OJSC "PHARMSTANDARD"

Interim Condensed Consolidated Financial Statements

For the six month period ended 30 June 2009

“OJSC “Pharmstandard”

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Contents

OJSC "Pharmstandard"

Interim Condensed Consolidated Statement of Financial Position at 30 June 2009

(in thousands of Russian Roubles)

	Notes	30 June 2009 unaudited	31 December 2008 audited
Assets			
Non-current assets			
Property, plant and equipment	6	**3,793,906**	3,917,109
Intangible assets	7	**6,281,968**	6,347,141
		10,075,874	10,264,250
Current assets			
Inventories	8	**3,439,916**	2,484,910
Trade receivables	9	**6,462,777**	4,761,359
VAT recoverable		**259,489**	326,208
Prepayments		**172,751**	73,544
Short-term financial assets at fair value through profit or loss	11	**231,690**	113,995
Cash and cash equivalents	10	**2,279,588**	186,066
		12,846,211	7,946,082
Total assets		**22,922,085**	18,210,332
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	15	**37,793**	37,793
Retained earnings		**14,997,283**	12,413,396
		15,035,076	12,451,189
Non-controlling interest		**401,856**	163,203
Total equity		**15,436,932**	12,614,392
Non-current liabilities			
Long-term borrowings and loans	12	**607,503**	760,512
Deferred tax liability	22	**764,507**	739,186
Derivative financial instruments	12	**67,746**	89,087
Other non-current liabilities		**36,259**	34,048
		1,476,015	1,622,833
Current liabilities			
Trade and other payables and accruals	14	**4,576,078**	1,707,544
Current portion of long-term borrowings	12	**1,048,166**	1,582,722
Income tax payable		**113,068**	144,292
Other taxes payable	13	**271,826**	339,307
Bank overdraft		**-**	199,242
		6,009,138	3,973,107
Total liabilities		**7,485,153**	5,595,940
Total equity and liabilities		**22,922,085**	18,210,332

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

General Director I.K. Krylov

Chief Financial Officer E.V. Arkhangelskaya

30 August 2009

The accompanying notes on pages 7-26 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 2009

(in thousands of Russian Roubles)

	Notes	6 months 2009	6 months 2008
		(unaudited)	
Revenue	16	**10,061,891**	6,198,044
Cost of sales	17	**(5,287,217)**	(2,547,596)
Gross profit		**4,774,674**	3,650,448
Selling and distribution costs	18	**(943,207)**	(963,792)
General and administrative expenses	19	**(321,145)**	(326,717)
Other income	20	**128,295**	212,083
Other expenses	20	**(314,326)**	(81,219)
Finance income	21	**43,055**	7,109
Finance costs	21	**(92,890)**	(131,360)
Profit before income tax		**3,274,456**	2,366,552
Income tax expense	22	**(686,535)**	(609,618)
Profit for the period		**2,587,921**	1,756,934
Attributable to:			
Equity holders of the Parent		**2,583,998**	1,750,040
Non-controlling interests		**3,923**	6,894
		2,587,921	1,756,934
Total comprehensive income for the period, net of tax		**2,587,921**	1,756,934
Attributable to:			
Equity holders of the Parent		**2,583,998**	1,750,040
Non-controlling interests		**3,923**	6,894
		2,587,921	1,756,934
Earnings per share (in Russian roubles) - basic and diluted, for profit of the period attributable to equity holders of the parent	15	**68.37**	46.31

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

General Director I.K. Krylov

Chief Financial Officer E.V. Arkhangelskaya

30 August 2009

The accompanying notes on pages 7-26 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 2009

(in thousands of Russian Roubles)

	Notes	6 months 2009	6 months 2008
		----------(unaudited)--------	
Cash flows from operating activities:			
Profit before income tax		**3,274,456**	2,366,552
Adjustments for:			
Depreciation and amortization	6,7	**367,644**	272,309
(Reversal of) accrual for impairment allowances for inventories and financial assets	8,9	**(68,656)**	56,999
Loss recognised on sale of non-current assets classified as held for sale	20	**-**	13,891
Loss (gain) from disposal of property, plant and equipment and investment property	6,20	**3,417**	(25,148)
Foreign exchange loss (gain)	20	**259,814**	(142,209)
Finance income	21	**(43,055)**	(7,109)
Finance costs	21	**92,890**	128,375
Operating cash flows before working capital changes		**3,886,510**	2,663,660
(Increase) decrease in trade and other receivables	9	**(1,635,962)**	439,215
Increase in inventories	8	**(954,572)**	(346,750)
Decrease in VAT recoverable		**66,719**	14,155
Increase (decrease) in prepayments		**(99,208)**	26,092
Increase in trade payables and other payables	14	**3,170,459**	491,766
Decrease in taxes payable other than income tax	13	**(67,481)**	(30,550)
Cash generated from operations		**4,366,465**	3,257,588
Income tax paid	22	**(692,435)**	(897,988)
Interest paid		**(90,589)**	(103,578)
Interest received		**489**	1,562
Net cash from operating activities		**3,583,930**	2,257,584
Cash flows from investing activities:			
Purchase of property, plant and equipment	6	**(197,913)**	(381,313)
Purchase of intangible assets	7	**(77,751)**	-
Cash paid for acquisition of non-controlling interests in 2008	14	**(24,844)**	(140,755)
Cash received from sale of short-term financial assets	11	**104,171**	84,914
Cash paid for short-term financial assets	11	**(220,100)**	(556,474)
Cash received from sale of non-current assets classified as held for sale		**-**	141,086
Cash received from sale of investment property and property, plant and equipment	6	**6,260**	42,814
Loans repaid by related parties		**-**	5,121
Net cash used in investing activities		**(410,177)**	(804,607)
Cash flows from financing activities:			
Repayment of loans and borrowings	12	**(880,989)**	(629,301)
Net cash used in financing activities		**(880,989)**	(629,301)
Net increase in cash and cash equivalents		**2,292,764**	823,676
Cash and cash equivalents at the beginning of the period, net of bank overdraft	10	**(13,176)**	192,589
Cash and cash equivalents at the end of the period	10	**2,279,588**	1,016,265

