

**TALLINNA
FARMAATSIATEHASE AS**

Unaudited interim financial report of 3 months of 2006

<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 2006
<i>End of financial year</i>	31 December 2006
<i>Field of activity</i>	Production of pharmaceuticals
<i>Auditor</i>	AS Deloitte & Touche Audit

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ACTIVITIES REPORT

COMMENTS TO BALANCE SHEET

As of March 31. 2006 the Balance capacity was 58,975 th. EEK (3,769 th EUR). Compared to the net balance, the biggest increase was in materials stock 2,073 th. EEK (133 th. EUR) (33.7%) and receivables increase with the sum 424 th. EEK (27 th.EUR) (2.0%). Trading assets increased totally by 3,528 th. EEK (225 th.EUR) (13.0%).

In the liabilities the total current liabilities decreased 1.067 th. EEK (68 th.EUR) (17.2%). Compared to the net balance, the biggest decrease was in liabilities - short-term liabilities 204 th. EEK (13 th.EUR) (40,6%). The owners' equity increased 1.457 th. EEK (93 th.EUR)) (2.9%) in the account of 03 months 2006 net profit.

COMMENTS TO INCOME STATEMENT.

The 03 months 2006 net sales of Tallinna Farmaatsiatehas amounted to 16,250 th. EEK (1,039 th. EUR). Compared to the same period of previous year the sales were increased by 1.741 th EEK (111 th. EUR) i.e. 12.0% (net turnover in 03 months 2005 14,509 th. EEK or 927 th.EUR). The operating income total increased (operating income in 2005 14.549 th. EEK (930 th.EUR) and in 2006 16,530 th. EEK (1.057 th.EUR) by 1.981 th. EEK or 126 th EUR (13.6%)

Compared to the same period of previous year the total operating cost increased by 1.253 th. EEK (80 th EUR) i.e. 9.0% (total operating costs in 2005 13,812 th. EEK (883 th.EUR) and in 2006 15.065 th. EEK (963 th.EUR)), from which the increase of expenses for materials (expenses for materials in 2005 8,962 th. EEK (573 th. EUR) and in 2006 10,656 th. EEK (681 th.EUR)) 1,694 th.EEK or 108 th EUR (18.8%).

Operating profit increased in 03 months of 2006 compared (operating profit in 2005 737 th. EEK (47 th.EUR) and operating profit in 2006 1.465 th. EEK (94 th.EUR)) to the same period of 2005 by 728 th. EEK (47 th.EUR) , and net profit increased (net profit in 2005 711 th. EEK (45 th.EUR) and net profit in 2006 1.457 th. EEK (93 th.EUR)) by 746 th. EEK (48 th. EUR) (106.6%).

DIRECTOR'S DECLARATION

The Director has prepared the Interim Financial report for Tallinna Farmaatsitehase AS about finished on 31. March 2006.

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 3 months of 2006 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	 _____	31-05-2006

INCOME STATEMENT

	Notes	31.03.2006	31.12.2005	31.03.2006	31.12.2005
		EEK	EEK	EUR	EUR
ASSETS					
Current assets					
Cash at bank and in hand		1 179	148	75	10
Trade receivables	2	21 157	20 733	1 352	1 325
Inventories	3	8 236	6 163	527	394
Total current assets		30 572	27 044	1 954	1 729
Fixed assets					
Real estate assets	4	5 028	5 118	321	327
Tangible assets	5	23 375	23 751	1 494	1 517
Intangible assets	6	-	538	-	35
Total fixed assets		28 403	29 407	1 815	1 879
TOTAL ASSETS		58 975	56 451	3 769	3 608
LIABILITIES AND OWNERS' EQUITY					
Current liabilities					
Current financial lease repayments		301	505	19	32
Trade creditors and others liabilities		6 946	5 675	444	363
Total current liabilities		7 247	6 180	463	395
Long-term liabilities					
Financial lease liabilities		31	31	2	2
Total long-term liabilities		31	31	2	2
Total liabilities		7 278	6 211	465	397
Owners' equity					
Share capital (nominal value)	7	12 500	12 500	799	799
Reserves		2 316	2 316	148	148
Retained earnings		35 424	36 408	2 264	2 327
Profit for the financial year	9	1 457	(984)	93	(63)
Total owners' equity		51 697	50 240	3 304	3 211
TOTAL LIABILITIES AND OWNERS' EQUITY		58 975	56 451	3 769	3 608

INCOME STATEMENT

	Note	01.01.2006- 31.03.2006	01.01.2005- 31.03.2005	01.01.2006- 31.03.2006	01.01.2005- 31.03.2005
		EEK	EEK	EEK	EEK
Sales revenue	8	16 250	14 509	1 039	927
Other operating revenue		280	40	18	3
Changes in inventories of finished goods and work in progress		1 743	(353)	111	(23)
Materials, consumables and supplies		(10 656)	(8 962)	(681)	(573)
Other operating expenses		(1 436)	(1 269)	(92)	(81)
Staff costs		(3 911)	(2 359)	(250)	(151)
Depreciation and impairment of fixed assets	4,5,6	(731)	(772)	(47)	(49)
Other operating charges		(74)	(97)	(4)	(6)
TOTAL		(15 065)	(13 812)	(963)	(883)
Operating profit		1 465	737	94	47
Financial income and expenses		(8)	(26)	(1)	(2)
Profit (loss) for accounting period	9	1 457	711	93	45

