholders of Tallinna Farmaatsiatehase AS:

We have audited the accompanying annual accounts (as set out on pages 6 to 27) of Tallinna Farmaatsiatehase AS (hereinafter "the Company") for the year ended 31 December 2005. These annual accounts are the responsibility of the Company's Director. Our responsibility is to express an opinion on these annual accounts based on our audit.

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

In our opinion, the annual accounts present fairly, in all material respects, the financial position of the Company as of 31 December 2005 and the results of its operations, changes in equity and its cash flows for the year then ended in accordance with Estonian Accounting Law and International Financial Reporting Standards as adopted by the EU.

Without qualifying our opinion, we draw attention to the fact that the Euro amounts in the accompanying annual accounts, which are presented in accordance with the rules of the Tallinn Stock Exchange as a translation as described in the Note 1 and do not form part of the annual accounts, are unaudited.



Toomas Prükk
Certified Auditor
15 May 2006



AS Deloitte Audit Eesti

TALLINNA FARMAATSIATEHASE AS

**DIRECTOR'S AND SUPERVISORY COUNCIL'S
SIGNATURES TO THE ANNUAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005**

On 30 March 2006, the Director has prepared the management report and the annual accounts of Tallinna Farmaatsiatehase AS for the financial year ended 31 December 2005.

The Supervisory Council of Tallinna Farmaatsiatehase AS has reviewed the annual report, prepared by the Director, consisting of the management report and the annual accounts, the independent auditors' report, and has approved the annual report for presentation on the Shareholders' General Meeting.

By signing the annual report, the Director and all members of the Supervisory Council validate the fair presentation of the annual report.

Name	Position	Signature	Date
Raivo Unt	Director		<u>15.05.2006.2</u>
Kirovs Lipmans	Chairman of the Council		<u>15.05.2006</u>
Vitalijs Gavrilovs	Member of the Council		<u>15.05.2006</u>
Valdis Jakobsons	Member of the Council		<u>15.05.2006.</u>