The accompanying notes on pages 7-26 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 2008

(in thousands of Russian Roubles)

	Equity attributable to equity holders of the parent				
	Share capital	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 31 December 2007 (audited)	**37,793**	**9,004,021**	**9,041,814**	**560,879**	**9,602,693**
Total comprehensive income for the period	-	1,750,040	1,750,040	6,894	1,756,934
Effect of de-recognition of non-controlling interests	-	(63,742)	(63,742)	(155,532)	(219,274)
Effect of acquisition of non-controlling interests	-	(61,482)	(61,482)	(241,206)	(302,688)
Balance at 30 June 2008 (unaudited)	**37,793**	**10,628,837**	**10,666,630**	**171,035**	**10,837,665**

Interim Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2009

(in thousands of Russian Roubles)

	Equity attributable to equity holders of the parent				
	Share capital	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 31 December 2008 (audited)	**37,793**	**12,413,396**	**12,451,189**	**163,203**	**12,614,392**
Total comprehensive income for the period	-	2,583,998	2,583,998	3,923	2,587,921
Effect from giving up Donelle shares (Note 3)	-	364	364	234,730	235,094
Effect from acquisition of non-controlling interests	-	(475)	(475)	-	(475)
Balance at 30 June 2009 (unaudited)	**37,793**	**14,997,283**	**15,035,076**	**401,856**	**15,436,932**

The accompanying notes on pages 7-26 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" ("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. 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 reorganised into an open joint stock company. Since May 2007, the Company's shares are publicly traded (Note 15). The Group's corporate office is in Dolgoprudny, Likhachevsky passage, 5B, Moscow region, Russian Federation and its manufacturing facilities are based in Kursk, Tomsk, Ufa, Nizhny Novgorod and Tyumen. The Company held shares of voting interests in the following major subsidiaries consolidated within the Group as at 30 June 2009 and 31 December 2008, respectively:

Entity	Country of incorporation	Activity	2009 % share	2008 % 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-Octyabr" OJSC	Russian Federation	Manufacturing of pharmaceutical products	**100**	100
6. "Pharmstandard-Phitofarm-NN" LLC	Russian Federation	Manufacturing of pharmaceutical products	**99**	99
7. "TZMOI" OJSC	Russian Federation	Manufacturing of medical equipment	**100**	100
9. "Masterlek" CJSC	Russian Federation	Manufacturing pharmaceutical products	**100**	100
10. "Black Bird Investment Enterprises Corp"	British Virgin Islands	Finance and holding Company*	**100**	100
11. Donelle Company Limited ("Donelle")**	Cyprus	Finance and holding Company*	**89**	100
12. Aphopharm CJSC**	Russian Federation	Finance and holding Company*	**89**	100

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

** - In March 2009, 10.93% of shares in Donelle were given up to the previous shareholders under the revised sales-purchase agreement (for details see Note 3)

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors of the OJSC "Pharmstandard" on 30 August 2009.

2. Basis of Preparation of the Financial Statements

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

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

These interim condensed consolidated financial statements should be read in conjunction with the complete consolidated financial statements as of 31 December 2008 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 2008 and for the year then ended.

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

Seasonality of operations

Due to the seasonal nature of the Group's operations, higher revenues in the pharmaceuticals segment (Note 4) are usually expected in the first and fourth quarters of each year when flu and cold epidemics are most prevalent resulting in higher demand on the Group's cold and cough products and vitamins.

Revenues in the medical equipment segment (Note 4) also usually tend to grow in the fourth quarter when the state hospitals make their orders to entirely utilize the budget resources provided to them for acquisition of new equipment in the current year.

Given the seasonality of operations, the Group's operating results for the six-month period ended 30 June 2009 are not necessarily indicative of the results that may be expected for the year ending 31 December 2009.

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 2009.

