

**OJSC “PHARMSTANDARD”**

**Interim Condensed Consolidated Financial Statements**

*For the six month period ended 30 June 2007*

**“OJSC “Pharmstandard”**

**Interim Condensed Consolidated Financial Statements**

**For the six month period ended 30 June 2007**

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## Report on Review of Interim Condensed Consolidated Financial Statements

To the Shareholders of OJSC "Pharmstandard"

### *Introduction*

We have reviewed the accompanying interim condensed consolidated balance sheet of OJSC "Pharmstandard" and its subsidiaries (the "Group") as at 30 June 2007 and the related interim condensed consolidated statements of operations, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

9 September 2007

## OJSC "Pharmstandard"

## Interim Condensed Consolidated Balance Sheet at 30 June 2007

*(in thousands of Russian Roubles)*

	Notes	30 June 2007 (unaudited)	31 December 2006 (audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	3,734,009	3,788,581
Investment property		14,522	14,522
Intangible assets	6	4,388,466	4,473,639
		<u>8,136,997</u>	<u>8,276,742</u>
<b>Current assets</b>			
Inventories	7	1,684,166	1,406,952
Trade receivables	8	2,886,740	3,373,741
VAT recoverable		277,639	222,675
Prepayments		115,528	169,232
Income tax prepayment		39,353	–
Short term financial assets		101,105	104,866
Cash and cash equivalents	9	483,448	192,966
		<u>5,587,979</u>	<u>5,470,432</u>
Non-current assets classified as held for sale		78,916	22,655
<b>Total assets</b>		<u><b>13,803,892</b></u>	<u><b>13,769,829</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	13	37,793	37,793
Retained earnings		6,719,005	5,838,906
		<u>6,756,798</u>	<u>5,876,699</u>
<b>Minority interest</b>		<u>545,788</u>	<u>463,664</u>
<b>Total equity</b>		<u><b>7,302,586</b></u>	<u><b>6,340,363</b></u>
<b>Non-current liabilities</b>			
Long-term borrowings and loans	10	2,744,184	3,523,997
Deferred tax liability	20	1,118,348	1,080,828
Other non-current liabilities		46,837	47,767
		<u>3,909,369</u>	<u>4,652,592</u>
<b>Current liabilities</b>			
Trade payables and other payables	12	1,404,461	2,092,882
Short-term borrowings	10	1,033,629	351,415
Income tax payable		–	184,118
Other taxes payable	11	153,847	148,459
		<u>2,591,937</u>	<u>2,776,874</u>
<b>Total equity and liabilities</b>		<u><b>13,803,892</b></u>	<u><b>13,769,829</b></u>

Signed and authorized for release on behalf of the Board of Directors of OJSC PHARMSTANDARD

General Director

I.K. Krylov

Finance Director

E.V. Arkhangelskaya

9 September 2007

The accompanying notes on pages 7-21 are an integral part of these interim condensed consolidated financial statements

## OJSC "Pharmstandard"

## Interim Condensed Consolidated Statement of Operations

for the six months ended 30 June 2007

*(in thousands of Russian Roubles)*

	Notes	6 months 2007 ----- (unaudited)	6 months 2006 ----- (unaudited)
Revenue - sale of goods	14	4,426,283	2,916,686
Cost of sales	15	(1,890,839)	(1,232,982)
<b>Gross profit</b>		<b>2,535,444</b>	<b>1,683,704</b>
Selling and distribution costs	16	(752,425)	(492,456)
General and administrative expenses	17	(249,403)	(193,247)
Other income	18	86,653	-
Other expenses	19	(184,174)	(77,432)
Interest income		502	22,587
Interest expense		(141,256)	(46,633)
<b>Profit before income tax</b>		<b>1,295,341</b>	<b>896,523</b>
Income tax expense	20	(333,118)	(249,579)
<b>Profit for the period</b>		<b>962,223</b>	<b>646,944</b>
Attributable to:			
Equity holders of the Parent (Note 13)		946,575	555,722
Minority interests		15,648	91,222
<b>Basic and diluted earnings per share, Russian Roubles</b>	13	<b>25.05</b>	<b>14.70</b>

Signed and authorized for release on behalf of the Board of Directors of OJSC PHARMSTANDARD

