

OJSC “PHARMSTANDARD”

Interim condensed consolidated financial statements

For the six month period ended 30 June 2010

“OJSC “Pharmstandard”

Interim condensed consolidated financial statements

For the six month period ended 30 June 2010

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OJSC “Pharmstandard”

Interim condensed consolidated statement of financial position as at 30 June 2010

(in thousands of Russian Roubles)

	Notes	30 June 2010 unaudited	31 December 2009 audited
Assets			
Non-current assets			
Property, plant and equipment	6	3,947,026	3,685,845
Intangible assets	7	6,015,714	6,162,135
Long-term financial assets	8	481,065	-
		10,443,805	9,847,980
Current assets			
Inventories	9	4,003,488	2,758,691
Trade and other receivables	10	8,404,374	9,289,082
VAT recoverable		122,245	258,932
Prepayments		163,149	136,729
Income tax prepayment		166,145	-
Short-term financial assets	12	3,065,209	1,133,287
Cash and short-term deposits	11	1,880,271	2,798,160
		17,804,881	16,374,881
Total assets		28,248,686	26,222,861
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	16	37,793	37,793
Treasury shares		(6)	(6)
Retained earnings		22,006,041	19,243,766
		22,043,828	19,281,553
Non-controlling interest		417,263	413,961
Total equity		22,461,091	19,695,514
Non-current liabilities			
Long-term borrowings and loans	13	201,990	391,511
Deferred tax liability	23	758,883	807,062
Derivative financial instruments	13, 22	20,095	34,751
Other non-current liabilities		24,959	24,197
		1,005,927	1,257,521
Current liabilities			
Trade and other payables and accruals	15	4,131,630	3,905,979
Current portion of long-term borrowings	13	403,667	391,360
Income tax payable		-	403,961
Other taxes payable	14	246,371	568,526
		4,781,668	5,269,826
Total liabilities		5,787,595	6,527,347
Total equity and liabilities		28,248,686	26,222,861

Chief Executive Officer

I.K. Krylov

Chief Financial Officer

E.V. Arkhangelskaya

30 August 2010

OJSC “Pharmstandard”

Interim condensed consolidated statement of comprehensive income

for the six months ended 30 June 2010

(in thousands of Russian Roubles)

	Notes	6 months 2010 ----- <i>(unaudited)</i> -----	6 months 2009 ----- <i>(unaudited)</i> -----
Revenue	17	11,543,419	10,061,891
Cost of sales	18	(6,450,228)	(5,287,217)
Gross profit		5,093,191	4,774,674
Selling and distribution costs	19	(1,168,860)	(943,207)
General and administrative expenses	20	(415,172)	(321,145)
Other income	21	41,805	128,295
Other expenses	21	(154,235)	(314,326)
Financial income	22	119,843	43,055
Financial expense	22	(27,581)	(92,890)
Profit before income tax		3,488,991	3,274,456
Income tax expense	23	(723,414)	(686,535)
Profit for the period		2,765,577	2,587,921
Total comprehensive income for the period, net of tax		2,765,577	2,587,921
Profit for the period			
Attributable to:			
Equity holders of the Parent		2,762,275	2,583,998
Non-controlling interest		3,302	3,923
		2,765,577	2,587,921
Total comprehensive income for the period, net of tax			
Attributable to:			
Equity holders of the Parent		2,762,275	2,583,998
Non-controlling interest		3,302	3,923
		2,765,577	2,587,921
Earnings per share (in Russian roubles)			
- basic and diluted, for profit of the period attributable to equity holders of the Parent	16	73.09	68.37

Chief Executive Officer

I.K. Krylov

Chief Financial Officer

E.V. Arkhangelskaya

30 August 2010

OJSC “Pharmstandard”

Interim condensed consolidated cash flow statement

for the six months ended 30 June 2010

(in thousands of Russian Roubles)

