

**TALLINNA
FARMAATSIATEHASE AS**

Unaudited interim financial report of 6 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 period</i>	30 June 2006
<i>Field of activity</i>	Production of pharmaceuticals
<i>Auditor</i>	AS Deloitte & Touche Audit

TALLINNA FARMAATSIATEHASE AS

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COMMENTS TO BALANCE SHEET

As of June 30. 2006 the Balance capacity was 55,832 th. EEK (3 568 th. EUR). Compared to the net balance, the biggest increase was in bank 1,079 th. EEK (68 th. EUR) (729%) and receivables increase with the sum 798 th. EEK (51 th.EUR) (3,8%). Trading assets increased totally by 541 th. EEK (34 th.EUR) (2.0%).

In the liabilities the total current liabilities decreased 2,307 th. EEK (148 th. EUR) (37,3%). Compared to the net balance, the biggest decrease was in liabilities – short-term liabilities 412 th. EEK (26 th.EUR) (40,6%). The owners' equity increased 1,688 th. EEK (108 th.EUR) (3,4%) in the account of 06 months 2006 net profit.

COMMENTS TO INCOME STATEMENT.

The 06 months 2006 net sales of Tallinna Farmaatsiatehas amounted to 30,635 th. EEK (1 958 th. EUR). Compared to the same period of previous year the sales were increased by 3,630 th.EEK (232 th. EUR) i.e. 13,4% (net turnover in 06 months 2005 27,005 th. EEK or 1 726 th.EUR). The operating income total increased 4,047 th. EEK (259 th.EUR) (14,9%)

Compared to the same period of previous year the total operating cost increased by 2,113 th. EEK (135 th EUR). Total operating costs in 2005 27,349 th. EEK (1 748 th.EUR) and in 2006 29,462 th. EEK (1 883 th.EUR)), from which the increase of expenses for materials 2,396 th. EEK (153 th. EUR), personal expenses were increased by 1,081 th. EEK (69 th.EUR)) and other operating expenses 680 th. EEK (43 th.EUR).

Operating profit increased in 06 months of 2006 compared to the same period of 2005 by 1,934 th. EEK 730% (124 th.EUR). Operating profit (loss) in 2005 -233 th. EEK (-15 th.EUR)) and in 2006 1,701 th. EEK (109 th. EUR).

TALLINNA FARMAATSIATEHASE AS

DIRECTOR'S DECLARATION

The Director has prepared the Interim Financial report for Tallinna Farmaatsitehase AS about finished on 30 June 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 6 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	 _____	31-08-2006

TALLINNA FARMAATSIATEHASE AS

BALANCE SHEETS

EEK and EUR '000

	Notes	30.06.2006 EEK	31.12.2005 EEK	30.06.2006 EUR	31.12.2005 EUR
ASSETS					
Current assets					
Cash at bank and in hand		1 227	148	78	10
Trade receivables	2	21 531	20 733	1 376	1 325
Inventories	3	4 827	6 163	309	394
Total current assets		27 585	27 044	1 763	1 729
Fixed assets					
Real estate assets	4	4 939	5 118	315	327
Tangible assets	5	23 308	23 751	1 490	1 517
Intangible assets	6	-	538	-	35
Total fixed assets		28 247	29 407	1 805	1 879
TOTAL ASSETS		55 832	56 451	3 568	3 608
LIABILITIES AND OWNERS' EQUITY					
Current liabilities					
Current financial lease repayments		93	505	6	32
Trade creditors and others liabilities		3 780	5 675	241	363
Total current liabilities		3 873	6 180	247	395
Long-term liabilities					
Financial lease liabilities		31	31	2	2
Total long-term liabilities		31	31	2	2
Total liabilities		3 904	6 211	249	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
Current year profit (loss)	9	1 688	(984)	108	(63)
Total owners' equity		51 928	50 240	3 319	3 211
TOTAL LIABILITIES AND OWNERS' EQUITY		55 832	56 451	3 568	3 608