General

I.K. Krylov

Finance Director

E.V. Arkhangelskaya

9 September 2007

The accompanying notes on pages 7-21 are an integral part of these interim condensed consolidated financial statements

## OJSC "Pharmstandard"

## Interim Condensed Consolidated Statement of Cash Flows

for the six months ended 30 June 2007

*(in thousands of Russian Roubles)*

	Notes	6 months 2007 ------(unaudited)-----	6 months 2006
<b>Cash flows from operating activities:</b>			
Profit before income tax		1,295,341	896,523
Adjustments for:			
Depreciation of property, plant and equipment and intangible assets		257,989	96,498
Allowances for impairment of receivables, inventories and financial assets	7,8,19	46,214	556
(Income) loss on disposal of property, plant and equipment and assets classified as held for sale, net	5	(9,642)	36,351
Foreign exchange gain	10,18	(75,175)	-
Interest income		(502)	(22,587)
Interest expense		141,256	46,633
<b>Operating cash flows before working capital changes</b>		<b>1,655,481</b>	<b>1,053,974</b>
Decrease in trade and other receivables	8	486,027	329,897
Increase in inventories	7	(298,402)	(201,401)
(Increase) decrease in VAT recoverable		(54,964)	88,529
Decrease in prepayments		53,704	12,710
Increase (decrease) in other short-term financial assets		(105)	40,667
Increase (decrease) in trade payables, other payables and advances received	12	118,917	(328,557)
Increase (decrease) in taxes payable other than income tax		5,388	(167,700)
<b>Cash generated from operations</b>		<b>1,966,046</b>	<b>828,119</b>
Income tax paid	20	(524,684)	(325,680)
Interest paid, net		(138,284)	(23,802)
<b>Net cash from operating activities</b>		<b>1,303,078</b>	<b>478,637</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment	5	(193,257)	(399,873)
Cash paid to settle the obligation for OJSC "TZMOI" shares acquired in 2005	4	(824,723)	(531,000)
Cash received from sale of short-term financial assets		32,958	92,556
Cash paid for short-term financial assets		(64,900)	-
Cash received from sale of assets classified as held for sale		34,133	370,466
Cash received from sale of property, plant and equipment	5	3,210	103,000
Deposits placed in related bank		-	(7,133)
Deposits repaid by related bank		-	71,649
Loans provided		(3,000)	-
Loans repaid by related parties	4	25,153	280,109
<b>Net cash used in investing activities</b>		<b>(990,426)</b>	<b>(20,226)</b>
<b>Cash flows from financing activities:</b>			
Repayment of loans and borrowings	10	(22,170)	(509,649)
Repayment of loans from related parties		-	(70,000)
Repayment of finance lease liabilities		-	(81,955)
<b>Net cash used in financing activities</b>		<b>(22,170)</b>	<b>(661,604)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>290,482</b>	<b>(203,193)</b>
Cash and cash equivalents at the beginning of the period	9	192,966	243,983
Cash and cash equivalents at the end of the period	9	483,448	40,790

The accompanying notes on pages 7-21 are an integral part of these interim condensed consolidated financial statements

## OJSC "Pharmstandard"

## Interim Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2006

*(in thousands of Russian Roubles)*

	<u>Equity attributable to equity holders of the parent</u>					<u>Total equity</u>
	<u>Share capital</u>	<u>Retained earnings</u>	<u>Net assets attributable to the Participant of the Company</u>	<u>Total</u>	<u>Minority interests</u>	
<b>Balance at 31 December 2005 (audited)</b>	–	–	2,790,388	2,790,388	1,134,474	3,924,862
Contribution from the Participant of the Company for acquisition of additional shares in OJSC "Pharmstandard Ufavita"	–	–	802,400	802,400	–	802,400
Acquisition of additional shares in OJSC "Pharmstandard Ufavita" by minority shareholders	–	–	–	–	11,986	11,986
Effect of acquisition of additional shares in OJSC "Pharmstandard Ufavita" by the Company	–	–	199,291	199,291	(199,291)	–
Issuance of shares in connection with legal reorganization	37,793	4,124,768	(4,162,561)	–	–	–
Effect of acquisition of minority interest in OJSC "TZMOI"	–	161,633	–	161,633	(596,586)	(434,953)
Profit for the period	–	185,240	370,482	555,722	91,222	646,944
<b>Balance at 30 June 2006 (unaudited)</b>	<b>37,793</b>	<b>4,471,641</b>	<b>–</b>	<b>4,509,434</b>	<b>441,805</b>	<b>4,951,239</b>