INCOME STATEMENT

EEK

	Share capital	Reserves	Retained earnings	Total
31 December 2004	12 500	2 316	36 408	48 117
Profit for the accounting period	-	-	711	3 107
31 March 2005	12 500	2 316	37 119	51 935
31 December 2005	12 500	2 316	35 424	50 240
Profit for the accounting period	-	-	1 457	1 457
31 March 2006	12 500	2 316	36 408	50 240

EUR

	Share capital	Reserves	Retained earnings	Total
31 December 2004	799	148	2 327	3 274
Profit for the accounting period	-	-	45	45
31 March 2005	799	148	2 372	3 319
31 December 2005	799	148	2 264	3 211
Profit for the accounting period	-	-	93	93
31 March 2006	799	148	2 357	3 304

CASH FLOW STATEMENT

	Note	01.01.06- 31.03.06 EEK	01.01.05- 31.03.05 EEK	01.01.06- 31.03.06 EUR	01.01.05- 31.03.05 EUR
CASH FLOW FROM OPERATING ACTIVITIES					
Net profit for the accounting period		1457	711	93	45
Adjustment of profit to net cash flow from main operating activities:					
Depreciation of fixed assets	5,6	731	772	47	49
Profit for sales tangible fixed		(9)		(1)	
Loss for sales tangible fixed					
Interest income		-	(2)	-	-
Interest expense		9	28	1	2
Changes in debtors and prepayment	2	(424)	8	(27)	1
Changes in inventories	3	(2073)	(730)	(133)	(47)
Changes in liabilities					
		1271	(352)	81	(22)
Total from operating activities		1086	435	69	28
CASH FLOW FROM INVESTING ACTIVITIES					
Acquisition of fixed assets	5,6	(2 43)	(82)	(15)	(5)
Sales of tangible fixed		401	-	25	-
Repayments of loans		-	15	-	1
Interest received		-	2	-	-
Total from investing activities		158	(65)	10	(4)
CASH FLOW FROM FINANCING ACTIVITIES					
Financial lease repayments		(204)	(186)	(13)	(12)
Interest paid		(9)	(28)	(1)	(2)
Total from financing activities		(213)	(214)	(14)	(14)
Total cash flow		1 031	156	65	10
CASH AT BEGINNING OF PERIOD		148	308	10	20
CASH AT END OF PERIOD		1 179	464	75	30

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 2005.

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

NOTE 2. TRADE AND OTHER CURRENT RECEIVABLES

	31.03.2006	31.12.2005	31.03.2006	31.12.2005
	EEK	EEK	EUR	EURr
Trade receivables	180	48	11	3
Receivables from parent and other group companies (see note 16)	20 702	20 385	1 323	1 303
Other short-term receivables	2	4	-	-
Prepaid taxes	244	246	16	16
Other prepaid expenses	29	50	2	3
Total	21 157	20 733	1 352	1 325

NOTE 3. INVENTORIES

	31.03.2006	31.12.2005	31.03.2006	31.12.2005
	EEK	EEK	EUR	EUR
Raw materials in warehouses	5 248	4 914	336	314
Work in progress	183	-	12	-
Finished goods	2 805	1 245	179	80
Prepayment	-	4	-	-
Total	8 236	6 163	527	394

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
31. March 2006	9 283	593
Accumulated depreciation		
31 December 2004	-	-
Depreciation	90	6
Reclassification of fixed assets	4 075	260
31 December 2005	4 165	266
Depreciation	90	6
31. March 2006	4 255	272
Residual value		
31 March 2006	5 028	321

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	Total
Acquisition cost				
As of 31 December 2004	34 004	16 327	2 989	53 320
Purchases	-	74	8	82
31 March 2005	34 004	16 401	2 997	53 402
31 December 2005	26 082	16 878	3 170	46 130
Purchases	-	93	150	243
Sales and write-off	-	-	(13)	(13)
31 March 2006	26 082	16 971	3 307	46 360
Accumulated depreciation				
31 December 2004	10 876	10 118	2 677	23 671
Depreciation	329	325	42	723
31 March 2005	11 205	10 470	2 719	24 394
31 December 2005	8 046	11 520	2 813	22 379
Depreciation	254	323	33	610
Reclassification	-	-	(4)	(4)
31 March 2006	8 300	11 843	2 842	22 985
Residual value				
31 March 2005	22 799	5 931	278	29 008
31 March 2006	17 782	5 128	465	23 375