TALLINNA FARMAATSIATEHASE AS

INCOME STATEMENTS

EEK and EUR '000

	Note	01.04.2006- 30.06.2006 EEK	01.04.2005- 30.06.2005 EEK	01.01.2006- 30.06.2006 EEK	01.01.2005- 30.06.2005 EEK
Sales revenue	8	14 385	12 496	30 635	27 005
Other operating revenue		248	71	528	111
Changes in inventories of finished goods and work in progress		(1 982)	(1 808)	(239)	(2 162)
Materials, consumables and supplies		(6 759)	(6 059)	(17 416)	(15 020)
Other operating expenses		(1 361)	(848)	(2 797)	(2 117)
Staff costs		(3 534)	(4 005)	(7 445)	(6 364)
Depreciation and impairment of fixed assets	4,5,6	(706)	(767)	(1 437)	(1 539)
Other operating charges		(55)	(51)	(128)	(147)
TOTAL		(14 397)	(13 538)	(29 462)	(27 349)
Operating profit		236	(971)	1 701	(233)
Financial income and expenses		(5)	29	(13)	3
Profit (loss) for accounting period	9	231	(942)	1 688	(230)

	Note	01.04.2006- 30.06.2006 EUR	01.04.2005- 30.06.2005 EUR	01.01.2006- 30.06.2006 EUR	01.01.2005- 30.06.2005 EUR
Sales revenue	8	919	799	1 958	1 726
Other operating revenue		16	4	34	7
Changes in inventories of finished goods and work in progress		(127)	(116)	(15)	(138)
Materials, consumables and supplies		(432)	(387)	(1 113)	(960)
Other operating expenses		(87)	(54)	(179)	(135)
Staff costs		(226)	(256)	(476)	(407)
Depreciation and impairment of fixed assets	4,5,6	(45)	(49)	(92)	(98)
Other operating charges		(3)	(3)	(8)	(10)
TOTAL		(920)	(865)	(1 883)	(1 748)
Operating profit		15	(62)	109	(15)
Financial income and expenses		-	2	(1)	-
Profit (loss) for accounting period	9	15	(60)	108	(15)

TALLINNA FARMAATSIATEHASE AS**STATEMENTS OF CHANGES IN EQUITY***EEK and EUR '000*

	Share capital EEK	Reserves EEK	Retained earnings EEK	Total EEK
31 December 2004	12 500	2 316	36 408	51 224
Loss for the accounting period	-	-	(230)	(230)
30 June 2005	12 500	2 316	36 178	50 994
31 December 2005	12 500	2 316	35 424	50 240
Profit for the accounting period	-	-	1 688	1 688
30 June 2006	12 500	2 316	37 112	51 928

	Share capital EUR	Reserves EUR	Retained earnings EUR	Total EUR
31 December 2004	799	148	2 327	3 274
Loss for the accounting period	-	-	(15)	(15)
30 June 2005	799	148	2 312	3 259
31 December 2005	799	148	2 264	3 211
Profit for the accounting period	-	-	108	108
30 June 2006	799	148	2 372	3 319

TALLINNA FARMAATSIATEHASE AS

CASH FLOW STATEMENTS

EEK and EUR '000

	Note	01.01.06- 30.06.06 EEK	01.01.05- 30.06.05 EEK	01.01.06- 30.06.06 EUR	01.01.05- 30.06.05 EUR
OPERATING ACTIVITIES					
Net profit (loss) for the accounting period		1 688	(230)	108	(15)
Adjustments for:					
Depreciation of fixed assets	5,6	1 437	1 539	92	98
Profit for sales tangible fixed		(9)	-	(1)	-
Loss from write-off of prepayments for intangible assets		124	-	8	-
Interest income		-	(3)	-	-
Interest expense		14	43	1	3
Changes in current assets and current liabilities:					
Trade and other current receivables	2	(798)	1 931	(51)	124
Inventories	3	1 336	3 064	85	196
Trade and other current payables		(1 895)	(5 505)	(122)	(352)
Cash flows from operating activities		1 897	839	120	54
INVESTING ACTIVITIES					
Acquisition of fixed assets	5,6	(794)	(457)	(50)	(29)
Sales of tangible fixed		401	-	25	-
Repayments of loans		-	130	-	8
Interest received		1	3	-	-
Cash flows used in financing activities		(392)	(324)	(25)	(21)
FINANCING ACTIVITIES					
Financial lease repayments		(412)	(375)	(26)	(24)
Interest paid		(14)	(43)	(1)	(3)
Cash flows used in financing activities		(426)	(418)	(27)	(27)
Net change in cash		1 079	97	68	6
CASH AT BEGINNING OF PERIOD		148	308	10	20
CASH AT END OF PERIOD		1 227	405	78	26

