

HALF-YEARLY REPORT 
JANUARY – JUNE 2006

BUSINESS

Carmel Pharma develops, manufactures and markets PhaSeal®, a product system for the closed handling of hazardous intravenous medication. Examples of this type of medication include cytostatics, antibiotics and antiviral preparations. The company's registered office is located in Mölndal, Sweden, which is also where the company manufactures its products. The company sells its products through its own sales organization in Sweden, the USA, Germany, Norway and Austria. In the USA, sales have been conducted through its own subsidiary, Carmel Pharma Inc., since the beginning of 2006. Since March 2006, the company has also established a subsidiary in Japan - Carmel Pharma Japan K.K., and since June 2006 an additional subsidiary in Canada - Carmel Pharma Canada Inc. Sales and distribution of PhaSeal are conducted in more than 10 countries in Europe and Asia through distributors.

FINANCIAL

The consolidated loss after financial items amounted to KSEK -3,997 (-1,296). The fall in earnings is a consequence partly of the establishment costs for Carmel Pharma's sales subsidiary in the USA and partly due to continued marketing efforts in conjunction with the establishments of the other subsidiaries. There have been capital investments in machinery and equipment of KSEK 4,045 during this period, of which KSEK 1,350 has been financed through leasing. The group had a balance sheet total of KSEK 127,239 as of June 30, 2006, with shareholders' equity of KSEK 56,103. In addition to the liquid assets reported, the company has secured an overdraft line of credit of KSEK 12,000.

MARKET

Invoiced sales during the first half of 2006 totaled KSEK 68,192 (39,782), which represents an increase of around 70 percent. The main reason for this strong increase in turnover is that sales of PhaSeal in the USA were taken over under the company's own direction on January 1. Sales of PhaSeal systems to end customers increased by 20 percent.

The increased interest in the safe handling of medications that are hazardous to health has meant that some companies have repositioned their existing product systems towards this market segment, and in some cases even launched new product systems. This has not affected the company's profit/loss significantly

NORDIC MARKET

On the Nordic market, sales totaled KSEK 12,917 (13,036). The Swedish market appears to be somewhat saturated. However there are still good opportunities for increasing sales

of PhaSeal particularly in the case of handling of antibiotics. In the other Nordic countries, sales increased during the first half of the year but the figure is still modest in comparison to the market potential.

UNITED STATES

Sales in the USA through the new subsidiary Carmel Pharma Inc. totaled KSEK 46,872 (19,956 invoiced to external distributors during the same period in 2005) during the first half of the year. The increase of 135 percent or KSEK 26,916 was reduced by around KSEK 7,000, which constitutes the distributors' sales of remaining stocks after having been given notice. The number of PhaSeal systems sold to end consumers increased by 35 percent compared with the same period of the previous year. Currently 500 hospitals in the USA use PhaSeal for handling cytostatics, an increase of 100 hospitals during the first half of 2006. The establishment of a complete USA organization starting on 1/1/2006 worked well without any interruption to deliveries to end consumers. By the end of the first six months of the year there were 31 employees in the USA office – 25 of whom are directly involved in marketing and selling PhaSeal.

OTHER MARKETS

On other markets, sales during the period totaled KSEK 8,403 (6,790). Most of these sales were in Belgium, France, Austria and Turkey. Interest in PhaSeal is increasing across a number of markets. The establishment of the subsidiaries in Canada and Japan means that we will be able to work on these markets in a direct and vigorous way.

SHAREHOLDERS' MEETING

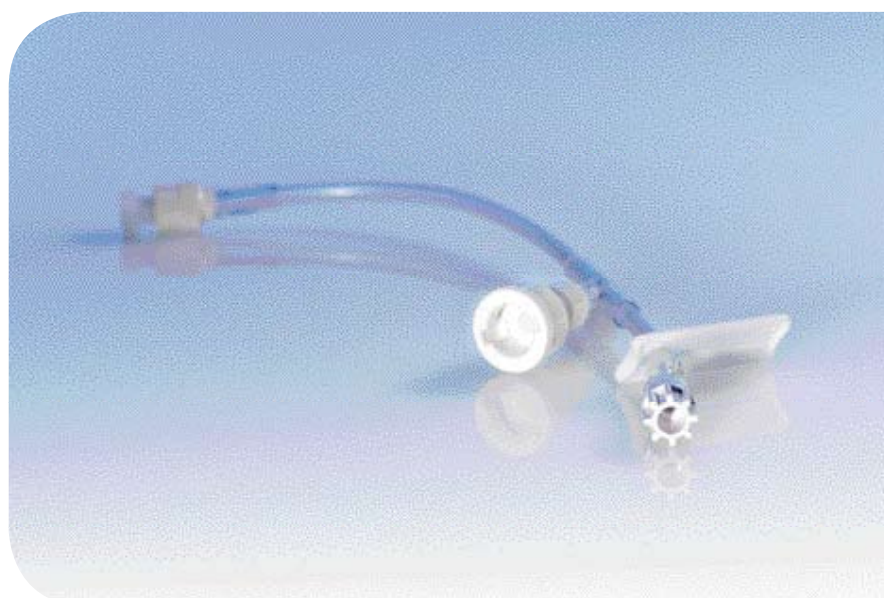
At the annual general meeting of shareholders on April 26th 2006, Per Carendi (Chairman) Mats Enegren, Jan Larsson and Thomas Eklund were re-elected to the Board. Two new Board members were elected: Thomas Pollare and Peter Hentschel. Deputy Board members Jörgen Lönngren and Mikael Johnsson were also elected.