	Notes	6 months 2010	6 months 2009
		------(unaudited)-----	
Cash flows from operating activities:			
Profit before income tax		3,488,991	3,274,456
Adjustments for:			
Depreciation and amortization	6, 7	381,802	367,644
Change in allowance for impairment of financial assets	10, 21	(4,531)	(68,656)
Write-down of inventories to net realizable value	9	19,457	-
Loss from disposal of property, plant and equipment	6, 21	710	3,417
Foreign exchange loss	21	8,599	259,814
Financial income	22	(119,843)	(43,055)
Financial expense	22	27,581	92,890
Operating cash flows before working capital changes		3,802,766	3,886,510
Decrease/(increase) in trade receivables	10	950,523	(1,635,962)
Increase in inventories	9	(1,264,255)	(954,572)
Decrease in VAT recoverable		136,687	66,719
Increase in prepayments		(26,420)	(99,208)
Increase in trade payables, other payables and accruals	15	222,978	3,170,459
Decrease in taxes payable other than income tax	14	(322,155)	(67,481)
Cash generated from operations		3,500,124	4,366,465
Income tax paid	23	(1,341,697)	(692,435)
Interest paid		(25,685)	(90,589)
Interest received		41,643	489
Net cash from operating activities		2,174,385	3,583,930
Cash flows from investing activities:			
Purchase of property, plant and equipment	6	(497,369)	(197,913)
Purchase of intangible assets	7	-	(77,751)
Purchase of long-term financial assets	8	(481,065)	-
Cash paid for acquisition of non-controlling interests		-	(24,844)
Cash received from sale of short-term financial assets	12	309,925	104,171
Cash paid for short-term financial assets	12	(2,230,676)	(220,100)
Cash received from sale of property, plant and equipment	6	2,234	6,260
Net cash used in investing activities		(2,896,951)	(410,177)
Cash flows from financing activities:			
Repayment of loans and borrowings		(195,323)	(880,989)
Net cash used in financing activities		(195,323)	(880,989)
Net (decrease)/ increase in cash and cash equivalents		(917,889)	2,292,764
Cash and cash equivalents at the beginning of the period, net of bank overdraft	11	2,798,160	(13,176)
Cash and cash equivalents at the end of the period	11	1,880,271	2,279,588

OJSC “Pharmstandard”

Interim condensed consolidated statement of changes in equity

for the six months ended 30 June 2009

(in thousands of Russian Roubles)

	Equity attributable to equity holders of the parent			Non- controlling interests	Total equity
	Share capital	Retained earnings	Total		
Balance at 31 December 2008 (audited)	37,793	12,413,396	12,451,189	163,203	12,614,392
Profit for the period	-	2,583,998	2,583,998	3,923	2,587,921
Total comprehensive income for the period	-	2,583,998	2,583,998	3,923	2,587,921
Effect of sale of non-controlling interests in subsidiary interests	-	(111)	(111)	234,713	234,602
Recognition of non-controlling interest in MDR Pharmaceutical Limited	-	-	-	17	17
Balance at 30 June 2009 (unaudited)	37,793	14,997,283	15,035,076	401,856	15,436,932

Interim condensed consolidated statement of changes in equity

for the six months ended 30 June 2010

(in thousands of Russian Roubles)

	Equity attributable to equity holders of the parent				Non- controlling interests	Total equity
	Share capital	Treasury shares	Retained earnings	Total		
Balance at 31 December 2009 (audited)	37,793	(6)	19,243,766	19,281,553	413,961	19,695,514
Profit for the period	-	-	2,762,275	2,762,275	3,302	2,765,577
Total comprehensive income for the period	-	-	2,762,275	2,762,275	3,302	2,765,577
Balance at 30 June 2010 (unaudited)	37,793	(6)	22,006,041	22,043,828	417,263	22,461,091

The accompanying notes on pages 7-25 are an integral part of these interim condensed consolidated financial statements.

OJSC “Pharmstandard”

Notes to the interim condensed consolidated financial statements

(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 the Russian Federation. Since May 2007, the Company's shares are publicly traded (Note 16). The Group’s corporate office is in Dolgoprudny, Likhachevsky proezd, 5B, Moscow region, Russian Federation 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 at 30 June 2010 and 31 December 2009, respectively:

Entity	Country of incorporation	Activity	2010 % share	2009 % share
1. “Pharmstandard” LLC	Russian Federation	Central procurement	100	100
2. “Pharmstandard-Leksredstva” OJSC	Russian Federation	Manufacturing of pharmaceutical products	100	100
3. “Pharmstandard-Tomskhimpharm” OJSC	Russian Federation	Manufacturing of pharmaceutical products	91	91
4. “Pharmstandard-Ufavita” OJSC	Russian Federation	Manufacturing of pharmaceutical products	100	100
5. “Pharmstandard-Phitofarm-NN” LLC	Russian Federation	Manufacturing of pharmaceutical products	99	99
6. “TZMOI” OJSC	Russian Federation	Manufacturing of medical equipment	100	100
7. Donelle Company Limited	Cyprus	Finance and holding Company*	89	89
8. Aphopharm CJSC	Russian Federation	Finance and holding Company*	89	89
9. MDR Pharmaceutical Limited	Cyprus	Finance and holding company*	50.05	50.05

* Finance and holding companies do not conduct any business activities.

