OJSC “Pharmstandard”

Interim Condensed Consolidated Financial Statements

For the six month period ended 30 June 2006

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Contents

Report on Review of Interim Financial Information

To the Shareholders and Management of OJSC “Pharmstandard”:

We have reviewed the accompanying condensed consolidated balance sheet of Open Joint Stock Company “Pharmstandard” (“the Company”) as of 30 June 2006 and the related condensed consolidated statements of operations, changes in equity and net assets attributable to the Participant of the Company and cash flows for the six month period then ended and explanatory notes. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 “Interim Financial Reporting” (“IAS 34”). Our responsibility is to express a conclusion on this interim financial information based on our review.

We conducted our review in accordance with the 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.

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

15 September 2006

OJSC "Pharmstandard"

Interim Condensed Consolidated Balance Sheet at 30 June 2006

(in thousands of Russian Roubles)

	Notes	30 June 2006 (unaudited)	31 December 2005 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	**6**	**3,629,941**	3,348,928
Investment property		**18,787**	18,787
Intangible assets		**233,757**	221,499
Other non-current assets		**–**	216,857
		3,882,485	3,806,071
Current assets			
Inventories	**8**	**1,231,004**	1,043,141
Trade and other receivables	**9**	**1,513,943**	1,830,858
VAT recoverable		**281,647**	370,176
Prepayments		**266,459**	279,169
Short term investments		**1,463**	94,019
Other current assets	**11**	**77,282**	252,574
Cash and cash equivalents	**10**	**40,790**	243,983
		3,412,588	4,113,920
Assets classified as held for sale	**7**	**22,655**	393,121
		3,435,243	4,507,041
Total assets		**7,317,728**	8,313,112
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	**16**	**37,793**	–
Retained earnings		**4,471,641**	–
		4,509,434	–
Minority interest	**3**	**441,805**	1,134,474
Total equity		**4,951,239**	1,134,474
Non-current liabilities			
Deferred tax liability	**21**	**392,672**	441,463
Other non-current liabilities		**52,926**	60,292
Net assets attributable to Participant of the Company	**16**	**-**	2,790,388
		445,598	3,292,143
Current liabilities			
Trade payables, other payables and advances received	**14**	**1,685,799**	2,794,789
Short-term borrowings	**12**	**3,881**	583,530
Finance lease payable	**15**	**–**	81,955
Income tax payable		**46,947**	74,257
Other taxes payable	**13**	**184,264**	351,964
		1,920,891	3,886,495
Total equity and liabilities		**7,317,728**	8,313,112

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

15 September 2006

The accompanying notes on pages 6-18 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 2006

(in thousands of Russian Roubles)

	Notes	6 months 2006	6 months 2005
		-----------(unaudited)--------	
Sale of goods	**17**	**2,916,686**	2,417,194
Cost of sales	**18**	**(1,232,982)**	(1,210,562)
Gross profit		**1,683,704**	1,206,632
Selling and distribution costs	**19**	**(492,456)**	(446,465)
General and administrative expenses	**20**	**(193,247)**	(220,183)
Other expenses, net		**(77,432)**	(74,389)
Interest income		**22,587**	3,176
Interest expense		**(46,633)**	(51,996)
Profit before income tax		**896,523**	416,775
Income tax expense	**21**	**(249,579)**	(114,609)
Profit for the year		**646,944**	302,166
Attributable to:			
Equity holders of the Parent (Participant of the Company (Note 16))		**555,722**	257,669
Minority interests		**91,222**	44,497
		646,944	302,166
Basic and diluted earnings per share, Russian Roubles	**16**	**14.70**	6.82

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

15 September 2006

The accompanying notes on pages 6-18 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 2006

(in thousands of Russian Roubles)

