

OJSC “Pharmstandard”

Interim condensed consolidated financial statements

For the six months ended 30 June 2011

“OJSC “Pharmstandard”

Interim condensed consolidated financial statements

For the six months ended 30 June 2011

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OJSC “Pharmstandard”

Interim condensed consolidated statement of financial position as at 30 June 2011

(in thousands of Russian Roubles)

	Notes	30 June 2011 (unaudited)	31 December 2010 (audited)
Assets			
Non-current assets			
Property, plant and equipment	8	4,721,135	4,168,079
Intangible assets	9	6,511,472	6,686,210
Investment in an associate	5	378,140	–
Prepayment for acquisition of investment in an associate	5	-	184,072
		11,610,747	11,038,361
Current assets			
Inventories	10	6,982,597	7,466,214
Trade and other receivables	11	10,477,305	12,376,059
VAT recoverable		270,198	480,142
Prepayments		178,295	219,621
Income tax prepayment		362,933	-
Short-term financial assets	13	2,559,540	3,682,023
Cash and short term deposits	12	1,448,917	4,156,258
		22,279,785	28,380,317
Total assets		33,890,532	39,418,678
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	17	37,793	37,793
Treasury shares	4	(1,825)	–
Foreign currency translation reserve		(22,291)	(245)
Retained earnings		25,116,887	26,409,993
		25,130,564	26,447,541
Non-controlling interest		438,580	428,214
Total equity		25,569,144	26,875,755
Non-current liabilities			
Deferred tax liability	24	683,469	642,334
Derivative financial instruments	14,23	3,206	11,249
		686,675	653,583
Current liabilities			
Trade and other payables and accruals and advances received	16	7,046,920	10,747,197
Current portion of long-term borrowings	14	183,091	395,823
Income tax payable		-	223,006
Other taxes payable	15	404,702	523,314
		7,634,713	11,889,340
Total liabilities		8,321,388	12,542,923
Total equity and liabilities		33,890,532	39,418,678

Chief Executive Officer

I.K. Krylov

Chief Financial Officer

E.V. Arkhangelskaya

30 August 2011

The accompanying notes on pages 7-27 are an integral part of these interim condensed consolidated financial statements

OJSC “Pharmstandard”

Interim condensed consolidated statement of comprehensive income

for the six months ended 30 June 2011

(in thousands of Russian Roubles)

	Notes	6 months 2011 ------(unaudited)-----	6 months 2010
Revenue	18	18,450,162	11,543,419
Cost of sales	19	(11,307,974)	(6,450,228)
Gross profit		7,142,188	5,093,191
Selling and distribution costs	20	(1,576,601)	(1,168,860)
General and administrative expenses	21	(501,912)	(415,172)
Other income	22	239,367	41,805
Other expenses	22	(167,186)	(154,235)
Financial income	23	115,435	119,843
Financial expense	23	(16,687)	(27,581)
Share of profit of an associate	5	9,290	–
Profit before income tax		5,243,894	3,488,991
Income tax expense	24	(1,054,209)	(723,414)
Profit for the period		4,189,685	2,765,577
Other comprehensive loss			
Exchange differences on translation of foreign operations		(27,678)	–
Income tax effect		5,632	–
Other comprehensive loss for the period, net of tax		(22,046)	–
Total comprehensive income for the period, net of tax		4,167,639	2,765,577
Profit for the period			
Attributable to:			
Equity holders of the parent		4,179,319	2,762,275
Non-controlling interest		10,366	3,302
		4,189,685	2,765,577
Total comprehensive income for the period, net of tax			
Attributable to:			
Equity holders of the Parent		4,157,273	2,762,275
Non-controlling interest		10,366	3,302
		4,167,639	2,765,577
Earnings per share (in Russian roubles)			
- basic and diluted, for profit of the period attributable to equity holders of the parent	17	114.26	73.09

Chief Executive Officer

I.K. Krylov

Chief Financial Officer

E.V. Arkhangelskaya

30 August 2010

The accompanying notes on pages 7-27 are an integral part of these interim condensed consolidated financial statements

OJSC “Pharmstandard”

Interim condensed consolidated cash flow statement

for the six months ended 30 June 2011

(in thousands of Russian Roubles)

