

**TALLINNA
FARMAATSIATEHASE AS**

Unaudited interim financial report of 12 months of 2005

<i>Name of company</i>	Tallinna Farmaatsiatehase AS
<i>Commercial registry code</i>	10093221
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<i>Beginning of financial year</i>	1 January 2005
<i>End of financial year</i>	31 December 2005
<i>Field of activity</i>	Production of pharmaceuticals
<i>Auditor</i>	AS Deloitte & Touche Audit

TABLE OF CONTENTS

ACTIVITIES REPORT	3
ANNUAL ACCOUNTS	4
DIRECTOR'S DECLARATION	4
BALANCE SHEETS	5
INCOME STATEMENTS	6
STATEMENTS OF CHANGES IN EQUITY	7
CASH FLOW STATEMENTS	8
NOTES TO THE ANNUAL ACCOUNTS	
NOTE 1. ACCOUNTING POLICIES	9
NOTE 2. TRADE AND OTHER CURRENT RECEIVABLES	9
NOTE 3. INVENTORIES	9
NOTE 4	10
NOTE 5. FIXED ASSETS	11,12
NOTE 6. INTANGIBLE ASSETS	13
NOTE 7. SHARE CAPITAL	14
NOTE 8. NET SALES	14
NOTE 9. EARNINGS PER SHARE	15
NOTE 10. RELATED PARTY TRANSACTIONS	15,16

ACTIVITIES REPORT

COMMENTS TO BALANCE SHEET

As of December 31 2005 the Balance capacity was 56,451 th. EEK (3,608 th EUR). Compared to the net balance, the biggest decrease was in receivables from parent company 5,920 th. EEK (378 th. EUR) (22.5%) and finished goods decrease with the sum 975 th. EEK (62 th.EUR) (43.8%). Trading assets decreased totally by 4,684 th. EEK (299 th.EUR) (14.8%).

In the liabilities the short-term liabilities decreased 3,933 th. EEK (251 th.EUR) (38.9%). Compared to the net balance, the biggest decrease was in liabilities – accounts payable 3,134 th. EEK (200 th.EUR) (42,8%). The owners' equity decreased 984 th. EEK (62 th.EUR) (2.7%) in the account of 12 months 2005 net loss.

COMMENTS TO INCOME STATEMENT.

The 4 quarter 2005 net sales of Tallinna Farmaatsiatehas amounted to 15,775 th. EEK (1,008 th. EUR). Compared to the same period of previous year the sales were decreased by 592 th. EEK (37 th. EUR) i.e. 3.5% (net turnover in 4 quarter 2004 16,347 th. EEK or 1,045 th.EUR).

Net profit increased in 4 quarter of 2005 compared to the same period of 2004 ((net loss in 2004 545 th. EEK (35 th.EUR) and net profit in 4 quarter of 2005 1,224 th. EEK (78 th.EUR)) by 1,769 th. EEK (113 th. EUR).

The 12 months 2005 net sales of Tallinna Farmaatsiatehas amounted to 49,717 th. EEK (3,177 th. EUR). Compared to the same period of previous year the sales were decreased by 16,238 th. EEK (1,037 th. EUR) i.e. 24.6% (net turnover in 12 months 2004 65,955 th. EEK or 4,215 th.EUR). The others income decreased by 1,470 th. EEK or 94 th. EUR.

Compared to the same period of previous year the materials expenses decreased by 2,224 th. EEK (142 th. EUR) i.e. 6.9% (materials expenses in 2004 32,212 th. EEK (2,059 th.EUR) and in 2005 29,988 th. EEK (1,917 th.EUR)), from which the decrease of operating expenses (in 2004 10,633 th. EEK (762 th. EUR) and in 2005 4,265 th. EEK (273 th.EUR)) 6,399 th. EEK or 409 th. EUR (60.0%). Personal expenses increased by 912 th. EEK (58 th. EUR).

Net profit decreased in 12 months of 2005 compared to the same period of 2004 ((net profit in 2004 3,107 th. EEK (199 th.EUR) and net loss in 2005 984 th. EEK (63 th.EUR)) by 4,091 th. EEK (261 th. EUR).