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## OJSC "Pharmstandard"

## Interim Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2007

*(in thousands of Russian Roubles)*

	Equity attributable to equity holders of the parent			Minority interests	Total equity
	Share capital	Retained earnings	Total		
<b>Balance at 31 December 2006 (audited)</b>	<b>37,793</b>	<b>5,838,906</b>	<b>5,876,699</b>	<b>463,664</b>	<b>6,340,363</b>
Profit for the period	–	946,575	946,575	15,648	962,223
Disposal of part of ownership interests in subsidiaries	–	(66,476)	(66,476)	66,476	–
<b>Balance at 30 June 2007 (unaudited)</b>	<b>37,793</b>	<b>6,719,005</b>	<b>6,756,798</b>	<b>545,788</b>	<b>7,302,586</b>

*The accompanying notes on pages 7-21 are an integral part of these interim condensed consolidated financial statements*



## OJSC "Pharmstandard"

## Notes to the Interim Condensed Consolidated Financial Statements

For the six month period ended 30 June 2007

*(All amounts are in thousands of Russian Roubles, if not otherwise indicated)***1. Corporate Information**

OJSC "Pharmstandard" ("the Company") and its subsidiaries ("the Group") principal activities are production and wholesale distribution of pharmaceutical and medical products. The Company is incorporated in Russia. Prior to 5 May 2006, the Company was registered as a limited liability company under the name of "Biovit". In May 2006, the Company was renamed as "Pharmstandard" and reorganized into an open joint stock company. Since May 2007, the Company's shares are publicly traded (Note 13). The Group's corporate office is in Dolgoprudny, Likhachevsky proezd, 5B, Moscow region, Russia and its manufacturing facilities are based in Kursk, Tomsk, Ufa, Nizhny Novgorod and Tyumen. The Company held shares of voting interests in the following major subsidiaries consolidated within the Group as of 30 June 2007 and 31 December 2006, respectively:

Entity	Country of incorporation	Activity	2007 % share	2006 % share
1. "Pharmstandard" LLC	Russia	Procurement activities*	99	99
2. "Pharmstandard-Leksredstva" OJSC	Russia	Manufacturing of pharmaceutical products	99	99
3. "Pharmstandard-Tomskhimpharm" OJSC	Russia	Manufacturing of pharmaceutical products	91	91
4. "Pharmstandard-Ufavita" OJSC	Russia	Manufacturing of pharmaceutical products	94	97
5. "Pharmstandard-Octyabr" OJSC	Russia	Manufacturing of pharmaceutical products	93	93
6. "Pharmstandard-Phitofarm-NN" LLC	Russia	Manufacturing of pharmaceutical products	99	99
7. "TZMOI" OJSC	Russia	Manufacturing of medical equipment	89	90
8. "TMK" LLC	Russia	Manufacturing of medical equipment	100	100
9. "Masterlek" CJSC	Russia	Manufacturing of pharmaceutical products	100	100
10. "Black Bird Investment Enterprises Corp"	British Virgin Islands	Financing activities	100	100

\* Before 1 April 2007, this entity performed the functions of managing company and trading house of the Group, which were then transferred to the Company. Since 1 April 2007, Pharmstandard LLC is specialized in procurement activities, primarily representing purchase of API (raw materials) for the Group production entities.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors of the OJSC "Pharmstandard" on 9 September 2007.

## OJSC "Pharmstandard"

### Notes to the Interim Condensed Consolidated Financial Statements (continued)

*(All amounts are in thousands of Russian Roubles, if not otherwise indicated)*

#### **2. Basis of Preparation of the Financial Statements**

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standard 34 "Interim Financial Reporting". Accordingly, they do not include all of the information required by International Financial Reporting Standards ("IFRS") for complete financial statements.

The Company and its subsidiaries maintain their accounting records in accordance with regulations applicable in the Russian Federation. These interim condensed consolidated financial statements are based on those accounting books and records, as adjusted and reclassified to comply with International Accounting Standard 34 "Interim Financial Reporting".