	Notes	6 months 2011 ------(unaudited)-----	6 months 2010
Cash flows from operating activities:			
Profit before income tax		5,243,894	3,488,991
Adjustments for:			
Depreciation and amortization	8,9	425,219	381,802
Change in allowance for impairment of financial assets	11,22	33,035	(4,531)
Write-down of inventories to net realizable value	10	36,173	19,457
Impairment charge - property, plant and equipment	8, 22	34,156	-
Loss from disposal of property, plant and equipment	8,22	9,793	710
Foreign exchange (gain) loss		(4,585)	8,599
Expense related to the joint venture	3.1,22	53,142	48,478
Income from share of profit of an associate		(9,290)	-
Financial income	23	(115,435)	(119,843)
Financial expense	23	16,687	27,581
Operating cash flows before working capital changes		5,722,789	3,851,244
Decrease in trade receivables	11	1,847,307	950,523
Decrease (increase) in inventories	10	447,444	(1,264,255)
Decrease in VAT recoverable		209,944	136,687
Decrease (increase) in prepayments		41,325	(26,420)
Decrease (increase) in trade and other payables, accruals and advances received	16	(3,735,916)	222,978
Decrease in taxes payable other than income tax	15	(118,612)	(322,155)
Cash generated from operations		4,414,281	3,548,602
Income tax paid	24	(1,593,380)	(1,341,697)
Interest paid		(11,100)	(25,685)
Interest received		125,805	41,643
Net cash from operating activities		2,935,606	2,222,863
Cash flows from investing activities:			
Purchase of property, plant and equipment	8	(910,334)	(497,369)
Cash paid for acquisition of an investments in associate	5	(181,800)	-
Cash received from sale of property, plant and equipment	8,22	9,551	2,234
Cash received from sale of short-term financial assets	13	1,833,554	309,925
Cash paid for short-term financial assets	13	(735,532)	(2,230,676)
Cash paid for other financial assets		-	(481,065)
Net cash provided by (used in) investing activities		15,439	(2,945,429)
Cash flows from financing activities:			
Cash paid for treasury shares	4	(5,474,250)	-
Repayment of loans and borrowings	14	(184,136)	(195,323)
Net cash used in financing activities		(5,658,386)	(195,323)
Net decrease in cash and cash equivalents		(2,707,341)	(917,889)
Cash and cash equivalents at the beginning of the period		4,156,258	2,798,160
Cash and cash equivalents at the end of the period		1,448,917	1,880,271

The accompanying notes on pages 7-27 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 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

Interim condensed consolidated statement of changes in equity for the six months ended 30 June 2011 (in thousands of Russian Roubles)

	Equity attributable to equity holders of the parent					Non- controlling interests	Total equity
	Share capital	Treasury shares	Foreign currency translation reserve	Retained earnings	Total		
Balance at 31 December 2010 (audited)	37,793	-	(245)	26,409,993	26,447,541	428,214	26,875,755
Profit for the period	-	-	-	4,179,319	4,179,319	10,366	4,189,685
Other comprehensive loss for the period	-	-	(22,046)	-	(22,046)	-	(22,046)
Total comprehensive income for the period	-	-	(22,046)	4,179,319	4,157,273	10,366	4,167,639
Acquisition of treasury shares (Note 4)	-	(1,825)	-	(5,472,425)	(5,474,250)	-	(5,474,250)
Balance at 30 June 2011 (unaudited)	37,793	(1,825)	(22,291)	25,116,887	25,130,564	438,580	25,569,144

The accompanying notes on pages 7-27 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 17). 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, Tyumen. The Company controlled the following subsidiaries consolidated within the Group as at 30 June 2011 and 31 December 2010:

Entity	Country of incorporation	Activity	2011 % share	2010 % 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	Assets holder*	89	89
9. MDR Pharmaceuticals	Cyprus	Assets holder*	50.05	50.05
10. Vindexpharm CJSC	Russian Federation	Assets holder*	100	100

* Finance and holding company and assets holders generally do not conduct any business activities.

The Group holds 37.5% of share capital in joint venture “NauchTechStroy Plus” LLC (“NTS+”). This research company was formed in February 2010 and it is in start up phase now (for more details see Note 3.1).

The Group holds 75% of share capital in new joint venture “Pharmstandard-Medtechnika” LLC. This trading and distributing company was formed in June 2011 for the purpose of increase the sales of medical equipment. Since 3rd Quarter 2011 “Pharmstandard-Medtechnika” started its activity (see Note 3.2).

In addition, the Group holds 55% of share capital in PSC “Pharmstandard-Biolik” (“Biolik”) located in Kharkov, Ukraine. The Group recognized this investment as investment in an associate as of 30 June, 2011 (see Note 5).

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors of the OJSC “Pharmstandard” on 30 August 2011.

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

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 and joint ventures primarily 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 2010 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 2010 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 6) 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 6) 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. In addition, the management of the Company considers the formation of new joint venture “Pharmstandard-Medtechnika” (Note 3.2) as an additional cause for medical equipment increase sales.