In addition, the Group holds the 50% of share capital in new joint venture “Naughtechstroy+” LLC. This research company was formed in February 2010 and it is in start up phase now (for more details see Note 3).

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors of the OJSC “Pharmstandard” on 30 August 2010.

Notes to the interim condensed consolidated financial statements

(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 2009 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 2009 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 4) 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 4) 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 2010 are not necessarily indicative of the results that may be expected for the year ending 31 December 2010.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial period except that the Group has adopted new/revised standards mandatory for financial years beginning on or after 1 January 2010.

OJSC “Pharmstandard”

Notes to the interim condensed consolidated financial statements

(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 (continued)

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

- IFRS 3R *Business Combinations* and IAS 27R *Consolidated and Separate Financial Statements*;
- IFRIC 17 *Distributions of Non-cash Assets to Owners*;
- IFRIC 18 *Transfers of Assets from Customers*;
- IAS 39 *Financial Instruments: Recognition and Measurement* - Eligible Hedged Items;
- Amendments to IFRS 2 *Share-based Payments* – Group Cash-settled Share-based Payment Transactions;
- Amendments to IFRS 1 and IAS 27 *Determining the cost of an investment in the separate financial statements*
- “Improvements to IFRSs-2009” — a second collection of amendments to IFRSs that will not be included as part of another major project. The following table shows the list of IFRSs where amendments have been made that can result in accounting changes for presentation, recognition or measurement purposes and the topics addressed by these amendments:

IFRS (amended in 2009)	Subject of amendment
IFRS 2 <i>Share-based Payment</i>	Scope of IFRS 2 and revised IFRS 3 <i>Business Combinations</i>
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations
IFRS 8 <i>Operating Segments</i>	Disclosure of information about segment assets
IAS 1 <i>Presentation of Financial Statements</i>	Current/noncurrent classification of convertible instruments
IAS 7 <i>Statement of Cash Flows</i>	Classification of expenditures on unrecognised assets
IAS 17 <i>Leases</i>	Classification of leases of land and buildings
IAS 18 <i>Revenue</i>	Determining whether an entity is acting as a principal or as an agent
IAS 36 <i>Impairments of Assets</i>	Unit of accounting for goodwill impairment test
IAS 38 <i>Intangible Assets</i>	Additional consequential amendments arising from revised IFRS 3 Measuring the fair value of an intangible asset acquired in a business combination
IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	Treating loan prepayment penalties as closely related embedded derivatives Scope exemption for business combination contracts Cash flow hedge accounting
IFRIC 9 <i>Reassessment of Embedded Derivatives</i>	Scope of IFRIC 9 and revised IFRS 3
IFRIC 16 <i>Hedges of a Net Investment in a Foreign Operation</i>	Amendment to the restriction on the entity that can hold hedging instruments

Notes to the interim condensed consolidated financial statements

(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 (continued)

There were no significant effects of these changes in accounting policies on these interim condensed consolidated financial statements. However, the adoption of IFRS 3R “Business combinations” and IAS 27R “Consolidated and Separate Financial Statement” will affect the recognition of assets and liabilities and disclosures relating to future acquisition of subsidiaries.

Interest in a joint venture

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the ventures have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognises its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Group’s consolidated financial statements to eliminate the Group’s share of intra group balances, income and expenses and unrealised gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Upon loss of joint control and provided the former joint control entity does not become a subsidiary or associate, the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

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:

- IFRS 9 *Financial Instruments*, effective from 1 January 2013;
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*, effective for annual periods beginning on or after 1 July 2010;
- Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*, effective from 1 July 2010;
- Amendment to IAS 24 *Related Party Disclosures*, effective from 1 January 2011;
- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of rights issues denominated in a foreign currency*, effective for annual periods beginning on or after 1 February 2010;

Notes to the interim condensed consolidated financial statements

(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 (continued)*

- Amendment to IFRIC 14 *IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction* – Prepayment of a minimum funding requirement, effective from 1 January 2011;
- “Improvements to IFRSs-2010”, effective for annual periods beginning on or after 1 July 2010 or effective for annual periods beginning on or after 1 January 2011 — a new collection of amendments to IFRSs that will not be included as part of another major project. The following table shows the list of IFRSs where amendments have been made that can result in accounting changes for presentation, recognition or measurement purposes and the topics addressed by these amendments:

IFRS (amended in 2010)	Subject of amendment
IFRS 3R <i>Business Combinations</i> , effective from 1 July 2010	Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS Limiting the accounting policy choice to measure non-controlling interests upon initial recognition Un-replaced and voluntarily replaced share-based payment awards
IAS 27R <i>Consolidated and Separate Financial Statements</i> , effective from 1 July 2010	Clarifying that the amendments to IAS 21, IAS 28 and IAS 31 resulting from IAS 27R should be applied prospectively
IFRS 1 <i>First-time Adoption of IFRSs</i>	Accounting policy changes (IAS 8) in the year of adoption is not applicable Introducing guidance for entities that publish interim financial in the year of adoption Revaluation basis as deemed cost Use of deemed cost for operations subject to rate regulation
IFRS 7 <i>Financial Instruments: Disclosures</i>	Amending and removing existing disclosure requirements
IAS 1 <i>Presentation of Financial Statements</i>	Clarification of statement of changes in equity
IAS 34 <i>Interim Financial Reporting</i>	Events and transactions that require disclosure under IAS 34
IFRIC 13 <i>Customer Loyalty Programmes</i>	Clarification of fair value of award credits

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

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

3. Foundation of joint venture

In the 4th quarter of 2009, the management of the Group approved the plan for the foundation of a new joint venture. In February 2010, “NauchTechStroy+” LLC (“NTS+”) was registered in the Russian Federation as a joint venture of the Company and another participant. Main purpose of “NTS +” is to build and launch into operation a research and development center in Vladimir region of Russia specialized in bioengineering medical products and universal diagnostic researches. Launch into operation of this center is scheduled in 2011.

The Group holds 50% interest in “NTS+” in the amount of RR 150,004, which was fully paid in cash. The Group also incurred certain expenditures on financing construction of various infrastructure objects by “NTS+” presented as other expenses (Note 21).

The Group share in “NTS+” assets primarily representing construction in progress was RR 141,580 as at 30 June 2010.

4. Segment information

For the management purposes, the Group is organised into two main reportable operating segments: (1) production and wholesale of pharmaceutical products and (2) production and wholesale of medical equipment and disposables. The medical equipment segment is primarily represented by OJSC “TZMOI”, as production subsidiary, and by equipment department of OJSC “Pharmstandard”, as managing and logistics division.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the sales, cost of sales, operating expenses and other operating results and budgets of these business segments separately for the purpose of making decisions about resource allocation and performance assessment. For the management purposes, budgets of income and expense are planned, made and analyzed for each of operating segments separately.

Segment result is segment revenue less segment expenses. Segment expenses consist of cost of sales, selling and distribution costs, general and administrative expenses and other income and expenses that can be directly attributed to the segment on a reasonable basis.

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, financial assets, receivables and operating cash. There were no assets unallocated to segments as of 30 June 2010 and 31 December 2009. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate liabilities. Capital expenditure comprises additions to property, plant and equipment.

No significant intercompany transactions have been existed between these operating segments.

OJSC “Pharmstandard”

Notes to the interim condensed consolidated financial statements

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

4. Segment information (continued)

The following table presents revenue and profit information regarding the Group’s operating segments:

Six months period ended 30 June 2010 (unaudited)	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Eliminations	Group
Sales to external customers	11,291,619	251,800	-	11,543,419
Total revenue	11,291,619	251,800	-	11,543,419
Gross profit	5,028,687	64,504	-	5,093,191
Segment result	3,378,456	18,273	-	3,396,729
Financial income, net				92,262
Profit before income tax				3,488,991
Income tax expense				(723,414)
Profit for the period				2,765,577
Acquisition of property, plant and equipment (Note 6)	490,836	8,670	-	499,506
Depreciation and amortisation	354,161	27,641	-	381,802

Six months period ended 30 June 2009 (unaudited)	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Eliminations	Group
Sales to external customers	9,788,633	273,258	-	10,061,891
Total revenue	9,788,633	273,258	-	10,061,891
Gross profit	4,710,474	64,200	-	4,774,674
Segment result	3,307,368	16,923	-	3,324,291
Financial expense, net				(49,835)
Profit before income tax				3,274,456
Income tax expense				(686,535)
Profit for the period				2,587,921
Acquisition of property, plant and equipment (Note 6)	109,436	1,754	-	111,190
Intangible assets acquisition (Note 7)	77,751	-	-	77,751
Depreciation and amortisation	342,339	25,305	-	367,644

Revenues from some customers in pharmaceutical products segment exceeded 10% of total Group revenue for each of them.