	Notes	6 months 2006	6 months 2005
		----------(unaudited)---------	
Cash flows from operating activities:			
Profit before income tax		**896,523**	416,775
Adjustments for:			
Depreciation of property, plant and equipment		**96,498**	84,502
Allowances for impairment of receivables and inventories	**8,9**	**556**	2,041
Loss on disposal of property, plant and equipment	**6**	**36,351**	23,667
Interest expense, net		**24,046**	48,820
Operating cash flows before working capital changes		**1,053,974**	575,805
Decrease in trade and other receivables	**9**	**329,897**	5,942
Increase in inventories	**8**	**(201,401)**	(127,486)
Decrease (increase) in VAT recoverable		**88,529**	(75,585)
Decrease in prepayments		**12,710**	27,850
Decrease in other current assets	**11**	**40,667**	36,059
(Decrease) increase in trade payables, other payables and advances received	**14**	**(328,557)**	88,159
(Decrease) increase in taxes payable other than income tax		**(167,700)**	8,580
Cash generated from operations		**828,119**	539,324
Income tax paid	**21**	**(325,680)**	(137,883)
Interest paid, net		**(23,802)**	(54,409)
Net cash from operating activities		**478,637**	347,032
Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets	**6**	**(399,873)**	(221,907)
Cash paid to settle the obligation for OJSC “TZMOI” shares acquired in 2005	**5**	**(531,000)**	–
Cash in acquired subsidiary		**–**	57,105
Cash received from sale of short-term investments, net		**92,556**	146,187
Cash received from sale of assets classified as held for sale	**7**	**370,466**	22,893
Cash received from sale of property, plant and equipment	**5,6**	**103,000**	–
Cash paid for short-term investments, net		**–**	(158,450)
Deposits placed in related bank	**5**	**(7,133)**	(23,727)
Deposits repaid by related bank	**5**	**71,649**	–
Loans provided to related parties	**5**	**–**	(81,741)
Loans repaid by related parties	**5**	**280,109**	151,194
Net cash used in investing activities		**(20,226)**	(108,446)
Cash flows from financing activities:			
Proceeds from loans and borrowings	**12**	**–**	286,193
Repayment of loans and borrowings	**12**	**(509,649)**	(256,054)
Repayment of loans from related parties	**5,12**	**(70,000)**	(292,165)
Repayment of finance lease liabilities	**15**	**(81,955)**	–
Net cash used in financing activities		**(661,604)**	(262,026)
Net decrease in cash and cash equivalents		**(203,193)**	(23,440)
Cash and cash equivalents at the beginning of the period	**10**	**243,983**	65,599
Cash and cash equivalents at the end of the period	**10**	**40,790**	42,159

The accompanying notes on pages 6-18 are an integral part of these interim condensed consolidated financial statements.

OJSC “Pharmstandard”

Interim Condensed Consolidated Statement of Changes in Equity and Net Assets Attributable to the Participant of the Company

for the six months ended 30 June 2006

(in thousands of Russian Roubles)

	Net assets attributable to the Participant of the Company			Equity
	Charter capital	Cumulative surplus of net assets	Total	Minority interests
Balance at 31 December 2004	37,793	2,146,102	2,183,895	349,050
Profit for the period	–	257,669	257,669	44,497
Distribution to Participant of the Company	–	(53,145)	(53,145)	–
Minority interests arising on acquisition of subsidiary	–	–	–	674,813
Balance at 30 June 2005 (unaudited)	**37,793**	**2,350,626**	**2,388,419**	**1,068,360**

		Net assets attributable to the Participant of the Company			Equity			
	Notes	Charter capital	Cumulative surplus of net assets	Total	Share capital	Retained earnings	Minority interests	Total
Balance at 31 December 2005		37,793	2,752,595	2,790,388	–	–	1,134,474	1,134,474
Contribution from the Participant of the Company for acquisition of additional shares in OJSC “Pharmstandard Ufavita”	**3**	–	802,400	802,400	–	–	–	–
Acquisition of additional shares in OJSC “Pharmstandard Ufavita” by minority shareholders	**3**	–	–	–	–	–	11,986	11,986
Effect of acquisition of additional shares in OJSC “Pharmstandard Ufavita” by the Company	**3**	–	199,291	199,291	–	–	(199,291)	(199,291)
Issuance of shares in connection with legal reorganization	**16**	(37,793)	(3,754,286)	(3,792,079)	37,793	3,754,286	–	3,792,079
Effect of acquisition of minority interest in OJSC “TZMOI”	**3**	–	–	–	–	161,633	(596,586)	(434,953)
Profit for the period		–	–	–	–	555,722	91,222	646,944
Balance at 30 June 2006 (unaudited)		**–**	**–**	**–**	**37,793**	**4,471,641**	**441,805**	**4,951,239**

The accompanying notes on pages 6-18 are an integral part of these interim condensed consolidated financial statements.