EUR

	Land and buildings	Machinery and equipment	Other tangible assets	Total
Acquisition cost				
As of 31 December 2004	2 173	1 043	191	3 407
Purchases	-	5	-	5
31 March 2005	2 173	1 048	191	3 412
31 December 2005	1 667	1 078	202	2 947
Purchases	-	6	10	16
Sales and write-off	-	-	-	-
31 March 2006	1 667	1 084	212	2 963
Accumulated depreciation				
31 December 2004	695	647	171	1 513
Depreciation	21	22	3	46
31 March 2005	716	669	174	1 559
31 December 2005	515	736	179	1 430
Depreciation	16	21	2	39
31 March 2006	531	757	181	1 469
Residual value				
31 March 2005	1 457	379	17	1 853
31 March 2006	1 136	327	31	1 494

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			
31 December 2004	1 366	58	1 424
31 March 2005	1 366	58	1 424
31 December 2005	1 116	124	1 240
Sales and write-off	(983)	(124)	(1 062)
31 March 2006	178	-	178
Accumulated depreciation			
31 December 2004	1 032	-	1 032
Depreciation	49	-	49
31 March 2005	1 081	-	1 081
31 December 2005	702	-	702
Depreciation	31	-	31
Sold and write off basic assets depreciation	(555)	-	(555)
31 March 2006	178	-	178
Residual value			
31 March 2005	285	58	343
31 March 2006	-	-	-

EUR

	Patentis and licenses	Prepayment tangible fixed assets	Total
Acquisition cost			
31 December 2004	87	4	91
31 March 2005	87	4	91
31 December 2005	72	8	80
Sales and write off	(60)	(8)	(68)
31 March 2006	12	-	12
Accumulated depreciation			
31 December 2004	66	-	66
Depreciation	3	-	3
31 March 2005	69	-	69
31 December 2005	45	-	45
Depreciation	2	-	2
Sold and write off basic assets depreciation	(35)	-	(35)
31 March 2006	12	-	12
Residual value			
31 March 2005	18	4	22
31 March 2006	-	-	-

NOTE 7. SHARE CAPITAL

As of 31.03.2006 and 31.12.2005 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 31.03.2006 and 31.12.2005 the shareholders of the Company are the following:

	31.03.2006	31.12.2005
PJSC Grindeks	95%	95%
Other minority shareholders	5%	5%
Total	<u>100,0%</u>	<u>100,0%</u>

NOTE 8. NET SALES

Net sales are divided by markets as follows:

	01.01.2006- 31.03.2006		01.01.2005- 31.03.2005		01.01.2006- 31.03.2006		01.01.2005- 31.03.2005	
	EEK	%	EEK	%	EUR	EUR	EUR	EUR
Latvia	16 222	100	14 482	100	1 037	925		
Estonia	28	-	27	-	2	2		
Total	<u>16 250</u>	<u>100</u>	<u>14 509</u>	<u>100</u>	<u>1 039</u>	<u>927</u>		

Net sales are divided by product groups as follows:

	01.01.2006- 31.03.2006		01.01.2005- 31.03.2005		01.01.2006- 31.03.2006		01.01.2005- 31.03.2005	
	EEK	%	EEK	%	EUR	EUR	EUR	EUR
Ointments	15 023	92	14 159	98	960	905		
Other	1 227	8	350	2	79	22		
Total	<u>16 250</u>	<u>100</u>	<u>14 509</u>	<u>100</u>	<u>1 039</u>	<u>927</u>		

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

	01.01.2006- 31.03.2006 EEK	01.01.2005- 31.03.2005 EEK	01.01.2006- 31.03.2006 EUR	01.01.2005- 31.03.2005 EUR
Net profit/loss	1 457	711	93	45
Weighted average number of shares	1 250 000	1 250 000	1 250 000	1 250 000
Earnings per share (EPS)	1.17	0.57	0.07	0.06
Lahustatud net profit per share	1.17	0.57	0.07	0.06

NOTE 10. 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 2006 and 2005 are the following:

	01.01.2006- 31.03.2006 EEK	01.01.2005- 31.03.2005 EEK	01.01.2006- 31.03.2006 EUR	01.01.2005- 31.03.2005 EUR
Net sales				
PJSC Grindeks	16 222	14 482	1 037	925
Other revenues				
PJSC Grindeks	9	41	-	3
PAS Grindeks Estonian branch	72		5	3
TOTAL	81	41	5	3
Materials, consumables and supplies				
PJSC Grindeks	10	13	1	1

Prices used in transactions with related parties are agreed prices.

Balances with related parties are the following:

	31.03.2006 EEK	31.12.2005 EEK	31.03.2006 EUR	31.12.2005 EUR
Accounts receivable				
PJSC Grindeks	20 702	20 350	1 323	1 301
PAS Grindeks Estonian branch	-	35	-	2
Total	20 702	20 385	1 323	1 303

In 2006 I quarter salaries and wages paid to the Director 555 000 EEK and members of the Supervisory Council amounted to 840 000 EEK.