OJSC “Pharmstandard”

Notes to the interim condensed consolidated financial statements

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

4. Segment information (continued)

The table below shows the revenue from these customers:

Customer	6 months 2010	6 months 2009
	------(unaudited)-----	
The Ministry of health and social department (state tenders)	1,641,895	2,291,447
Customer 1 (a)	1,649,630	-
Customer 2	1,332,546	1,520,728
Customer 3	1,203,058	1,216,935

- (a) In 2010, the revenue from this customer is fully represented by sales of third party product Velcade® (see note 17).

The following table presents segment assets of the Group’s operating segments as at 30 June 2010 and 31 December 2009:

	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Adjustments and eliminations	Group
Segment assets				
At 30 June 2010	27,231,400	1,017,286	-	28,248,686
At 31 December 2009	25,215,141	1,007,720	-	26,222,861

5. Balances and transactions with related 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 2010 and 31 December 2009 are detailed below.

Balances with Related Parties:

	Short-term financial assets – (a) Note 12	Cash and short-term deposits – (a) Note 11	Trade payables, other payables and accruals – (b) Note 15
30 June 2010			
Other related parties ¹	1,084,000	1,826,040	5,153
Total	1,084,000	1,826,040	5,153

¹ Other related parties represent entities under control of the Company’s shareholders having significant influence over the Company.

OJSC “Pharmstandard”

Notes to the interim condensed consolidated financial statements

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

5. Balances and transactions with related parties (continued)

31 December 2009	Short-term financial assets (a) Note 12	Cash and short-term deposits (a) Note 11	Trade payables, other payables and accruals – (b) Note 15
Other related parties ¹	440,000	2,475,900	12,004
Total	440,000	2,475,900	12,004

- (a) This balance represented cash and short-term bank deposits at a bank controlled by a related party.
- (b) This balance represented obligation for the license fee, described in section “Transactions with related parties” below.

Cash balances with the related bank carry no interest. Short-term financial assets at 30 June 2010 and 31 December 2009 include cash deposits in the related bank and carry 10-12.5% interest p.a. (for more details see Notes 11 and 12).

Significant transactions with related parties included in the profit or loss:

Statement of comprehensive income caption	Relationship	6 months 2010 (unaudited)	6 months 2009 (unaudited)
License fee (included in distribution costs) (A)	Other related parties ¹	11,322	11,730
Warehouse rental expenses (included in distribution costs) (B)	Other related parties ¹	29,206	21,111
Office rental expenses (included in general and administrative expenses) (B)	Other related parties ¹	9,779	8,033

(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 that is payable to the related party.

Compensation to key management personnel

Key management personnel comprise 3 persons as at 30 June 2010 and 2009. Total compensation to key management personnel, amounted to RR 8,873 for the six months period ended 30 June 2010 (6 months 2009: RR 7,434). Such compensation represented the following short-term employee benefits: payroll and bonuses primarily included in general and administrative expenses.

OJSC “Pharmstandard”

Notes to the interim condensed consolidated financial statements

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

6. Property, plant and equipment

During the six months period ended 30 June 2010 the Group acquired property, plant and equipment with cost of RR 499,506 (6 months 2009: RR 111,190). Property, plant and equipment with net book value of RR 2,944 were disposed of by the Group during the six months period ended 30 June 2010 (6 months 2009: RR 9,677), resulting in loss on disposal of RR 710 (6 months 2009: RR 3,417). Total depreciation of the property, plant and equipment for the six months period ended 30 June 2010 amounted to RR 235,380 (6 months 2009: RR 224,719).

7. Intangible assets

There were no acquisitions and disposals of the intangible assets for the six months period ended 30 June 2010 (6 months 2009: acquisition of intangible assets amounted to RR 77,751).

Total amortization of the intangible assets for the six months period ended 30 June 2010 amounted to RR 146,422 (6 months 2009: RR 142,925). This amortization is included in the cost of sales line item (Note 18).