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

1. Corporate Information

OJSC “Pharmstandard” and its subsidiaries (“the Group”) principal activities are production and wholesale distribution of pharmaceutical and medical products. 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 (see Note 16).The Group’s corporate office is in Dolgoprudny, Likhachevsky proezd, 5B, Moscow region, Russia and its manufacturing facilities are based in Kursk, Tomsk, Ufa, St. Petersburg, Nizhny Novgorod and Tyumen. The Company held shares of voting interests in the following major subsidiaries consolidated within the Group as of 30 June 2006 and 31 December 2005:

Entity	Country of incorporation	Activity	2006 % share	2005 % share
“Pharmstandard” LLC	Russia	Management company and trading house	**99**	99
“Pharmstandard-Leksredstva” OJSC	Russia	Manufacturing of pharmaceutical products	**99**	99
“Pharmstandard-Tomskhimpharm” OJSC	Russia	Manufacturing of pharmaceutical products	**91**	91
“Pharmstandard-Ufavita” OJSC	Russia	Manufacturing of pharmaceutical products	**97**	56
“Pharmstandard-Octyabr” OJSC	Russia	Manufacturing of pharmaceutical products	**93**	93
“Pharmstandard-Phitofarm-NN” LLC	Russia	Manufacturing of pharmaceutical products	**99**	99
“TZMOI” OJSC	Russia	Manufacturing of medical equipment	**89**	55
“TMK” LLC (prior to 2006 “Urlan Invest” LLC)	Russia	Manufacturing of medical equipment	**100**	100

The Group was formed in 2005 through a reorganization in which the ownership interests in the companies listed above were acquired by the Company from parties under common control.

These condensed consolidated financial statements were authorized for issue by the Board of Directors of the OJSC “Pharmstandard” on 15 September 2006.

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”.

2. Basis of Preparation of the Financial Statements (continued)

These interim condensed consolidated financial statements should be read in conjunction with the complete consolidated financial statements as of 31 December 2005 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 2005 and for the year then ended.

The 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 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 2006 are not necessarily indicative of the results that may be expected for the year ending 31 December 2006.

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 2006.

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

- IAS 19 (amended 2004) “Employee Benefits”;
- IAS 21 (amended 2005) “The Effects of Changes in Foreign Exchange Rates”;
- IAS 39 (amended 2005) “Financial Instruments: Recognition and Measurement”; and
- IFRIC 4 “Determining whether an Arrangement contains a Lease”.

There were no significant effects of these changes in policies on these financial statements.

3. Acquisition of minority interest

Additional share issue by OJSC “Pharmstandard–Ufavita”

In April 2006, the Company acquired additional shares issued by OJSC “Pharmstandard Ufavita” for the cash consideration of RR 802,400, which resulted in the Company’s interest increasing from 56% to 97% of the share capital. This acquisition was financed by a capital contribution of RR 802,400 provided by the Company’s Participant (Note 16). As a result of the above transaction, net assets attributable to the Participant of the Company increased by RR 199,291 representing a reduction of minority interest in OJSC “Pharmstandard–Ufavita”.

Acquisition of minority interest in OJSC “TZMOI”

In June 2006, the entities controlled by the Group’s sole shareholder (Note 16) acquired a 34% interest in the Company’s subsidiary, OJSC “TZMOI”, for RR 434,953 and sold this interest to the Company for the same amount, which was recorded as other payables (Note 14) at 30 June 2006, resulting in an increase in the Company’s interest in OJSC “TZMOI” from 55% to 89%. Consequently, the difference of RR 161,633 between the cost of acquisition and the carrying amount of the minority interest acquired was credited directly to equity.

4. 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 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)	–
Total revenue	**2,367,638**	**557,695**	**(8,647)**	**2,916,686**
Segment result	**785,741**	**138,828**	**(4,000)**	**920,569**
Interest (expense) income, net	(33,435)	9,389	–	(24,046)
Profit before income tax	752,306	148,217	(4,000)	896,523
Income tax expense	(213,287)	(36,292)	–	(249,579)
Net profit	**539,019**	**111,925**	**(4,000)**	**646,944**

4. Segment Information (continued)

Six months ended 30 June 2005 (unaudited)	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Eliminations	Group
Sales to external customers	1,955,090	462,104	–	2,417,194
Inter-segment sales	–	1,823	(1,823)	–
Total revenue	**1,955,090**	**463,927**	**(1,823)**	**2,417,194**
Segment result	**379,074**	**87,068**	**(547)**	**465,595**
Interest expense, net	(48,820)	–	–	(48,820)
Profit before income tax	330,254	87,068	(547)	416,775
Income tax expense	(91,101)	(23,508)	–	(114,609)
Net profit	**239,153**	**63,560**	**(547)**	**302,166**

5. 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 significant transactions or had significant balances outstanding at 30 June 2006 and 31 December 2005 are detailed below.