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

	30.06.2006	31.12.2005	30.06.2006	31.12.2005
	EEK	EEK	EUR	EUR
Trade receivables	202	48	13	3
Receivables from parent and other group companies	20 848	20 385	1 332	1 303
Other short-term receivables	22	4	1	-
Prepaid taxes	201	246	13	16
Other prepaid expenses	258	50	17	3
Total	21 531	20 733	1 376	1 325

NOTE 3. INVENTORIES

	30.06.2006	31.12.2005	30.06.2006	31.12.2005
	EEK	EEK	EUR	EUR
Raw materials in warehouses	3 821	4 914	244	314
Finished goods	1 006	1 245	65	80
Prepayment	-	4	-	-
Total	4 827	6 163	309	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:

	EEK	EUR
Acquisition cost		
31 December 2004	-	-
Reclassification of fixed assets to real estate investments	9 283	593
31 December 2005	9 283	593
30 June 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	179	12
30. June 2006	4 344	278
Residual value		
30 June 2006	4 939	315

NOTE 5. TANGIBLE FIXED ASSETS

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

	Land and buildings EEK	Machinery and equipment EEK	Other tangibl assets EEK	Construc- tion -in- progress EEK	Prepay- ments for tangible assets EEK	Total
Acquisition cost						
As of 31 December 2004	34 004	16 327	2 989	-	-	53 320
Purchases	-	215	52	95	95	457
Reclassification	-	-	-	23	(23)	-
30 June 2005	34 004	16 542	3 041	118	72	53 777
31 December 2005	26 082	16 878	3 170	-	-	46 130
Purchases	-	623	151	-	20	794
Sales and write-off	-	-	(547)	-	-	(547)
Reclassification	-	20	-	-	(20)	-
30 June 2006	26 082	17 521	2 774	-	-	46 377
Accumulated depreciation						
31 December 2004	10 876	10 118	2 677	-	-	23 671
Depreciation	658	707	81	-	-	1 446
30 June 2005	11 534	10 825	2 758	-	-	25 117
31 December 2005	8 046	11 520	2 813	-	-	22 379
Depreciation	508	654	65	-	-	1 227
Sales and write-off	-	-	(537)	-	-	(537)
30 June 2006	8 554	12 174	2 341	-	-	23 069
Residual value						
30 June 2005	22 470	5 717	283	118	72	28 660
30 June 2006	17 528	5 347	433	-	-	23 308

	Land and buildings EUR	Machinery and equipment EUR	Other tangibl assets EUR	Construc- tion -in- progress EUR	Prepay- ments for tangible assets EUR	Total
Acquisition cost						
As of 31 December 2004	2 173	1 043	191	-	-	3 407
Purchases	-	14	3	6	6	29
Reclassification	-	-	-	2	(2)	-
30 June 2005	2 173	1 057	194	8	4	3 436
31 December 2005	1 667	1 078	202	-	-	2 947
Purchases	-	40	10	-	-	50
Sales and write-off	-	-	(35)	-	-	(35)
Reclassification	-	1	-	-	-	1
30 June 2006	1 667	1 119	177	-	-	2 963
Accumulated depreciation						
31 December 2004	695	647	171	-	-	1 513
Depreciation	42	45	5	-	-	92
30 June 2005	737	692	176	-	-	1 605
31 December 2005	515	736	179	-	-	1 430
Depreciation	32	42	4	-	-	78
Sales and write-off	-	-	(35)	-	-	(35)
30 June 2006	547	778	148	-	-	1 473
Residual value						
30 June 2005	1 436	365	18	8	4	1 831
30 June 2006	1 120	341	29	-	-	1 490