8. Long-term financial assets

Acquisition of ordinary shares of JSC “Grindeks”

In April 2010, the Group acquired 1,090,844 ordinary shares representing 11.38 percent of share capital of the JSC “Grindeks AS” (the “Grindeks”), a company registered under the laws of Republic of Latvia, for cash consideration of EURO 12,210 thousand (RR 481,065). The ordinary shares of the “Grindeks” are listed on the stock exchange “NASDAQ OMX Riga”. The management of the Group considers this acquisition as a strategic investment and believes that fair value of acquired shares approximately equal their carrying value at the reporting date.

“Grindeks” is the leading pharmaceutical company in the Baltic States. This company is involved in pharmaceutical production and distribution and researching. The main markets are the Baltic States, Russian Federation and other CIS countries, Japan, the USA. The Group has held strategic partnership with “Grindeks” on distribution and promotion of its pharmaceutical product Mildronate® in the Russian Federation since January 2008.

9. Inventories

Inventories consist of the following:

	30 June 2010	31 December
	(unaudited)	2009 (audited)
Raw materials - at cost	1,834,724	1,448,918
Work in progress - at cost	141,632	330,508
Finished goods (cost or net realizable value):		
- at cost	2,061,270	999,267
- at net realisable value	2,027,132	979,265
	4,003,488	2,758,691

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10. Trade and other receivables

	30 June 2010 (unaudited)	31 December 2009 (audited)
Trade receivables (net of allowance for impairment of receivables of RR 90,237 (31 December 2009: RR 94,910))	8,281,644	9,012,168
The Group share in NTS+ receivables (a)	75,001	-
Other receivables (b)	47,729	276,914
	8,404,374	9,289,082

(a) This item represents the Group share in the joint venture (Note 3) receivables from the second participant on his contribution to the charter capital. In accordance with the charter documents this amount is due by November 2010.

(b) Other receivables represented cash rebates on procurement.

At 30 June 2010 RR 67,165 of trade receivables were denominated in currencies other than Russian Roubles, primarily in US\$ (31 December 2009: RR 52,584).

11. Cash and short-term deposits

Cash and short-term deposits consist of the following:

	30 June 2010 (unaudited)	31 December 2009 (audited)
Cash in bank – Russian Roubles	1,824,893	1,604,760
Cash in bank – US\$ and Euro	21,090	617,176
Cash deposits on tenders (a):		
- transferred to the Ministry of Health	34,288	156,224
- placed in the related bank	-	420,000
	1,880,271	2,798,160

(a) This item represents cash deposits restricted for use placed to secure participation in tenders announced by the Government of the Russian Federation. Cash deposit transferred to the Ministry of Health is interest free.

12. Short-term financial assets

	30 June 2010 (unaudited)	31 December 2009 (audited)
<i>Accounted for as loans and receivables:</i>		
Promissory notes	408,176	331,120
Short-term bank deposits – Russian Roubles (Note 5)	1,385,000	-
Short-term bank deposits – US\$	311,954	302,442
Short-term bank deposits on tenders (a) (Note 5)	899,000	440,000
Short-term loans	47,750	45,500
<i>Accounted for as available for sale: Securities and other</i>	13,329	14,225
	3,065,209	1,133,287

(a) This item represents cash deposits restricted for use and placed in the related bank to secure participation in tenders announced by the Government of the Russian Federation.

Short-term deposits carry interests at 8% p.a. in US\$ and at 10-12.5% p.a. in Russian Roubles.

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13. Borrowings and loans

In 2010, the Group repaid US\$ 6,470 thousand (RR 195,323) of the Syndicated borrowing organised by Citibank (“Citibank loan”). The amount of borrowings and loans also increased by RR 18,111 due to effect from foreign exchange loss primarily recognised as a result of revaluation of the Citibank loan which was denominated in US\$.

Interest Rate Swap related to the Citibank loan was classified as derivative financial instrument. Gain from change in fair value of the Interest Rate Swap recognized in the statement of operations (Note 22) was approximately RR 14,656 for the six months period ended 30 June 2010 (6 months 2009: RR 21,342).

14. Other taxes payable

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

	30 June 2010 (unaudited)	31 December 2009 (audited)
Value-added tax	184,764	520,305
Property and other taxes	61,607	48,221
	246,371	568,526

15. Trade and other payables and accruals

	30 June 2010 (unaudited)	31 December 2009 (audited)
Trade payables	1,888,954	1,715,862
Payables for third parties products procurement (Note 17)	1,963,170	1,830,112
Other payables – related party (Note 5)	5,153	12,004
Other payables and accruals	274,353	348,001
	4,131,630	3,905,979

At 30 June 2010 RR 1,431,261 of trade payables were denominated in currencies other than Russian Rouble, primarily in US\$ (31 December 2009: RR 1,253,586).