DIRECTOR'S DECLARATION

The Director has prepared the Interim Financial report for Tallinna Farmaatsitehase AS about finished financial year of 2005, ended on 31. December 2005.

Compiling of the Interim Financial report of Tallinna Farmaatsitehase AS have been prepared following the International Financial Reporting Standards (IFRS), accepted by European Union and requirements of the International Accounting Standards (IAS 34) about reduced interim reports.

On Director's opinion the Interim Financial report of 2005 shows correctly and fairly about profit-and-loss of Tallinna Farmaatsitehase AS.

On Director's opinion the Tallinna Farmaatsitehase AS is continually a business entity.

Name	Position	Signature	Date
Raivo Unt	Director	 _____	27-02-2006

BALANCE SHEET

	Notes	31.12.2005	31.12.2004	31.12.2005	31.12.2004
		EEK	EEK	EUR	EUR
ASSETS					
Current assets					
Cash at bank and in hand		148	308	10	20
Trade receivables	2	20 733	26 766	1 325	1 711
Inventories	3	6 163	4 654	394	297
Total current assets		27 044	31 728	1 729	2 028
Fixed assets					
Other long-term receivables		-	105	-	7
Real estate assets	4	5 118	-	327	-
Tangible assets	5	23 751	29 649	1 517	1 894
Intangible assets	6	538	392	35	25
Total fixed assets		29 407	30 146	1 879	1 926
TOTAL ASSETS		56 451	61 874	3 608	3 954
LIABILITIES AND OWNERS' EQUITY					
Current liabilities					
Current financial lease repayments		505	768	32	49
Trade creditors and others liabilities		5 675	9 346	363	597
Total current liabilities		6 180	10 114	395	646
Long-term liabilities					
Financial lease liabilities		31	536	2	34
Total long-term liabilities		31	536	2	34
Total liabilities		6 211	10 650	397	680
Owners' equity					
Share capital (nominal value)	7	12 500	12 500	799	799
Reserves		2 316	2 316	148	148
Retained earnings		36 408	33 301	2 327	2 128
Profit for the financial year	9	(984)	3 107	(63)	199
Total owners' equity		50 240	51 224	3 211	3 274
TOTAL LIABILITIES AND OWNERS' EQUITY		56 451	61 874	3 608	3 954

INCOME STATEMENT

	Note	01.10.2005- 31.12.2005	01.10.2004- 31.12.2004	01.01.2005- 31.12.2005	01.01.2004- 31.12.2004
		EEK	EEK	EEK	EEK
Sales revenue	8	15 775	16 347	49 717	65 955
Other operating revenue		140	12	370	1 840
Changes in inventories of finished goods and work in progress		(196)	5	(1 087)	(5 615)
Materials, consumables and supplies		(9 653)	(9 939)	(29 988)	(32 212)
Other operating expenses		(1 125)	(2 975)	(4 265)	(10 633)
Staff costs		(3 318)	(2 937)	(12 838)	(11 925)
Depreciation and impairment of fixed assets	4,5,6	(765)	(950)	(3 064)	(3 723)
Other operating charges		(69)	(80)	(251)	(479)
Operating profit		789	(517)	(1 406)	3 208
Financial income and expenses		435	(28)	422	(101)
Profit (loss) for accounting period		1 224	(545)	(984)	3 107

	Note	01.10.2005- 31.12.2005	01.10.2004- 31.12.2004	01.01.2005- 31.12.2005	01.01.2004- 31.12.2004
		EUR	EUR	EUR	EUR
Sales revenue	8	1 008	1 045	3 177	4 215
Other operating revenue		9	1	24	118
Changes in inventories of finished goods and work in progress		(13)	-	(69)	(359)
Materials, consumables and supplies		(617)	(635)	(1 917)	(2 059)
Other operating expenses		(72)	(190)	(273)	(680)
Staff costs		(212)	(188)	(820)	(762)
Depreciation and impairment of fixed assets	4,5,6	(49)	(61)	(196)	(237)
Other operating charges		(4)	(5)	(16)	(31)
Operating profit		50	(33)	(90)	205
Financial income and expenses		28	(2)	27	(6)
Profit (loss) for accounting period		78	(35)	(63)	199