Given the seasonality of operations, the Group’s operating results for the six-month period ended 30 June 2011 are not necessarily indicative of the results that may be expected for the year ending 31 December 2011.

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

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 2011.

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

- 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;
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*, effective from 1 July 2010;
- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of rights issues denominated in a foreign currency*, effective from 1 February 2010;
- 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

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)

There were no significant effects of these changes in accounting policies on the financial position or performance of the Group.

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* was issued in November 2009 and October 2010 and effective from 1 January 2013;
- IFRS 10 *Consolidated financial statements* was published in May 2011 and effective from 1 January 2013;
- IFRS 11 *Joint arrangements* was published in May 2011 and effective from 1 January 2013;
- IFRS 12 *Disclosures of interests in other entities* was published in May 2011 and effective from 1 January 2013;
- IFRS 13 *Fair value measurements* was published in May 2011 and effective from 1 January 2013;
- Amendments to IAS 27 (revised in May 2011) *Separate financial statements*, effective from 1 January 2013;
- Amendments to IAS 28 (revised in May 2011) *Associates and joint ventures*, effective from 1 January 2013;
- Amendments to IFRS 7 *Financial Instruments: Disclosures* – Transfers of financial assets, effective from 1 July 2011;
- Amendments to IAS 12 *Income Taxes* – set out in *Deferred Tax: Recovery of Underlying Assets*, effective from 1 January 2012;
- Amendments to IAS 19 *Employee benefits*, effective from 1 January 2013;
- Amendment to IAS 1 *Financial statement presentation* regarding other comprehensive income effective from 1 July 2012;
- Narrow amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* - “The date of transition to IFRSs” and “Resume presenting financial statements” effective from 1 July 2011;

The Group expects that the adoption of new IFRSs which were issued in May 2011 will affect the Group’s recognition and classification of assets and liabilities, classification of income and expense and appropriate disclosures in the period of initial application. However, the management believes that the adoption of these pronouncements listed above will have no significant impact on the Group’s total financial result 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)

2. Basis of preparation of the financial statements (continued)

Changes in Accounting Policies (continued)

Investment in an associate

The Group’s investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group’s share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity.

Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of an associate is shown on the face of the statement of comprehensive income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group’s investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the ‘share of profit of an associate’ in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

OJSC “Pharmstandard”

Notes to the interim condensed consolidated financial statements

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

3. Joint ventures

3.1. Joint venture “NauchTechStroy Plus”

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 Plus” 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 commence its operations as a research and development center in Vladimir region of the Russian Federation specialized in bioengineering medical products and universal diagnostic researches. Commencement of its operation is scheduled in the 4th Quarter 2011.

As at 31 December 2010 the Group held 50% interest in “NTS+” in the amount of RR 150,004, which was fully paid in cash. In May 2011, the Company and another participant of this joint venture approved the plan for a join of a new participant of “NTS+” (financial investor) by an increasing of share capital of “NTS+” in the amount of RR 366,200 which was fully paid in cash by all participants of that joint venture as of 30 June 2011. In accordance with Russian legislation an increase in the share capital of the company must be done in proportion to ownership interests of its participants after this increase taking into account the amount of previously paid-up share capital. The Group paid RR 99,823 and in accordance with new charter documents the Group’s interest in the joint venture “NTS+” was decreased from 50% to 37.5%. Charter documents of “NTS+” require unanimous agreement for financial and operating decisions among the all participants.

Due to a fair value of Group’s share in net assets of that joint venture after the date of increase of share capital was less than a relevant fair value of Group’s share in net assets before the date of increase of share capital the Group recognized a loss in the amount of RR 53,142 presented as other expenses as of 30 June 2011 (Note 22).

The aggregate amounts of “NTS+” assets, liabilities, income and expenses proportionately included in the Group’s consolidated financial statements are detailed below:

	30 June 2011 (unaudited)
Current assets	269,839
Long-term assets	143,335
Current liabilities	(4,319)
Long-term liabilities	-
Income	-
Expenses	(8,740)

There were no any capital commitments of the Group in relation to its interests in “NTS+” as of 30 June 2011.

The share of the Group in the capital commitments of “NTS+” was equal to RR 7,548 as of 30 June 2011.