Balances with Related Parties:

Balance sheet caption	Relationship	30 June 2006 (unaudited)	31 December 2005
Trade and other receivables (Note 9)			
Trade receivables	Associate	**14,844**	12,925
Other current assets (Note 11)			
Current loans to related parties	Entity under common control	**33,898**	104,007
Deposits in related bank	Entity under common control	**7,133**	71,649
Cash and cash equivalents (Note10)			
Cash in related bank	Entity under common control	**10,508**	33,622
Deposits in related bank	Entity under common control	**–**	147,697
Other non-current assets			
Non-current loans to related bank	Entity under common control	**–**	210,000
Short-term borrowings (Note 12)			
Current loans from related bank	Entity under common control	**–**	70,000
Trade payables, other payables and advances received (Note 14)			
Advances received – related parties (a)	Entities under common control and minority shareholders	**–**	814,386
Other payables (b)	Entities under common control	**1,000,723**	1,132,440

5. Balances and Transactions with Related Parties (continued)

(a) The Company’s subsidiary, OJSC “Pharmstandard–Ufavita”, received cash advances of RR 814,386 from the entities controlled by the Group’s ultimate controlling party (Note 16), of which RR 802,400 was ultimately contributed by the Company’s Participant to its capital (Note 3). These advances were provided in accordance with share subscription agreements between those entities and OJSC “Pharmstandard – Ufavita” in connection with the additional OJSC “Pharmstandard – Ufavita” share issuance which was registered in 2006 (Note 3).

(b) Other payables at 30 June 2006 represented the obligation for the voting shares of OJSC “TZMOI” originated from their acquisition in 2005 and 2006 (Note 3).

Major conditions of the loans and deposits listed above are as follows:

	Interest rate, %		Maturity period	
Caption	**2006**	**2005**	**2006**	**2005**
Current loans to related parties	0-2%	12%	–	6-12 months
Deposits	7%	8-9%	6 months	2-6 months
Non-current loans	–	11%	–	6 years
Current loans from related bank	–	14%	–	4 months

Outstanding balances are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables.

Transactions with Related Parties:

Statement of operations caption	Relationship	6 months 2006	6 months 2005
		(unaudited)	(unaudited)
Sale of medical equipment	Associate	**3,942**	12,235
License fee (included in distribution costs)	Entity under common control	**8,801**	–
Property insurance (a)	Entity under common control	**–**	21,200
Warehouse rental expenses (included in distribution costs)	Entity under common control	**6,572**	2,094
Office rental expenses (included in general and administrative expenses)	Entity under common control	**3,075**	1,793

(a) In the 1st quarter 2005, the Group paid property insurance premium classified as general and administrative expense to an entity acting on behalf of the Group’s ultimate controlling party (Note 16).

Acquisition of assets

In 2006, the Group acquired an intangible asset (trade mark) for RR 13,050 from the entity controlled by the Group’s ultimate controlling party (Note 16).

5. Balances and Transactions with Related Parties (continued)

Disposal of assets held for sale

Assets held for sale reflected in the balance sheet as of 31 December 2005 in the amount of RR 370,466 were sold to a related party prior to 30 June 2006 at their carrying value.

Sale of OJSC “Pharmstandard-Octyabr” buildings

In the 1st half of 2006, the Group commenced the process of terminating operations of “Pharmstandard-Octyabr” OJSC. This decision was in line with the business strategy to concentrate manufacturing of vitamins at “Pharmstandard-Ufavita” OJSC and “Pharmstandard-Leksredstva” OJSC given that production workshops of “Pharmstandard-Octyabr” OJSC required substantial renovation and modernization investment. As a result, buildings of “Pharmstandard-Octyabr” OJSC were sold to a related party for cash consideration equal to their carrying value of RR 103,000.

Compensation to Key Management Personnel:

Key management personnel comprise 3 persons as of 30 June 2006 and 2005. Total compensation to key management personnel included in general and administrative expenses in the statement of operations amounted to RR 3,655 for the six month period ended 30 June 2006 (2005: RR 850).

6. Property, Plant and Equipment

Acquisitions and disposals

During the six months ended 30 June 2006 the Group acquired property, plant and equipment with a cost of RR 516,862 (2005: RR 221,907, not including fixed assets acquired through a business combination in 2005). Property, plant and equipment with a net book value of RR 139,351 were disposed of by the Group during the six months ended 30 June 2006 (2005: RR 23,667), resulting in a loss on disposal of 36,351 (2005: RR 23,667). The total amount of disposals in the six month period ended 30 June 2006 included buildings of OJSC “Pharmstandard-Octyabr” with net book value of RR RR103,000 sold to a related party (Note 5).