CHANGE IN EQUITY STATEMENT

EEK

	Share capital	Reserves	Retained earnings	Profit for the financial year	Total
31 December 2003	12 500	2 316	23 073	10 228	48 117
Transfer of the profit for the financial year to the profit for previous periods	-	-	10 228	(10 228)	-
Profit for the accounting period	-	-	-	3 107	3 107
31 December 2004	12 500	2 316	33 301	3 107	51 224
Transfer of the profit for the financial year to the profit for previous periods	-	-	3 107	(3 107)	-
Profit/loss for 12 months of 2005	-	-	-	(984)	(984)
31 December 2005	12 500	2 316	36 408	(984)	50 240

EUR

	Share capital	Reserves	Retained earnings	Profit for the financial year	Total
31 December 2003	799	148	1 475	653	3 075
Transfer of the profit for the financial year to the profit for previous periods	-	-	653	(653)	-
Profit for the accounting period	-	-	-	199	199
31 December 2004	799	148	2 128	199	3 274
Transfer of the profit for the financial year to the profit for previous periods	-	-	199	(199)	-
Profit/loss for 12 months of 2005	-	-	-	(63)	(63)
31 December 2005	799	148	2 327	(63)	3 211

CASH FLOW STATEMENT

	Note	01.01.05- 31.12.05 EEK	01.01.04- 31.12.04 EEK	01.01.05- 31.12.05 EUR	01.01.04- 31.12.04 EUR
CASH FLOW FROM OPERATING ACTIVITIES					
Net profit for the accounting period		(984)	3 107	(63)	199
Adjustment of profit to net cash flow from main operating activities:					
Depreciation of fixed assets	5,6	3 064	3 723	196	238
Profit for sales tangible fixed		-	(17)	-	(1)
Interest income		(3)	(10)	-	(1)
Interest expense		72	125	5	8
Changes in debtors and prepayment	2	6 003	(13 784)	383	(880)
Changes in inventories	3	(1 509)	5 842	(96)	374
Changes in liabilities					
		(3 671)	2 535	(235)	161
Total from operating activities		2 972	1 521	190	98
CASH FLOW FROM INVESTING ACTIVITIES					
Acquisition of fixed assets	5,6	(2 430)	(2 041)	(155)	(130)
Sales of tangible fixed		-	21	-	1
Repayments of loans		135	260	9	16
Interest received		3	12	-	1
Total from investing activities		(2 292)	(1 748)	(146)	(112)
CASH FLOW FROM FINANCING ACTIVITIES					
Financial lease repayments		(768)	(608)	(49)	(39)
Interest paid		(72)	(125)	(5)	(8)
Total from financing activities		(840)	(733)	(54)	(47)
Total cash flow		(160)	(960)	(54)	(47)
CASH AT BEGINNING OF PERIOD		308	1 268	20	81
CASH AT END OF PERIOD		148	308	10	20

NOTE 1. ACCOUNTING POLICIES AND VALUATION METHODS APPLIED

The interim financial statement of Tallinna Farmaatsiatehase AS (hereinafter also “the Company”) has been prepared in accordance with the International Financial Reporting Standards (IFRS).

The accounting policies applied upon preparation of the interim financial statement are the same as those used in the Annual Report for the financial year which ended on 31 December 2004.

The interim financial statement has been prepared in thousands of EEK and thousands of EUR.