OJSC “Pharmstandard”

Notes to the interim condensed consolidated financial statements

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

3.2. Foundation of joint venture “Pharmstandard-Medtechnika”

In 2nd quarter 2011, the management of the Group approved the plan for the foundation of a new joint venture with 75% of Company’s share in this joint venture. Hereinafter, the Company and another participant, the “DGM Trading Limited” (“DGM”), signed a shareholders’ agreement for the foundation of that joint venture. This agreement requires unanimous agreement for financial and operating decisions among the participants. In accordance with the terms of this agreement the “Moldildo Trading Limited” (“Moldildo”), a company registered under the laws of Cyprus was founded by participants. The Company holds 75% interest in “Moldildo” in the amount of EURO 750 (RR 31), which was fully paid in cash.

On 28 June 2011 in accordance with the terms of shareholders’ agreement “Pharmstandard-Medtechnika” LLC (“Pharmstandard-Medtechnika”) was registered in the Russian Federation as a joint venture of the Company and “DGM”. “Moldildo” is a sole shareholder of “Pharmstandard-Medtechnika” and generally does not conduct any business activities. Therefore, the Group indirectly holds 75% interest in “Pharmstandard-Medtechnika” in the amount of RR 7.5, which was fully paid in cash.

“Pharmstandard-Medtechnika” was formed as a trading and distributing company for the purposes of distribution medical equipment as manufactured by the Group and by DGM. Since 3rd Quarter 2011 “Pharmstandard-Medtechnika” started its activity. The management of the Company considers the formation of new joint venture “Pharmstandard-Medtechnika” as an additional cause for increase of revenue and profitability in medical equipment operating segment. There were no assets and liabilities of that joint venture and there were no transactions with the “Pharmstandard-Medtechnika” as of 30 June 2011.

4. Offer for 4.9% of Company’s ordinary shares

On 18 January 2011, OJSC “Pharmstandard-Leksredstva” proposed voluntary offer to purchase up to 1,850,000 ordinary shares of the Company with par value 1 (one) Russian Rouble representing about 4.9% of the Company’s authorized share capital. Under the terms of the offer, all Company’s shareholders were invited to sell their ordinary shares of the Company at a price of 3,000 Russian Roubles per one share. On 18 February 2011, OJSC “Pharmstandard-Leksredstva” closed this offer and purchased 1,824,750 ordinary shares of the Company representing about 4.8% of the Company’s authorized share capital for a cash consideration of RR 5,474,250. The difference between the nominal value of these ordinary shares and consideration paid was debited directly to equity.

5. Investment in an associate - acquisition of “Biolik” shares

In 4th quarter 2010 the Company signed contracts with shareholders of Public Stock Company “Kharkov Enterprise on Immunobiological and Medical Substances Production “Biolik” (“Biolik”) with the purpose to acquire 55% of the ordinary voting shares of “Biolik”, a company located in Ukraine involved in the production and distribution of various pharmaceutical products, for a cash consideration of RR 397,017 (US\$ 13,086 thousand).

OJSC “Pharmstandard”

Notes to the interim condensed consolidated financial statements

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

5. Investment in an associate - acquisition of “Biolik” shares (continued)

Of the total consideration amount, guarantee payment of RR 39,670 (US\$ 1,320 thousand) is contingent upon achievement by “Biolik” of certain operational and financial targets by 31 December 2011. In 2nd Quarter 2011 the amount of RR 8,526 (US\$ 300 thousand) from that guarantee payment was paid. In January 2011, the Company finalized process of acquisition of 55% ordinary shares and on 18 January 2011, the acquired shares of “Biolik” were transferred to the Company. In June 2011, PSC “Biolik” was renamed as PSC “Pharmstandard-Biolik”.

The primary reason for the acquisition was the Group’s intent to extend its operations to the Ukrainian market. This extension can be achieved both through proceeds from sales of own Biolik’s products and by marketing and promotion of certain Pharmstandard’s pharmaceutical brands.

The Group has not finalised (i) the reorganization of management and organizational structure of an entity and (ii) the reorganization of “Biolik” internal and external control procedures accordingly with Group’s corporate procedures. In addition, in accordance with the Law of Ukraine “On Joint Stock Companies”, the general meeting of the joint stock company shall have a quorum at registration requirements for participation of the shareholders, who collectively are the owners of not less than 60 percent of the voting shares.

The management believes that at June 30 2011 the Group does not govern the financial and operating policies of an entity to the extent that is necessary for the recognition of control of a subsidiary by IFRS as of 30 June, 2011. Therefore, the Group is considering an investment to “Pharmstandard-Biolik” as an investment in an associate with a significant influence accounted for using the equity method in accordance with IAS 28 (Note 2). The management of the Group does not exclude an obtaining of control of that entity before the end of 2011 and subsequent accounting of this acquisition as a subsidiary in accordance with IFRS 3 and IAS 27.