7. Assets Classified as Held for Sale

The Group had investments in several associates, which represented non-core businesses, with a total carrying amount of RR 22,655 and RR 393,121 as of 30 June 2006 and 31 December 2005, respectively, which were classified as assets held for sale due to approval of the Group’s plan on their disposal in 2006.

Assets held for sale in the amount of RR 370,466 were sold at their carrying value to a related party in the six month period ended 30 June 2006 (Note 5).

8. Inventories

Inventories consist of the following:

	30 June 2006 (unaudited)	31 December 2005
Raw materials (at cost)	**499,796**	496,434
Work in progress (at cost)	**112,925**	94,665
Finished goods:		
- at cost	**649,424**	469,645
- at net realisable value	**618,283**	452,042
	1,231,004	1,043,141

The amount of write-down of inventories recognised as an expense is RR 13,538 (6 months 2005: RR 2,041). This expense is included in the cost of sales line item as a cost of materials and components (Note 18).

No inventories have been pledged or restricted in use at 30 June 2006 and 31 December 2005.

9. Trade and Other Receivables

	30 June 2006 (unaudited)	31 December 2005
Trade and other receivables (net of provision for impairment of receivables of RR 70,067 and RR 83,049 as at 30 June 2006 and 31 December 2005, respectively)	**1,513,943**	1,830,858

RR 20,505 of trade receivables were denominated in currencies other than Russian Roubles (primarily in US$) at 30 June 2006 (31 December 2005: RR 27,691).

10. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	30 June 2006 (unaudited)	31 December 2005
Cash in bank – Roubles (Note 5)	**32,902**	94,058
Cash in bank – US$ and Euro	**7,888**	2,228
Short-term bank deposits with less than 90 days maturity - Roubles (Note 5)	**–**	147,697
	40,790	243,983

Balances with banks generally carry no interest. Short-term bank deposits earn interest at 8% to 9% per annum.

11. Other Current Assets

	30 June 2006 (unaudited)	31 December 2005
Loans to related parties (Note 5)	**33,898**	104,007
Bank deposits with maturity over 90 days (Note 5)	**7,133**	71,649
Other	**36,251**	76,918
	77,282	252,574

12. Short-term Borrowings

	30 June 2006 (unaudited)	31 December 2005
International Moscow Bank	**–**	425,604
Related bank (Note 5)	**–**	70,000
Other	**3,881**	87,926
	3,881	583,530

13. Other Taxes Payable

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

	30 June 2006 (unaudited)	31 December 2005
Value-added tax	**151,709**	338,879
Property and other taxes	**28,542**	12,036
Tax penalties and interest	**4,013**	1,049
	184,264	351,964

14. Trade and Other Payables and Advances Received

	30 June 2006 (unaudited)	31 December 2005
Trade payables	**614,683**	789,532
Other payables – related party (Note 5)	**1,000,723**	1,132,440
Advances received – related party (Note 5)	**–**	814,386
Other payables	**70,393**	58,431
	1,685,799	2,794,789

RR 44,993 of trade payables were denominated in currencies other than Russian Rouble (primarily US$) at 30 June 2006 (31 December 2005: RR 34,883).

15. Obligations Under Finance Leases

Obligations under finance leases expired in the six-month period ended 30 June 2006.

16. Share Capital

The sole shareholder of OJSC "Pharmstandard" is "AUGMENT INVESTMENTS LIMITED", a company registered under the laws of Cyprus. As of 30 June 2006, entities controlled by Russian citizens Victor Kharitonin and his partner held 70% interest in AUGMENT INVESTMENTS LIMITED. As of 31 December 2005, entities controlled by Victor Kharitonin held 70% interest in AUGMENT INVESTMENTS LIMITED and therefore he was acting as the Group's ultimate controlling party.

Prior to 5 May 2006, the Company was registered as a limited liability company under the name of "Biovit" with charter capital of RR 37,793. In accordance with Russian legislation, participants of a limited liability company have a right to exit the company and receive the actual value of the participant's interest which is determined as their proportionate share of net assets reported in the statutory accounts. Based on the provisions of the law determining the exit period, the net assets attributable to the Participant had been presented within non-current liabilities.

In May 2006, the Company was renamed as "Pharmstandard" and reorganized into an open joint stock company. The authorised number of ordinary shares issued upon reorganization 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 January 2006, the Participant of the Company provided to the Company a capital contribution in the amount of RR 802,400 to finance the acquisition of additional shares issued by OJSC "Pharmstandard–Ufavita" (Note 3). This contribution was credited to net assets attributable to the Participant of the Company.