These interim condensed consolidated financial statements should be read in conjunction with the complete consolidated financial statements as of 31 December 2006 and for the year then ended, considering the effect of adoption of new IFRS and revision of existing IAS, which is described below.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Actual results can differ significantly from such estimates.

Other than the effect of adoption of new IFRS and revision of existing IAS, as described below, the Group followed the same accounting policies and methods of computation as compared with those applied in the consolidated financial statements at 31 December 2006 and for the year then ended.

The interim condensed consolidated financial statements are presented in the national currency of the Russian Federation, Russian Rouble (RR), which is the functional currency of the Company.

#### *Seasonality of operations*

Due to the seasonal nature of the Group's operations, higher revenues in the pharmaceuticals segment (Note 3) are usually expected in the first and fourth quarters of each year when flu and cold epidemics are most prevalent resulting in higher demand on the Group's cold and cough products and vitamins.

Revenues in the medical equipment segment (Note 3) also usually tend to grow in the fourth quarter when the state hospitals make their orders to entirely utilize the budget resources provided to them for acquisition of new equipment in the current year.

Given the seasonality of operations, the Group's operating results for the six-month period ended 30 June 2007 are not necessarily indicative of the results that may be expected for the year ending 31 December 2007.

## OJSC "Pharmstandard"

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

*(All amounts are in thousands of Russian Roubles, if not otherwise indicated)*

**2. Basis of Preparation of the Financial Statements (continued)***Changes in Accounting Policies*

The accounting policies adopted are consistent with those of the previous financial period except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after 1 January 2007.

The changes in accounting policies result from adoption of the following new or revised standards:

- IFRS 7 "Financial Instruments: Disclosures";
- IAS 1 (amended 2005) "Presentation of Financial Statements – Capital Disclosures";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 9 "Reassessment of Embedded Derivatives";
- IFRIC 10 "Interim Financial Reporting and Impairment."

There were no significant effects of these changes in accounting policies on these interim condensed consolidated financial statements. However, the adoption of IFRS 7 will significantly affect the disclosures relating to financial instruments as presented in the notes to the annual financial statements.

*IFRSs and IFRIC Interpretations not yet effective*

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions";
- IFRIC 12 "Service Concession Arrangements";
- IFRIC 13 "Customer Loyalty Programs";
- IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction";
- IFRS 8 "Operating segments";
- IAS 23 (amended 2007) "Borrowing costs".

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's result of operation and financial positions in the period of initial application.

## OJSC "Pharmstandard"

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

(All amounts are in thousands of Russian Roubles, if not otherwise indicated)

### 3. Segment Information

The Group is organised into two main business segments: (1) production and wholesale of pharmaceutical products and (2) production and wholesale of medical equipment.

There are no material transactions between the segments.

The following table presents revenue and profit information regarding the Group's business segments:

Six months period ended 30 June 2007 (unaudited)	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Eliminations	Group
Sales to external customers	3,777,487	648,796	–	4,426,283
<b>Total revenue</b>	<b>(3,777,487)</b>	<b>(648,796)</b>	<b>–</b>	<b>(4,426,283)</b>
<b>Segment result</b>	<b>1,222,489</b>	<b>213,606</b>	<b>–</b>	<b>1,436,095</b>
Interest expense, net	–	–	–	(140,754)
<b>Profit before income tax</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,295,341</b>
Income tax expense	–	–	–	(333,118)
<b>Net profit</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>962,223</b>

Six months period ended 30 June 2006 (unaudited)	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Eliminations	Group
Sales to external customers	2,367,638	549,048	–	2,916,686
Inter-segment sales	–	8,647	(8,647)	–
<b>Total revenue</b>	<b>2,367,638</b>	<b>557,695</b>	<b>(8,647)</b>	<b>2,916,686</b>
<b>Segment result</b>	<b>785,741</b>	<b>138,828</b>	<b>(4,000)</b>	<b>920,569</b>
Interest expense, net	–	–	–	(24,046)
<b>Profit before income tax</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>896,523</b>
Income tax expense	–	–	–	(249,579)
<b>Net profit</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>646,944</b>

## OJSC "Pharmstandard"

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

(All amounts are in thousands of Russian Roubles, if not otherwise indicated)

#### 4. Balances and Transactions with Related Parties

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not enter, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into transactions or had balances outstanding at 30 June 2007 and 31 December 2006 are detailed below.