PSC “Pharmstandard-Biolik” is an entity that is not listed on any public exchange. “Biolik” maintains their accounting records in Ukrainian Hryvnia. The following table provides summarized financial information of the Group’s investment in “Biolik” at the date of acquisition and as of 30 June 2011:

	30 June 2011	18 January 2011
<i>Share of the associate’s statement of financial position</i>		
Assets	304,368	307,439
Liabilities	(260,613)	(270,184)
Equity	43,755	37,255
Goodwill arising on acquisition and including in investment’s carrying amount	334,385	359,762
Carrying amount of the investment	378,140	397,017
	6 months 2011	
<i>Share of the associate’s revenue and profit</i>		
Revenue	114,154	
Profit	9,290	

OJSC “Pharmstandard”

Notes to the interim condensed consolidated financial statements

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

6. 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. 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. Since 3rd Quarter 2011 the staff of equipment department of OJSC “Pharmstandard” are transferred to “Pharmstandard-Medtechnika” LLC which (Note 3.2.). This joint venture will be managing, distributing and logistics company for the purpose of distribution of TZMOI and DGM products and its financial results will be including in total medical equipment segment’s results.

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 2011 and 31 December 2010. 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.

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

Six months period ended 30 June 2011 (unaudited)	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Group
Sales to external customers	18,179,033	271,129	18,450,162
Total revenue	18,179,033	271,129	18,450,162
Gross profit	7,079,058	63,130	7,142,188
Segment result	5,148,311	(12,455)	5,135,856
Financial income, net			98,748
Share of profit of an associate			9,290
Profit before income tax			5,243,894
Income tax expense			(1,054,209)
Profit for the period			4,189,685
Acquisition of property, plant and equipment (Note 8)	907,466	4,033	911,499
Depreciation and amortisation	407,175	18,044	425,219

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6. Segment information (continued)

Six months period ended 30 June 2010 (unaudited)	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	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 8)	490,836	8,670	499,506
Depreciation and amortisation	354,161	27,641	381,802

The following table presents segment assets of the Group’s operating segments as at 30 June 2011 and 31 December 2010:

Segment assets	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Group
At 30 June 2011 (unaudited)	33,061,864	828,668	33,890,532
At 31 December 2010 (audited)	38,521,575	897,103	39,418,678

Revenues from some individual customers in the pharmaceutical products segment exceeded 10% of total Group’s segment revenue excluding revenue under state auctions.

The table below shows the revenue from these customers and revenue under state auctions:

Customer	6 months 2011 ----- (unaudited) -----	6 months 2010
The Ministry of health and social department of Russian Federation (state auctions) ¹	6,329,547	1,641,895
Customer 1 (third party products, Note 18)	1,650,744	1,649,630
Customer 2	1,652,331	1,332,546
Customer 3	1,327,625	1,203,058
Customer 4	1,378,681	1,081,001

¹ Advances received recorded as of 31 December 2010 represented advances received from the Ministry of health and social department under state auctions (Note 16)

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7. 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 2011 and 31 December 2010 are detailed below.

Balances with related parties:

	Short-term financial assets (a)	Cash and short-term deposits-(a) Note 12	Trade and other receivables – (a) Note 11	Trade payables, other payables and accruals – (b) Note 16
30 June 2011				
Other related parties ²	390,000	1,425,477	10,709	505,873
Total	390,000	1,425,477	10,709	505,873

	Short-term financial assets (a)	Cash and short-term deposits-(a) Note 12	Trade and other receivables – (a) Note 11	Trade payables, other payables and accruals – (b) Note 16
31 December 2010				
Other related parties ²	632,000	3,887,404	53,699	770,545
Total	632,000	3,887,404	53,699	770,545

- (a) This balance primarily represented cash, short-term bank deposits and interest receivable at a bank controlled by a related party and immaterial trade receivables from sales of certain products to a related party
- (b) This balance represented obligation for the license fee, payables for marketing services and payables for supply of the third-party products, described in section “Transactions with related parties” below.

Cash balances with the related bank carry no interest. Short-term financial assets at 30 June 2011 include cash deposits in the related bank and carry 6.5%-8% interest p.a. (for more details see Notes 12 and 13).

² Other related parties, represent entities under control of the Company’s shareholders having significant influence over the Company.