Outgoing Chairman Christian W Jansson, who declined reelection, was thanked by the Board for his positive contributions over the five years in which he served as the Chairman of the Board of the company.



Dan Pitulia
Chief Executive Officer

INCOME STATEMENT (THOUSANDS OF SEK)	GROUP	GROUP	PARENT COMPANY	GROUP FULL YEAR
	1/1-30/6 2006	1/1-30/6 2005	1/1-30/6 2006	1/1-31/12 2005
Operating income				
Net sales	68 192	39 782	53 973	69 974
Changes in inventory of unfinished products	-278	2 343	-278	817
Other income	90	131	90	287
Total operating income	68 004	42 256	53 785	71 078
Operating expenses				
Raw materials and supplies	-13 033	-10 477	-11 761	-15 454
Other external expenses	-21 877	-12 804	-16 297	-31 022
Personnel expenses	-31 232	-16 045	-16 255	-40 464
Depr. of tangible and intangible assets	-4 884	-4 079	-2 925	-8 845
Loss disposal of tangible fixed assets				-13
Other operating expenses				-32 537
Total operating expenses	-71 026	-43 405	-47 238	-128 335
Operating profit/loss	-3 022	-1 149	6 547	-57 257
Profit/loss from financial investments				
Interest income	52	49	51	102
interest expense	-1 027	-196	-433	-304
	-975	-147	-382	-202
Profit/Loss after financial items	-3 997	-1 296	6 165	-57 459
Deferred tax	325	0	0	16 014
Tax on profit/loss for the period	-29	-6	0	-6
Profit/loss for the period	-3 701	-1 302	6 165	-41 451



BALANCE SHEET (THOUSANDS OF SEK)	GROUP	GROUP	PARENT COMPANY	GROUP FULL YEAR
	30/6 2006	30/6 2005	30/6 2006	31/12 2005
ASSETS				
Fixed Assets				
Patents and similar rights	1 587	1 185	1 587	1 827
Machinery and other technical equipment	25 753	25 347	12 457	23 099
Equipment and installations	2 406	1 591	1 283	1 790
Participation in group companies	0	0	1 299	0
Deferred prepaid tax	41 602	25 336	38 862	41 351
Other long-term receivables	317	69	69	190
Total fixed assets	71 665	53 528	55 557	68 257
Current assets				
Inventory	22 447	18 203	15 567	21 672
Accounts receivable	21 498	17 371	6 931	9 417
Receivables from group companies	0	0	24 662	0
Other receivables	2 011	1 938	1 949	1 676
Advances to suppliers				350
Prepaid expenses and accrued income	2 068	3 424	6 350	2 308
Cash and bank	7 550	8 486	5 202	16 229
Total current assets	55 574	49 422	60 661	51 652
TOTAL ASSETS	127 239	102 950	116 218	119 909
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
<i>Restricted equity</i>				
Share capital	7 894	7 116	7 894	7 116
New share issue in progress				23 357
Share premium reserve	73 768	51 189	73 768	51 189
Translation difference on consolidation	347	198	0	804
<i>Non-restricted equity</i>				
Profit/loss brought forward	-22 205	19 749	-15 282	19 272
Profit/loss for the period	-3 701	-1 302	6 165	-41 451
Total shareholders' equity	56 103	76 950	72 545	60 287
Liabilities				
Other long-term liabilities	40 110	5 383	21 545	3 810
Accounts payable	7 339	6 160	6 918	8 768
Tax liabilities	14	0	0	57
Other current liabilities	10 118	9 101	8 445	9 506
Accrued expenses and deferred income	13 555	5 356	6 765	37 481
Total liabilities	71 136	26 000	43 673	59 622
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	127 239	102 950	116 218	119 909