16. Share capital

In accordance with its charter documents the share capital of the Company is RR 37,793. The authorised number of ordinary shares is 37,792,603 with par value of 1 (one) Russian Rouble. All authorised shares are issued and fully paid. There were no transactions with own shares during six months period ended 30 June 2010.

As at 30 June 2010 and 31 December 2009 more than half of voting shares of OJSC “Pharmstandard” were held by “Augment Investments Limited” (“Augment”), a company registered under the laws of Cyprus and controlled by Victor Kharitonin, a Russian citizen.

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% of the shares were offered and at the London stock exchange (LSE) where the remaining 25% were offered.

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16. Share capital (continued)

In addition, in 2008 and 2009, 969,815 ordinary shares representing 2.56% of share capital of the Company were sold by Augment and were offered at LSE. Also, in 2009 Augment reacquired 55,000 ordinary shares representing a minor part of share capital. After these transactions, 45.7% of share capital was publicly listed of which 27.6% is on the LSE.

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 are as follows:

	6 months 2010	6 months 2009
	----- (unaudited) -----	
Weighted average number of ordinary shares outstanding	37,792,603	37,792,603
Profit for the period attributable to the shareholders	2,762,275	2,583,998
Basic and diluted earnings per share, Russian Roubles	73.09	68.37

17. Revenue

Sales breakdown by product groups comprised the following:

Product group	6 months 2010	6 months 2009 (b)
	----- (unaudited) -----	
Pharmaceutical products		
OTC		
Branded	4,665,237	4,488,895
Non-branded	1,011,663	933,352
	5,676,900	5,422,247
Prescription		
Branded	1,351,257	883,390
Non-branded	236,865	106,626
	1,588,122	990,016
Third parties products (a)	3,956,279	3,333,612
Other	70,318	42,758
Total pharmaceutical products	11,291,619	9,788,633
Medical equipment and disposables	251,800	273,258
	11,543,419	10,061,891

- (a) Third parties products sales include sales of branded pharmaceutical products such as Velcade®, Mildronate®, Coagil VII and Pulmozyme® manufactured by other pharmaceutical companies.

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17. Revenue (continued)

- (b) In Russia, classification of pharmaceuticals as prescription products (Rx) or non-prescription over-the-counter products (OTC) is regulated by the government and is periodically re-visited. The recent re-visiting of OTC and Rx products classification introduced in 2009 and 2010 had an influence of the Group’s product portfolio structure. For the purpose of comparative analysis, the figures for the same period of the prior year were restated accordingly. The above changes in the Group portfolio structure do not affect the total sales results.

18. Cost of sales

The components of cost of sales were as follows:

	6 months 2010	6 months 2009
	----- (unaudited) -----	
Materials and components	2,458,029	1,685,784
Third parties products (see Note 17)	3,219,869	2,837,307
Production overheads	315,696	331,142
Depreciation and amortization	348,261	333,035
Direct labour costs	108,373	99,949
	6,450,228	5,287,217

19. Selling and distribution costs

Selling and distribution costs comprised the following:

	6 months 2010	6 months 2009
	----- (unaudited) -----	
Advertising	538,459	441,275
Labour costs	377,109	276,995
Freight, communication and insurance	66,216	64,118
Trainings and other services	17,951	8,801
Certification expenses	22,707	16,560
Rent	30,889	21,417
Commission and license fee	23,252	22,893
Materials, maintenance and utilities	30,056	33,847
Travel and entertainment	24,615	19,968
Depreciation	24,955	25,461
Other expenses	12,651	11,872
	1,168,860	943,207

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20. General and administrative expenses

General and administrative expenses comprised the following:

	6 months 2010	6 months 2009
	------(unaudited)-----	
Labour costs	269,560	202,477
Information, consulting and other services	26,733	22,532
Travel and entertainment	7,731	7,207
Taxes other than income tax	7,544	7,318
Property insurance	7,320	7,273
Freight and communication	14,817	10,874
Depreciation	8,586	9,148
Rent	15,843	13,065
Materials, maintenance and utilities	36,316	25,557
Other	20,722	15,694
	415,172	321,145

21. Other income and other expenses

Other income comprised the following:

	6 months 2010	6 months 2009
	------(unaudited)-----	
Income from non-core operations (a)	13,345	8,135
Reversal of impairment of receivables (b)	28,460	120,160
	41,805	128,295

(a) Income from non-core operations represents agency fee.