##### Balances with Related Parties:

30 June 2007 (unaudited)	Trade receivables Note 8	Short-term financial assets	Cash and cash equivalents Note 9	Trade payables and other payables – (a) Note 11
Entities under common control	–	5,111	461,281	–
Associates	–	–	–	–
<b>Total</b>	<b>–</b>	<b>5,111</b>	<b>461,281</b>	<b>–</b>

31 December 2006 (audited)	Trade receivables Note 8	Short-term financial assets	Cash and cash equivalents Note 9	Trade payables and other payables – (a) Note 11
Entities under common control	–	5,111	124,632	824,723
Associates	18,974	25,153	–	–
<b>Total</b>	<b>18,974</b>	<b>30,264</b>	<b>124,632</b>	<b>824,723</b>

- (a) This balance represented obligation for the voting shares of OJSC "TZMOI" originated from their acquisition in 2005 and 2006 which was fully repaid in 2007.

Major conditions of the loans listed above are as follows:

Caption	Interest rate, %		Maturity period	
	30 June 2007 (unaudited)	31 December 2006	30 June 2007 (unaudited)	31 December 2006
Current loans to related parties	2%	2%	6 months	1-12 months

Cash balances with related bank carry no interest.

## OJSC "Pharmstandard"

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

(All amounts are in thousands of Russian Roubles, if not otherwise indicated)

#### 4. Balances and Transactions with Related Parties (continued)

##### Transactions with Related Parties:

Statement of operations caption	Relationship	6 months 2007 (unaudited)	6 months 2006
Sales of medical equipment	Associate	–	3,942
License fee (included in distribution costs) (A)	Entity under common control	11,847	8,801
Warehouse rental expenses (included in distribution costs) (B)	Entity under common control	15,178	6,572
Office rental expenses (included in general and administrative expenses) (B)	Entity under common control	3,873	3,075

##### (A) License fee

License fee is paid for use of several trade marks owned by an entity under common control. The license fee is paid on a quarterly basis as 5% of the licensed products output applying the standard price list of the Group.

##### (B) Rental expenses

The Group incurred warehouse and office rental expenses to an entity under common control. Rental fees quoted by the lessor in this transaction approximated average market rates established for Moscow region where the premises are located.

##### Compensation to Key Management Personnel

Key management personnel comprise 3 persons as of 30 June 2007 and 31 December 2006. Total compensation to key management personnel amounted to RR 41,878 for the six months period ended 30 June 2007 (6 months 2006: RR 3,655). Such compensation represented the following short-term employee benefits: (i) payroll and bonuses included in general and administrative expenses and (ii) one-off remuneration for achievement of the IPO-related targets (Notes 13 and 19) included in other expenses in the statement of operations.

#### 5. Property, Plant and Equipment

##### Acquisitions, disposals and reclassification to non-current assets classified as held for sale

During the six months period ended 30 June 2007 the Group acquired property, plant and equipment with a cost of RR 210,643 (6 months 2006: RR 516,862). Property, plant and equipment with a net book value of RR 13,483 were disposed of by the Group during the six months ended 30 June 2007 (6 months 2006: RR 139,351), resulting in a loss on disposal of 1,836 (6 months 2006: RR 36,351). In 2007 fixed assets with a total net book value of RR 78,916 were classified as non-current assets classified as held for sale due to approval of the Group's plan on their disposal in 2007.

## OJSC "Pharmstandard"

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

(All amounts are in thousands of Russian Roubles, if not otherwise indicated)

**6. Intangible Assets**

There were no acquisitions and disposals of the intangible assets for the six months period ended 30 June 2007 (6 months 2006: Nil). Total amortization of the intangible assets for the six months period ended 30 June 2007 amounted to RR 85,173 (2006: Nil). This amortization is included in the cost of sales line item (Note 15).

**7. Inventories**

Inventories consist of the following:

	<b>30 June 2007 (unaudited)</b>	<b>31 December 2006</b>
Raw materials (at cost)	721,162	748,619
Work in progress (at cost)	115,240	96,948
Finished goods:		
- at cost	904,559	596,992
- at net realisable value	847,764	561,385
	<b>1,684,166</b>	<b>1,406,952</b>

The amount of write-down of inventories recognised as an expense is RR 31,459 (6 months 2006: RR 13,538). This expense is included in the cost of sales line item as a cost of materials and components (Note 15).