NOTE 2. TRADE AND OTHER CURRENT RECEIVABLES

	31.12.2005	31.12.2004	31.12.2005	31.12.2004
	EEK	EEK	EUR	EURr
Trade receivables	48	16	3	1
Receivables from parent and other group companies (see note 16)	20 385	26 311	1 303	1 682
Other short-term receivables	4	39	-	2
Prepaid taxes	246	354	16	23
Other prepaid expenses	50	46	3	3
Total	20 733	26 766	1 325	1 711

NOTE 3. INVENTORIES

	31.12.2005	31.12.2004	31.12.2005	31.12.2004
	EEK	EEK	EUR	EUR
Raw materials in warehouses	4 914	2 322	314	148
Work in progress	-	108	-	7
Finished goods	1 245	2 224	80	142
Prepayment	4	-	-	-
Total	6 163	4 654	394	297

NOTE 4. REAL ESTATE INVESTMENTS

In relation of reorganization of production buildings and constructions that were no more in use found new holders in IV quarter of 2005. For that reason was the operating lease reclassified for real estate investments in method of original cost.

Report of real estate investments movement is above:

(Method of acquisition cost)

	EEK	EUR
Acquisition cost		
31 December 2004	-	-
Reclassification of fixed assets to real estate investments	9 283	593
31 December 2005	9 283	593
Accumulated depreciation		
31 December 2004	-	-
Depreciation	90	6
Reclassification of fixed assets	4 075	260
31 December 2005	4 165	266
Residual value		
31 December 2005	5 118	327

NOTE 5. TANGIBLE FIXED ASSETS

The report on movements of tangible fixed assets is as follows:

EEK

	Land and buildings	Machinery and equipment	Other tangible assets	Construct- ion in progress	Pre- payments for tangible fixed assets	Total
Acquisition cost						
As of 31 December 2003	31 554	14 921	2 981	-	2 155	51 611
Purchases	29	451	27	806	670	1 983
Sales	-	(255)	(19)	-	-	(274)
Reclassification	2 421	1 210	-	(806)	(2 825)	-
As of 31 December 2004	34 004	16 327	2 989	-	-	53 320
Purchases	342	507	142	824	278	2 093
Reclassification	(8 264)	44	39	(824)	(278)	(9 283)
31 December 2005	26 082	16 878	3 170	-	-	46 130
Accumulated depreciation						
31 December 2003	9 403	8 518	2 518	-	-	20 439
Depreciation	1 473	1 855	174	-	-	3 502
Depreciation of sales fixed assets		(255)	(15)			(270)
31 December 2004	10 876	10 118	2 677	-	-	23 671
Depreciation	1 245	1 402	136	-	-	2 783
Reclassification	(4 075)	-	-			(4 075)
31 December 2005	8 046	11 520	2 813	-	-	22 379
Residual value						
31 December 2004	23 128	6 209	312	-	-	29 649
30 September 2005	18 036	5 358	357	-	-	23 751

EUR

	Land and buildings	Machinery and equipment	Other tangible assets	Construct- ion in progress	Pre- payments for tangible fixed assets	Total
Acquisition cost						
As of 31 December 2003	2 016	954	190	-	138	3 298
Purchases	2	28	2	51	43	126
Sales	-	(16)	(1)	-	-	(17)
Reclassification	155	77	-	(51)	(181)	-
As of 31 December 2004	2 173	1 043	191	-	-	3 407
Purchases	22	32	9	52	18	133
Reclassification	(528)	3	2	(52)	(18)	(593)
31 December 2005	1 667	1 078	202	-	-	2 947
Accumulated depreciation						
31 December 2003	601	544	161	-	-	1 306
Depreciation	94	119	11	-	-	224
Depreciation of sales fixed assets		(16)	(1)			(17)
31 December 2004	695	647	171	-	-	1 513
Depreciation	80	89	8	-	-	177
Reclassification	(260)	-	-			(260)
31 December 2005	515	736	179	-	-	1 430
Residual value						
31 December 2004	1 478	396	20	-	-	1 894
30 September 2005	1 152	342	23	-	-	1 517

NOTE 6. INTANGIBLE FIXED ASSETS

The report on movements of intangible fixed assets is as follows:

EEK

	Patentis and licenses	Prepayment tangible fixed assets	Total
Acquisition cost			
as of 31 December 2004	1 350	16	1 366
Purchases	-	58	58
Reclassification	16	(16)	-
as of 31 December 2004	1 366	58	1 424
Purchases	213	124	337
Reclassification	58	(58)	-
31. December 2005	1 637	124	1 761
Accumulated depreciation			
31 December 2004	811	-	811
Depreciation	221	-	221
31 December 2004	1 032	-	1 032
Depreciation	191	-	191
31. December 2005	1 223	-	1 223
Residual value			
31 December 2004	334	58	392
31 December 2005	414	124	538