(b) In 2008, the Group recognised the additional allowance for impairment amounted to RR 476,131 in relation to the bankruptcy of one of the Group’s distributor, CJSC “Genesis”. In 2009, a successor of the distributor, agreed to pay almost the entire balance receivable that had been previously provided for. On 30 June 2010 this receivable was fully repaid by this successor of the CJSC “Genesis”.

Other expenses comprised the following:

	6 months 2010	6 months 2009
	------(unaudited)-----	
Foreign exchange loss, net	47,566	259,814
Other taxes	28,013	26,718
Charity	9,260	7,880
Loss from disposal of property, plant and equipment	710	3,417
Expense related to the joint venture (Note 3)	48,478	-
Bank charges	18,341	8,045
Other	1,867	8,452
	154,235	314,326

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22. Financial income and expense

Financial income and expense comprised the following:

	6 months 2010	6 months 2009
	------(unaudited)-----	-----
Financial income:		
Income from changes of fair value of financial assets recognised in profit or loss	-	1,767
Income from changes in fair value of Interest Rate Swap (Note 13)	14,656	21,342
Interest income from loans and deposits	105,187	19,946
	119,843	43,055
Financial expense:		
Loss from changes of fair value of financial assets recognised in profit or loss	593	-
Loss from Interest Rate Swap	17,215	41,915
Interest expense on borrowings and loans	9,773	50,975
	27,581	92,890

23. Income tax

	6 months 2010	6 months 2009
	------(unaudited)-----	-----
Income tax expense – current	771,593	661,214
Deferred tax (benefit)/expense – origination and reversal of temporary differences	(48,179)	25,321
Income tax expense	723,414	686,535

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

	6 months 2010	6 months 2009
	------(unaudited)-----	-----
Income before taxation	3,488,991	3,274,456
Theoretical tax charge at statutory rate of 20%	697,798	654,891
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	25,616	31,644
Income tax expense	723,414	686,535

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23. Income tax (continued)

Movements in deferred tax balances were as follows:

	31 December 2009 (audited)	Temporary differences recognition and reversal	30 June 2010 (unaudited)
Tax effects of deductible temporary differences – asset / (liability):			
Property, plant and equipment	(307,862)	1,465	(306,397)
Intangible assets	(514,323)	13,660	(500,663)
Trade and other receivables	(32,376)	33,307	931
Inventories	12,331	13,244	25,575
Trade and other payables and other taxes	16,358	(9,986)	6,372
Financial instruments	6,950	(2,924)	4,026
Other	11,860	(587)	11,273
Total net deferred tax liability	(807,062)	48,179	(758,883)

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

- depreciation of property, plant and equipment in excess of the depreciation for tax purposes;
- fair value adjustments on acquisition;
- fair value of financial instruments in excess of the cost of these instruments for tax purpose;
- impairment of trade receivables;
- allowances to write inventory down to net realizable value;
- amortisation of trade marks in excess of the amortisation for tax purposes; and
- deemed cost adjustments upon conversion to IFRS.

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised was approximately RR 5,989,679 as at 30 June 2010 (31 December 2009: RR 5,839,675).

24. Contingencies, commitments and operating risks

Operating environment of the group

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.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in a decline in the gross domestic product, capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity to Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group’s financial position, results of operations and business prospects.

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24. Contingencies, commitments and operating risks (continued)

While management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group’s results and financial position in a manner not currently determinable.

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.

As at 30 June 2010 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 2010. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. 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 the Russian Federation 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 these consolidated financial statements.

Insurance policies

The Group holds insurance policies in relation to its property, plant and equipment, which cover majority of property, plant and equipment items. The Group holds no insurance policies in relation to its operations, or in respect of public liability.

25. Post balance sheet events

Loan provided to the majority shareholder

In the 2nd quarter 2010, the Company’s majority shareholder Augment (see Note 16) applied to the Company with request to provide short-term interest loan for the purpose of financing the current business activity of Augment not related to the Group. In accordance with the Citibank loan agreement (Note 13), the Group received the written consent of the lenders for the Augment’s loan. In July 2010, the Group provided a short-term loan to Augment with maturity date not later than 15 January 2011 in the amount of RR 1,400,000 with fixed interest rate of 7.75% per annum.