NOTE 6. INTANGIBLE FIXED ASSETS

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

	Patentis and licenses EEK	Prepayment tangible fixed assets EEK	Total EEK
Acquisition cost			
31 December 2004	1 366	58	1 424
30 June 2005	1 366	58	1 424
31 December 2005	1 116	124	1 240
Sales and write-off	(983)	(124)	(1 062)
30 June 2006	178	-	178
Accumulated depreciation			
31 December 2004	1 032	-	1 032
Depreciation	93	-	93
30 June 2005	1 125	-	1 125
31 December 2005	702	-	702
Depreciation	31	-	31
Sold and write off basic assets depreciation	(555)	-	(555)
30 June 2006	178	-	178
Residual value			
30 June 2005	241	58	299
30 June 2006	-	-	-

	Patentis and licenses EUR	Prepayment tangible fixed assets EUR	Total EUR
Acquisition cost			
31 December 2004	87	4	91
30 June 2005	87	4	91
31 December 2005	72	8	80
Sales and write off	(60)	(8)	(68)
30 June 2006	12	-	12
Accumulated depreciation			
31 December 2004	66	-	66
Depreciation	6	-	6
30 June 2005	72	-	72
31 December 2005	45	-	45
Depreciation	2	-	2
Sold and write off basic assets depreciation	(35)	-	(35)
30 June 2006	12	-	12
Residual value			
30 June 2005	15	4	19
30 June 2006	-	-	-

NOTE 7. SHARE CAPITAL

As of 30.06.2006 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 30.06.2006 and 31.12.2005 the shareholders of the Company are the following:

	30.06.2006	31.12.2005
PJSC Grindeks	95%	95%
Other minority shareholders	5%	5%
Total	100,0%	100,0%

NOTE 8. NET SALES

Net sales are divided by markets as follows:

	01.01.2006- 30.06.2006		01.01.2005- 30.06.2005		01.01.2006- 30.06.2006		01.01.2005- 30.06.2005	
	EEK	%	EEK	%	EUR	EUR	EUR	EUR
Latvia	30 578	100	26 957	100	1 954		1 723	
Estonia	57	-	48	-	4		3	
Total	30 635	100	27 005	100	1 958		1 726	

Net sales are divided by product groups as follows:

	01.01.2006- 30.06.2006		01.01.2005- 30.06.2005		01.01.2006- 30.06.2006		01.01.2005- 30.06.2005	
	EEK	%	EEK	%	EUR	EUR	EUR	EUR
Ointments	28 507	93	25 364	94	1 8220		1 621	
Other	2 128	7	1 641	6	136		105	
Total	30 635	100	27 005	100	1 958		1 726	

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- 30.06.2006 EEK	01.01.2005- 30.06.2005 EEK	01.01.2006- 30.06.2006 EUR	01.01.2005- 30.06.2005 EUR
Net profit/loss	1 688	(230)	108	(15)
Weighted average number of shares	1 250 000	1 250 000	1 250 000	1 250 000
Earnings per share (EPS)	1.35	(0.19)	0.09	(0.01)

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- 30.06.2006 EEK	01.01.2005- 30.06.2005 EEK	01.01.2006- 30.06.2006 EUR	01.01.2005- 30.06.2005 EUR
Net sales				
PJSC Grindeks	30 578	26 957	1 954	1 723
Other revenues				
PJSC Grindeks	9	-	1	-
PAS Grindeks Estonian branch	78	80	5	5
Total	87	80	6	5
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:

	30.06.2006	31.12.2005	30.06.2006	31.12.2005
	EEK	EEK	EUR	EUR
Accounts receivable				
PJSC Grindeks	20 832	20 350	1 331	1 301
PAS Grindeks Estonian branch	16	35	1--	2
Total	20 848	20 385	1 332	1 303

In half year 2006 salaries and wages paid to the Director 315 000 EEK and members of the Supervisory Council amounted to 1 680 000 EEK.