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7. Balances and transactions with related parties (continued)

Significant transactions with related parties:

Statement of comprehensive income caption	Relationship	6 months 2011 (unaudited)	6 months 2010 (unaudited)
Revenue	Other related parties	4,620	–
Income from other non-core services included in other income	Other related parties	927	1,251
Interest income from deposits placed in a related bank (included in financial income)	Other related parties	13,848	79,071
License fee (included in distribution costs) (A)	Other related parties	(8,560)	(11,322)
Warehouse rental expenses (included in distribution costs) (B)	Other related parties	(38,521)	(29,206)
Office rental expenses (included in general and administrative expenses) (B)	Other related parties	(17,073)	(9,779)
Cost of sales of third-party products (C)	Other related parties	(620,772)	–

(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 and maintenance expenses*

The Group incurred warehouse and office rental and maintenance expenses that is payable to the related parties.

(C) *Cost of sales of third-party products*

In 2010, the Group signed purchase contracts for supply of third-party product Coagil VII manufactured by that related party. The amount includes the cost of this product sold by the Group through state auctions (Notes 18 and 19). As of 30 June 2011 the Group had RR 11,280 of unsold inventory balances of Coagil VII.

Compensation to key management personnel

Key management personnel comprise 3 persons as at 30 June 2011 and 2010. Total compensation to key management personnel was RR 12,271 for the six months period ended 30 June 2011 (6 months 2010: RR 8,873). Such compensation represents the payroll and bonuses included in general and administrative expenses.

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8. Property, plant and equipment

During the six months period ended 30 June 2011 the Group acquired property, plant and equipment with a cost of RR 911,499 (6 months 2010: RR 499,506). Property, plant and equipment with net book value of RR 19,344 were disposed of by the Group during the six months period ended 30 June 2011 (6 months 2010: RR 2,944), resulting in loss on disposal of RR 9,793 (6 months 2010: RR 710). Total depreciation of the property, plant and equipment for the six months period ended 30 June 2011 was RR 250,481 (6 months 2010: RR 235,380). During the six months period ended 30 June 2011 the Group recognized an impairment loss of property, plant and equipment in the amount of RR 35,665 and reversal of impairment in the amount of RR 1,509 (Note 22). Impaired assets primarily represent property for production of medical disposables removed from active use.

9. Intangible assets

There were no acquisitions and disposals of the intangible assets for the six months period ended 30 June 2011 and 2010.

Total amortization of the intangible assets for the six months period ended 30 June 2011 was RR 174,738 (6 months 2010: RR 146,422). This amount is included in the cost of sales line item (Note 19).

10. Inventories

Inventories consist of the following:

	30 June 2011 (unaudited)	31 December 2010 (audited)
Raw materials - at cost	2,947,065	1,931,686
Work in progress - at cost	151,937	304,338
Finished goods:		
- at cost	3,939,456	5,271,354
- at cost or net realisable value	3,883,595	5,230,190
	6,982,597	7,466,214

11. Trade and other receivables

	30 June 2011 (unaudited)	31 December 2010 (audited)
Trade receivables (net of allowance for impairment of receivables of RR 75,065 (31 December 2010: RR 48,781))	10,390,871	12,271,212
Interest receivable (Note 7)	86,434	104,847
	10,477,305	12,376,059

At 30 June 2011 RR 90,528 of trade receivables were denominated in currencies other than Russian Roubles, primarily in US\$ (31 December 2010: RR 153,236).

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12. Cash and short-term deposits

Cash and short-term deposits consist of the following:

	30 June 2011 (unaudited)	31 December 2010 (audited)
Cash in bank – Russian Roubles	1,340,776	3,898,237
Cash in bank – US\$ and Euro	88,141	8,021
Short-term bank deposits with original maturity less than 90 days – Russian Roubles	-	250,000
Bank deposits– Russian Roubles (a)	20,000	–
	1,448,917	4,156,258

- (a) Bank deposits restricted for use and placed in the related bank to secure certain bank guarantees obtained in connection with the state auctions. These deposits carried an interest rate of 4.5% p.a.

13. Short-term financial assets

	30 June 2011 (unaudited)	31 December 2010 (audited)
<i>Accounted for as loans and receivables:</i>		
Promissory notes	524,000	614,700
Short-term bank deposits – Russian Roubles - Note 7 (a)	1,690,000	2,697,000
Short-term bank deposits – US\$	280,758	304,769
Short-term loans	50,000	50,000
<i>Accounted for as available for sale:</i>		
Securities	11,532	11,866
Other	3,250	3,688
	2,559,540	3,682,023

- (a) This item includes cash deposits in the amount of RR 390,000 (31 December 2010: RR 632,000) restricted for use and placed in the related bank to secure certain bank guarantees obtained by the Group for participation in state auctions announced by the Government of the Russian Federation.

Short-term bank deposits bear interest rate within the range from 6.5% to 10% p.a. as of 30 June, 2011. Short-term loans bear interest rate of 14% p.a. as of 30 June, 2011.