No inventories have been pledged or restricted in use at 30 June 2007 and 31 December 2006.

**8. Trade Receivables**

	<b>30 June 2007 (unaudited)</b>	<b>31 December 2006</b>
Trade receivables (net of provision for impairment of receivables of RR 80,282 and RR 79,308 as at 30 June 2007 and 31 December 2006, respectively)	2,886,740	3,373,741
	<b>2,886,740</b>	<b>3,373,741</b>

RR 80,307 of trade receivables were denominated in currencies other than Russian Roubles (primarily in US\$) at 30 June 2007 (31 December 2006: RR 68,549).

## OJSC "Pharmstandard"

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

*(All amounts are in thousands of Russian Roubles, if not otherwise indicated)*

**9. Cash and Cash Equivalents**

Cash and cash equivalents comprise the following:

	<b>30 June 2007</b> <b>(unaudited)</b>	<b>31 December</b> <b>2006</b>
Cash in bank – Roubles (Note 4)	271,282	158,239
Cash in bank – US\$ and Euro (Note 4)	72,166	34,727
Short-term bank deposits with less than 90 days maturity - Roubles (Note 4)	140,000	–
	<b>483,448</b>	<b>192,966</b>

Balances with banks generally carry no interest.

**10. Borrowings and Loans**

In March 2007 the Group repaid US\$ 845 thousands (RR 22,170) of unsecured loan bearing an interest rate of 7%. The amount of borrowings also decreased by 75,175 due to effect from foreign exchange gain recognized as a result of revaluation of the Citibank loan which was denominated in US\$.

**11. Other Taxes Payable**

Taxes payable, other than income tax, are comprised of the following:

	<b>30 June 2007</b> <b>(unaudited)</b>	<b>31 December</b> <b>2006</b>
Value-added tax	110,719	112,482
Property and other taxes	40,758	35,977
Tax penalties and interest	2,370	–
	<b>153,847</b>	<b>148,459</b>

**12. Trade and Other Payables**

	<b>30 June 2007</b> <b>(unaudited)</b>	<b>31 December</b> <b>2006</b>
Trade payables	1,130,684	1,071,596
Other payables – related parties (Note 4)	–	824,723
Other payables	273,777	196,563
	<b>1,404,461</b>	<b>2,092,882</b>

RR 521,363 of trade payables were denominated in currencies other than Russian Rouble (primarily US\$) at 30 June 2007 (31 December 2006: RR 414,022).



## OJSC "Pharmstandard"

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

*(All amounts are in thousands of Russian Roubles, if not otherwise indicated)*

**13. Share Capital**

As at 31 December 2006 and 30 June 2007 more than half of voting shares of OJSC "Pharmstandard" were held by "Augment Investments Limited" ("Augment"), a company registered under the laws of Cyprus. None of Augment participants held more than 50% interest and as a result no individual party ultimately controlled the Group as of 31 December 2006 and 30 June 2007.

The authorised number of ordinary shares issued upon reorganization of the Company into an open joint stock company equated to 37,792,603 with a par value per share of one Russian Rouble. All the issued shares were exchanged for ownership interest previously held by the Participant of the Company.

In May 2007, 16,349,408 ordinary shares representing 43.3 percent of share capital of the Company were sold by Augment to public investors as a result of the Initial Public Offering conducted simultaneously at Russian stock exchanges (RTS and MICEX) where 18.3 percent of the shares were offered and at London stock exchange (LSE) where the remaining 25 percent were offered.

Earnings per share are calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

**Earnings per share**

Earnings per share are as follows:

	<b>6 months 2007</b>	<b>6 months 2006</b>
	<b>-----(unaudited)-----</b>	
Weighted average number of ordinary shares outstanding (thousands)	<b>37,793</b>	<b>37,793</b>
<b>Profit for the period attributable to parent shareholders</b>	<b>946,575</b>	<b>555,722</b>
<b>Basic and diluted earnings per share, Russian Roubles</b>	<b>25.05</b>	<b>14.70</b>

## OJSC "Pharmstandard"

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

(All amounts are in thousands of Russian Roubles, if not otherwise indicated)

**14. Revenue - Sale of Goods**

The Groups' products may be divided into pharmaceuticals, which comprise products sold either in the OTC ("Over-the-counter") market or with a prescription, and medical equipment and disposables.