EUR

	Patentis and licenses	Prepayment tangible fixed assets	Total
Acquisition cost			
as of 31 December 2004	86	1	87
Purchases	-	4	4
Reclassification	1	(1)	-
as of 31 December 2004	87	4	91
Purchases	14	8	22
Reclassification	4	(4)	-
31. December 2005	105	8	113
Accumulated depreciation			
31 December 2004	52	-	52
Depreciation	14	-	14
31 December 2004	66	-	66
Depreciation	12	-	12
31. December 2005	78	-	78
Residual value			
31 December 2004	21	4	25
31 December 2005	27	8	35

NOTE 7. 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%	93,5%
Other minority shareholders	5%	6,5%
Total	100,0%	100,0%

NOTE 8. NET SALES

Net sales are divided by markets as follows:

	01.01.2005- 31.12.2005		01.01.2004- 31.12.2004		01.01.2005- 31.12.2005		01.01.2004- 31.12.2004	
	EEK	%	EEK	%	EUR	%	EUR	%
Latvia	49 614	100	65 806	100	3 171	100	4 206	100
Estonia	103	-	146	-	6	-	9	-
Total	49 717	100	65 955	100	3 177	100	4 215	100

Net sales are divided by product groups as follows:

	01.01.2005- 31.12.2005		01.01.2004- 31.12.2004		01.01.2005- 31.12.2005		01.01.2004- 31.12.2004	
	EEK	%	EEK	%	EUR	%	EUR	%
Ointments	46 510	94	61 104	93	2 972	94	3 905	93
Injection	-	-	1 717	3	-	-	110	3
Tablet	-	-	992	1	-	-	63	1
Other	3 207	6	2 142	3	205	6	137	3
Total	33 942	100	49 608	100	2 169	100	3 171	100

Company's activity is manufacturing ointments. Completed production is sold in total output to Tallinna Farmaatsiatehase AS parent company PJSC Grindeks in Latvia. On above-mentioned reasons the company's activity are handled in one segment in business activity and also in geographical aspect

NOTE 9. NET PROFIT PER SHARE

	01.01.2005- 31.12.2005 EEK	01.01.2004- 31.12.2004 EEK	01.01.2005- 31.12.2005 EUR	01.01.2004- 31.12.2004 EUR
Net profit /loss	(984)	3 107	(63)	199
Weighted average number of shares	1 250	1 250	1 250	1 250
Earnings per share (EPS) IN EEK and EUR	(0.79)	2.49	(0.05)	0.16

NOTE 16. RELATED PARTY TRANSACTIONS

The transactions with related parties are transactions with the parent PJSC Grindeks, its Estonian branch, director, members of the management and the Supervisory Council, their relatives and the companies in which they hold majority interest.

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

	01.01.2005- 31.12.2005 EEK	01.01.2004- 31.12.2004 EEK	01.01.2005- 31.12.2005 EUR	01.01.2004- 31.12.2004 EUR
Net sales				
PJSC Grindeks	49 614	65 809	3 171	4 206
Other revenues				
PJSC Grindeks	-	127	-	8
PAS Grindeks Estonian branch	382	49	24	3
TOTAL	382	176	24	11
Materials, consumables and supplies				
PJSC Grindeks	19	260	1	17
Others expenses				
PJSC Grindeks	13	181	1	12

Prices used in transactions with related parties are agreed prices.

Balances with related parties are the following:

	31.12.2005	31.12.2004	31.12.2005	31.12.2004
	EEK	EEK	EUR	EUR
Accounts receivable				
PJSC Grindeks	20 350	26 271	1 300	1 679
PAS Grindeks Estonian branch	34	40	2	3
Total	20 385	26 311	1 303	1 682

In 2005 12 months salaries and wages paid to the Director 688 539 EEK and members of the Supervisory Council amounted to 3 046 172 EEK.