14. Borrowings and loans

In 2011, the Group repaid US\$ 6,470 thousand (RR 184,136) of the Syndicated borrowing organised by Citibank (“Citibank loan”). The amount of borrowings and loans also decreased by RR 28,596 due to effect from foreign exchange gain 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 comprehensive income (Note 23) was RR 8,043 for the six months period ended 30 June 2011 (6 months 2010: RR 14,656).

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15. Other taxes payable

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

	30 June 2011 (unaudited)	31 December 2010 (audited)
Value-added tax	335,504	445,634
Property and other taxes	69,198	77,680
	404,702	523,314

16. Trade and other payables and accruals

	30 June 2011 (unaudited)	31 December 2010 (audited)
Trade payables	1,984,602	2,140,639
Payables for third parties products procurement	4,003,017	5,972,929
Payables for third parties products procurement and other payables – related parties (Note 7)	505,873	770,545
Advances received (Note 6)	-	1,337,032
Unpaid guarantee amount for acquisition of Biolik’s shares – US\$ (Note 5)	28,637	-
Other payables and accruals	524,791	526,052
	7,046,920	10,747,197

At 30 June 2011 RR 1,717,650 of trade and other payables were denominated in currencies other than Russian Rouble, primarily in US\$ (31 December 2010: RR 1,620,292).

17. 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 other transactions with own shares during 2011 except for the acquisition of Company’s treasury shares by “Pharmstandard-Leksredstva” as described in Note 4.

As at 30 June 2011 and 31 December 2010 more than half of voting shares of OJSC “Pharmstandard” were held by Augment 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.

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. In 1st Quarter 2011, approximately 4.8% of the Company’s shares were acquired by the Company’s subsidiary “Pharmstandard-Leksredstva” and were recognized as treasury share (for more details see Note 4). After these transactions, 40.9% of share capital is publicly listed of which 27.6% is on the LSE.

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17. Share capital (continued)

In accordance with the Citibank loan agreement the Group shall not pay, make or declare any dividend or other distribution without the prior written consent of the lenders.

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 to basic earnings per share.

Earnings per share are as follows:

	6 months 2011	6 months 2010
	------(unaudited)-----	
Weighted average number of ordinary shares outstanding (Note 4)	36,576,103	37,792,603
Profit for the period attributable to the shareholders	4,179,319	2,762,275
Basic and diluted earnings per share, Russian Roubles	114.26	73.09

18. Revenue

Sales breakdown by product groups comprised the following:

Product group	6 months 2011	6 months 2010
	------(unaudited)-----	
Pharmaceutical products		
OTC		
Branded	5,714,682	4,665,011
Non-branded	927,196	1,009,856
	6,641,878	5,674,867
Prescription		
Branded	1,443,291	1,351,253
Non-branded	195,544	236,856
	1,638,835	1,588,109
Third parties products (a)	9,754,023	3,956,279
Other	144,297	72,364
Total pharmaceutical products	18,179,033	11,291,619
Medical equipment	271,129	251,800
	18,450,162	11,543,419

- (a) Third parties products sales include sales of branded pharmaceutical products such as Velcade®, Mildronate®, Coagil VII, IRS®-19, Imudon®, Prezista®, Mabtera® and Pulmozyme® manufactured by other pharmaceutical companies.

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19. Cost of sales

The components of cost of sales were as follows:

	6 months 2011	6 months 2010
	----- (unaudited) -----	
Materials and components	2,372,487	2,458,029
Third parties products	8,008,525	3,219,869
Production overheads	418,497	315,696
Depreciation and amortization	381,345	348,261
Direct labour costs	127,120	108,373
	11,307,974	6,450,228

20. Selling and distribution costs

Selling and distribution costs comprised the following:

	6 months 2011	6 months 2010
	----- (unaudited) -----	
Advertising	658,650	538,459
Labour costs	555,546	377,109
Freight, communication and insurance	91,714	66,216
Trainings and other services	21,804	17,951
Certification expenses	33,880	22,707
Rent	38,789	30,889
Commission and license fee	33,869	23,252
Materials, maintenance and utilities	57,785	30,056
Travel and entertainment	39,251	24,615
Depreciation	29,422	24,955
Other expenses	15,891	12,651
	1,576,601	1,168,860

21. General and administrative expenses

General and administrative expenses comprised the following:

	6 months 2011	6 months 2010
	----- (unaudited) -----	
Labour costs	320,602	269,560
Services, legal, audit and consulting expense	39,921	26,733
Travel and entertainment	10,882	7,731
Taxes other than income tax	7,937	7,544
Insurance	9,434	7,320
Freight and communication	11,129	14,817
Depreciation	14,452	8,586
Rent	20,012	15,843
Materials, maintenance and utilities	50,095	36,316
Other	17,448	20,722
	501,912	415,172

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22. Other income and other expenses

Other income comprised the following:

	6 months 2011	6 months 2010
	----- (unaudited) -----	
Foreign exchange gain, net	124,013	-
Income from non-core operations (a)	50,418	13,345
Reversal of impairment – property, plant and equipment	1,509	-
Cash rebates (b)	63,427	-
Reversal of impairment of receivables	-	28,460
	239,367	41,805

- (a) Income from non-core operations primarily includes (i) agency fee incurred in respect of sale of certain third-parties products by the Group (ii) income from sale of materials and other assets not included in other categories (iii) income from other non-core services and rent.
- (b) Cash rebates represent cash rebates on procurement of several products which were purchased and realized in 2010. These cash rebates were recognized in accordance with the terms of signed contracts after the date of release of consolidated financial statements for the year ended 31 December 2010.

Other expenses comprised the following:

	6 months 2011	6 months 2010
	----- (unaudited) -----	
Foreign exchange loss, net	-	47,566
Loss from disposal of property, plant and equipment	9,793	710
Impairment of property, plant and equipment	35,665	-
Expense related to the joint venture (a)	53,142	48,478
Charity	15,232	9,260
Bank charges (b)	19,843	18,341
Other taxes	26,121	28,013
Other	7,390	1,867
	167,186	154,235

- (a) In 1st half 2010, the Group made an additional cash contribution of RR 90,000 to the joint-venture “NTS+”. This contribution was provided by the Group to allow the joint venture to commence its research and development activities. The excess of the contribution over Group's interest in the joint venture in the amount of RR 45,000 was considered as non-refundable assistance to the joint venture and, accordingly, recognized as an expense as at 30 June 2010. Due to a fair value of Group’s share in assets and liabilities of “NTS+” after the date of increase of share capital was less than a relevant fair value of Group’s share in assets and liabilities before the date of increase of share capital the Group recognized a loss in the amount of RR 53,142 presented as other expenses as of 30 June 2011 (more details see in Note 3.1).
- (b) Bank charges includes (i) commission for daily banking operations (ii) commission for certain bank guarantees obtained by the Group.

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23. Financial income and expense

Financial income and expense comprised the following:

	6 months 2011	6 months 2010
	----- (unaudited) -----	
Interest income:		
Income from changes in fair value of Interest Rate Swap (Note 14)	8,043	14,656
Interest income from loans and deposits	107,392	105,187
	115,435	119,843
Interest expense:		
Loss from Interest Rate Swap	7,196	17,215
Interest expense on borrowings and loans	9,041	9,773
Other	450	593
	16,687	27,581

24. Income tax

	6 months 2011	6 months 2010
	----- (unaudited) -----	
Income tax expense – current	1,007,442	771,593
Deferred tax expense (benefit) – origination and reversal of temporary differences	46,767	(48,179)
Income tax expense	1,054,209	723,414

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

	6 months 2011	6 months 2010
	----- (unaudited) -----	
Income before taxation	5,243,894	3,488,991
Theoretical tax charge at statutory rate of 20%	1,048,779	697,798
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	7,288	25,616
Other items	(1,858)	-
Income tax expense	1,054,209	723,414

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24. Income tax (continued)

Movements in deferred tax balances were as follows:

	31 December 2010 (audited)	Temporary differences recognition and reversal in profit and loss	Temporary differences recognition and reversal in other comprehensive income	30 June 2011 (unaudited)
Tax effects of deductible temporary differences – asset / (liability):				
Property, plant and equipment	(285,957)	6,274	-	(279,683)
Intangible assets	(484,497)	26,452	-	(458,045)
Trade and other receivables and prepayments	23,971	867	-	24,838
Inventories	91,857	11,594	-	103,451
Trade and other payables and other taxes	4,896	(86,540)	-	(81,644)
Financial instruments	2,250	(1,609)	-	641
Exchange differences on translation of foreign operations	62	-	5,632	5,694
Other	5,084	(3,805)	-	1,279
Total net deferred tax liability	(642,334)	(46,767)	5,632	(683,469)

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 9,809,112 as at 30 June 2011 (31 December 2010: RR 8,096,339).

25. 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. In 2010 and 2011, the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group’s future financial position, results of operations and business prospects.

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25. Contingencies, commitments and operating risks (continued)

Operating environment of the Group (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 2011 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 2011. 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.