Sales breakdown by product groups comprised the following:

<b>Product group</b>	<b>6 months 2007</b>	<b>6 months 2006</b>
	<b>----- (unaudited) -----</b>	
<b>Pharmaceutical products</b>		
<b>OTC</b>		
Branded	2,767,974	1,595,650
Non-branded	298,912	283,436
	<b>3,066,886</b>	<b>1,879,086</b>
<b>Prescription</b>		
Branded	545,387	301,786
Non-branded	124,454	134,006
	<b>669,841</b>	<b>435,792</b>
<b>Other</b>	<b>40,760</b>	<b>52,760</b>
<b>Total pharmaceutical products</b>	<b>3,777,487</b>	<b>2,367,638</b>
<b>Medical equipment and disposables</b>	<b>648,796</b>	<b>549,048</b>
	<b>4,426,283</b>	<b>2,916,686</b>

**15. Cost of Sales**

The components of cost of sales were as follows:

	<b>6 months 2007</b>	<b>6 months 2006</b>
	<b>----- (unaudited) -----</b>	
Materials and components	1,192,389	807,482
Production overheads	380,393	259,507
Depreciation and amortization	236,599	84,918
Direct labour costs	81,458	81,075
	<b>1,890,839</b>	<b>1,232,982</b>

## OJSC "Pharmstandard"

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

*(All amounts are in thousands of Russian Roubles, if not otherwise indicated)***16. Selling and Distribution Costs**

Selling and distribution costs comprised the following:

	6 months 2007	6 months 2006
	------(unaudited)-----	
Advertising	356,774	232,982
Insurance of goods in transit	3,364	36,762
Labour costs	193,742	97,980
Freight and communication	50,595	40,156
Utilities and other services	16,953	19,208
Certification expenses	12,986	13,834
Rent (Note 4)	21,076	14,700
Commission and license fee (Note 4)	46,855	13,011
Materials and maintenance	12,752	5,664
Travel and entertainment	17,515	7,447
Depreciation	8,062	4,825
Other expenses	11,751	5,887
	<u>752,425</u>	<u>492,456</u>

**17. General and Administrative Expenses**

General and administrative expenses comprised the following:

	6 months 2007	6 months 2006
	------(unaudited)-----	
Labour costs	155,745	116,214
Utilities and services	15,201	14,782
Taxes other than income tax	8,652	12,234
Property insurance	6,064	8,274
Freight and communication	8,684	4,192
Depreciation	13,328	6,755
Rent (Note 4)	16,553	7,109
Materials and maintenance	7,533	4,162
Other	17,643	19,525
	<u>249,403</u>	<u>193,247</u>

**18. Other Income**

Other income comprised the following:

	6 months 2007	6 months 2006
	------(unaudited)-----	
Gain from sale of non-current assets classified as held for sale	11,478	-
Foreign exchange gain	75,175	-
	<u>86,653</u>	<u>-</u>

## OJSC "Pharmstandard"

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

*(All amounts are in thousands of Russian Roubles, if not otherwise indicated)***19. Other Expenses**

Other expenses comprised the following:

	<b>6 months 2007</b>	<b>6 months 2006</b>
	<b>------(unaudited)-----</b>	
Loss from disposal of property, plant and equipment	1,836	36,351
Legal, audit, one-off management remuneration (Note 4) and other non-recurring expenses incurred in connection with IPO (Note 13)	100,874	-
Charity	1,821	3,626
Other taxes	35,387	14,984
Writing-off of other short-term financial assets	13,657	-
Other	30,599	22,471
	<b>184,174</b>	<b>77,432</b>

**20. Income Tax**

	<b>6 months 2007</b>	<b>6 months 2006</b>
	<b>------(unaudited)-----</b>	
Income tax expense – current	310,078	298,370
Gain from reversal of income tax liabilities resulting from reconciliation with tax authorities (a)	(14,480)	-
Deferred tax expense – origination and reversal of temporary differences	37,520	(48,791)
<b>Income tax expense</b>	<b>333,118</b>	<b>249,579</b>

- (a) The Group identified overpayment of income tax in the prior periods as a result of routine reconciliation with the tax authorities. As a result the respective receivable from the budget was recognised.