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 calculated retrospectively are as follows:

	6 months 2006	**6 months 2005**
	----------(unaudited)---------	
Weighted average number of ordinary shares outstanding (thousands)	**37,793**	37,793
Profit for the period attributable to equity holders of the Parent (Participant of the Company prior to the reorganization)	**555,722**	257,669
Basic and diluted earnings per share, Russian Roubles	**14.70**	6.82

17. Sales of Goods

Group’s products may be divided into pharmaceuticals, which comprise generic 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:

Products group	**6 months 2006**	**6 months 2005**
	(unaudited)	
Pharmaceutical products		
OTC		
Branded products	1,595,650	1,307,054
Non-branded products	283,436	282,450
	1,879,086	**1,589,504**
Prescription		
Branded products	301,786	188,026
Non-branded products	134,006	149,193
	435,792	**337,219**
Medical equipment and Disposables	**549,048**	**462,104**
Other sales	**52,760**	**28,367**
	2,916,686	**2,417,194**

18. Cost of Sales

The components of cost of sales were as follows:

	6 months 2006	**6 months 2005**
	(unaudited)	
Materials and components	**807,482**	797,629
Production overheads	**259,507**	261,178
Depreciation	**84,918**	74,361
Direct labour costs	**81,075**	77,394
	1,232,982	1,210,562

19. Selling and Distribution Costs

Selling and distribution costs comprised the following:

	6 months 2006	**6 months 2005**
	(unaudited)	
Marketing and advertising	**232,982**	281,788
Insurance of goods in transit	**36,762**	38,764
Labour costs	**97,980**	41,898
Freight and communication	**40,156**	26,298
Utilities and services	**19,208**	13,686
Certification expenses	**13,834**	10,169
Rent	**14,700**	13,757
Materials and maintenance	**5,664**	1,794
Travel and entertainment	**7,447**	3,762
Depreciation	**4,825**	4,226
Other expenses	**18,898**	10,323
	492,456	446,465

20. General and Administrative Expenses

General and administrative expenses comprised the following:

	6 months 2006	**6 months 2005**
	(unaudited)	
Labour costs	**116,214**	77,192
Utilities and services	**14,782**	64,453
Taxes other than income tax	**12,234**	4,209
Property insurance (Note 5)	**8,274**	25,501
Freight and communication	**4,192**	5,748
Depreciation	**6,755**	5,915
Rent	**7,109**	5,774
Materials and maintenance	**4,162**	3,485
Other	**19,525**	27,906
	193,247	220,183

21. Income Tax

The major components of income tax expense comprised the following:

	6 months 2006	**6 months 2005**
	(unaudited)	
Income tax expense – current	**298,370**	113,146
Deferred tax expense – origination and reversal of temporary differences	**(48,791)**	1,463
Income tax expense	**249,579**	114,609

21. Income Tax (continued)

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

	6 months 2006	6 months 2005
	--------(unaudited)----------	
Income before taxation	**896,523**	416,575
Theoretical tax charge at statutory rate of 24%	**215,166**	99,978
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	**34,413**	14,631
Income tax expense	**249,579**	114,609

Movements in deferred tax balances were as follows:

	31 December 2005 (audited)	Differences recognition and reversal	30 June 2006 (unaudited)
Tax effects of deductible temporary differences – asset (liability):			
Property, plant and equipment	(375,982)	4,872	(371,110)
Trade and other receivables	(51,646)	41,964	(9,682)
Inventories	(13,835)	1,955	(11,880)
Total net deferred tax liability	**(441,463)**	**48,791**	**(392,672)**

22. 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.

22. Contingencies, Commitments and Operating Risks (continued)

Taxation

Russian tax 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. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. 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. Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position 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 2006.

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 55,222 at 30 June 2006. 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.

23. Post Balance Sheet Events

In August 2006, the Group acquired 100% of the voting shares of "MasterLek" CJSC ("Masterlek") for cash consideration of US$ 146,200 thousand (RR3,912,385). MasterLek is involved in the marketing and sale of pharmaceutical products. This acquisition was entirely financed through shareholder loan with maturity date 24 July 2007 which attracted interest of 12 % per annum.

By the date of issuance of these condensed consolidated financial statements, the Group has not completed the purchase price allocation for the above acquisition, and therefore it is impracticable to present the respective disclosures required under IFRS 3.