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	<b>6 months 2007</b>	<b>6 months 2006</b>
	<b>------(unaudited)-----</b>	
<b>Income before taxation</b>	<b>1,295,341</b>	<b>896,523</b>
Theoretical tax charge at statutory rate of 24%	310,882	215,166
Gain from reversal of income tax liabilities resulting from reconciliation with tax authorities	(14,480)	-
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	36,716	34,413
<b>Income tax expense</b>	<b>333,118</b>	<b>249,579</b>

## OJSC "Pharmstandard"

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

(All amounts are in thousands of Russian Roubles, if not otherwise indicated)

**20. Income Tax (continued)**

Movements in deferred tax balances were as follows:

	<b>31 December 2006 (audited)</b>	<b>Differences recognition and reversal</b>	<b>30 June 2007 (unaudited)</b>
<b>Tax effects of deductible temporary differences – asset (liability):</b>			
Property, plant and equipment	(340,988)	(26,992)	(367,980)
Intangible assets	(721,766)	11,100	(710,666)
Trade and other receivables	(44,957)	(7,813)	(52,770)
Inventories	205	(31,516)	(31,311)
Trade and other payables	21,524	18,574	40,098
Other	5,154	(873)	4,281
<b>Total net deferred tax liability</b>	<b>(1,080,828)</b>	<b>(37,520)</b>	<b>(1,118,348)</b>

The recognition and reversals of temporary differences primarily relates to the following:

- depreciation for tax purposes in excess of the depreciation of property, plant and equipment;
- amortization of intangible assets in excess of the amortization for tax purposes;
- accrual of expenses which will be deducted in future period in accordance with the regulations upon receipt of the supporting documents;
- impairment of trade receivables; and
- provisions to write inventory down to net realizable value.

**21. Contingencies, Commitments and Operating Risks***Operating Environment of the Group*

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

*Taxation*

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

## OJSC "Pharmstandard"

### Notes to the Interim Condensed Consolidated Financial Statements (continued)

*(All amounts are in thousands of Russian Roubles, if not otherwise indicated)*

#### **21. Contingencies, Commitments and Operating Risks (continued)**

##### *Taxation (continued)*

As at 30 June 2007 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Because of the uncertainties associated with the Russian tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as of 30 June 2007. Management's estimate of the amount of possible liabilities, including fines, that could be incurred in the event that the tax authorities disagree with the Group's position on certain tax matters and certain tax practices used by the Group is approximately RR 53 million at 30 June 2007. Should the Russian tax authorities decide to issue a claim and prove successful in the court, they would be entitled to recover the amount claimed, together with fines amounting to 20% of such amount and interest at the rate of 1/300 of the Central Bank of Russia rate for each day of delay for late payment of such amount. Management believes that it is not probable that the ultimate outcome of such matters would result in a liability. Therefore, no provision for these contingencies was recorded in the accompanying financial statements.

##### *Insurance Policies*

The Group holds insurance policies in relation to its property, plant and equipment, which cover more than 90 percent of its carrying value because insurance coverage is based on statutory book value of property, plant and equipment, which is substantially lower than IFRS value. The Group holds no insurance policies in relation to its operations, or in respect of public liability.

#### **22. Financial Risk Management**

The Group's principal financial instruments comprise bank loans and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. During the year the Group did not undertake trading in financial instruments.

##### *Credit Risk*

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

## OJSC "Pharmstandard"

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

*(All amounts are in thousands of Russian Roubles, if not otherwise indicated)*

**22. Financial Risk Management (continued)***Foreign Exchange Risk*

The Group attracted substantial amount of US\$ denominated long-term borrowings and also had material amount of US\$ denominated trade payables (Note 12) and is thus exposed to foreign exchange risk.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations.

*Interest Rate Risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings as the majority of interest rates on long-term borrowings are floating and based on LIBOR. The Group has not entered into any hedging arrangements in respect of its interest rate exposures.

The Group has no significant interest-bearing assets.

*Fair values of financial instruments*

Fair values of cash and cash equivalents, borrowings, trade and other receivables and trade and other payables approximate their carrying amounts due to their short maturity.