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

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

Changes in Accounting Policies (continued)

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

- IFRS 2 "Share-based Payments" – Vesting Conditions and Cancellations;
- IFRS 7 "Financial Instruments: Disclosures" – Fair Value Measurement and Liquidity Risk;
- IFRS 8 "Operating segments";
- IAS 1 Revised "Presentation of Financial Statements";
- IAS 23 (amended 2007) "Borrowing costs";
- Amendments to IAS 32 and IAS 1 "Puttable Financial Instruments";
- IFRIC 13 "Customer Loyalty Programmes";
- IFRIC 15 "Agreements for the Construction of Real Estate";
- IFRIC 9 "Reassessment of Embedded derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement";
- "Improvements to IFRSs 2008" - a first 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 2008)*	**Subject of amendment**
IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"	Plan to sell the controlling interest in a subsidiary
IFRS 7 Financial Instruments: Disclosures"	Removal of the reference to "total interest income" as a component of finance costs
IAS 8 Accounting Policies, Change in Accounting Estimates and Errors	Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies
IAS 10 Events after the Reporting Period	Clarification that dividends declared after the end of the reporting period are not obligations
IAS 16 Property, Plant and Equipment	Recoverable amount Sale of assets held for rental
IAS 18 Revenue	Replacement of the term "direct costs" with "transaction costs" as defined in IAS 39
IAS 19 Employee Benefits	Curtailments and negative past service cost Plan administration costs Replacement of term 'fall due' Guidance on contingent liabilities
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	Government loans with a below-market rate of interest
IAS 27 Consolidated and Separate Financial Statements	When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale

(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)

IAS 28 Investments in Associates	Required disclosures when investments in associates are accounted for at fair value through profit or loss Impairment of investment in associate
IAS 34 Interim Financial Reporting	Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33
IAS 31 Interests in Joint Ventures	Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss
IAS 29 Financial Reporting in Hyperinflationary Economies	Description of measurement basis in financial statements
IAS 36 Impairment of Assets	Disclosure of estimates used to determine recoverable amount
IAS 38 Intangible Assets	Advertising and promotional activities Units of production method of amortisation
IAS 39 Financial Instruments: Recognition and Measurement	Reclassification of derivatives into or out of the classification of at fair value through profit or loss Designating and documenting hedges at the segment level Applicable effective interest rate on cessation of fair value hedge accounting
IAS 40 Investment Property	Property under construction or development for future use as investment property
IAS 41 Agriculture	Discount rate for fair value calculations Additional biological transformation

There were no significant effects of these changes in accounting policies on these interim condensed consolidated financial statements. However, the adoption of IFRS 8 "Operating segments" will affect the disclosures relating to business segments as presented in the notes to the annual financial statements.

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

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

IFRSs and IFRIC Interpretations not yet effective

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

- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation";
- IFRIC 17 "Distributions of Non-cash Assets to Owners"
- IFRIC 18 "Transfers of Assets from Customers";
- IAS 39 "Financial Instruments: Recognition and Measurement" - Eligible Hedged Items;
- IFRS 3R "Business Combinations" and IAS 27R "Consolidated and Separate Financial Statements";
- Amendments to IFRS 1 and IAS 27 - Determining the cost of an investment in the separate financial statements;
- Amendments to IFRS 1 - Additional Exemptions for First-time Adopters;
- Amendments to IFRS 2 – Group Cash-settled share-Based Payment Transactions;
- "Improvements to IFRSs 2009" — a new collection of amendments to IFRSs which was published on 16 April, 2009. These amendments will not be included as part of another major project and consist of the following:

IFRS (amended in 2009)	Subject of amendment
IFRS 2 Share-based Payment	Scope of IFRS 2 and revised IFRS 3 Business Combinations
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations
IFRS 8 Operating Segments	Disclosure of information about segment assets
IAS 1 Presentation of Financial Statements	Current/noncurrent classification of convertible instruments
IAS 7 Statement of Cash Flows	Classification of expenditures on unrecognised assets
IAS 17 Leases	Classification of leases of land and buildings
IAS 18 Revenue	Determining whether an entity is acting as a principal or as an agent
IAS 36 Impairments of Assets	Unit of accounting for goodwill impairment test
IAS 38 Intangible Assets	Additional consequential amendments arising from revised IFRS 3 Measuring the fair value of an intangible asset acquired in a business combination

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

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

IFRSs and IFRIC Interpretations not yet effective (continued)

IAS 39 Financial Instruments: Recognition and Measurement	Treating loan prepayment penalties as closely related embedded derivatives Scope exemption for business combination contracts Cash flow hedge accounting
IFRIC 9 Reassessment of Embedded Derivatives	Scope of IFRIC 9 and revised IFRS 3
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	Amendment to the restriction on the entity that can hold hedging instruments

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

3. Recognition of Non-controlling Interests

Donelle is the sole shareholder in CJSC Aphopharm - "Aphopharm". Aphopharm is a holder of the Afobazol trade mark being its only asset. In August 2008, the Company signed a sales-purchase agreement for acquisition of 100% interest in Donelle with the purpose of acquiring the Afobazol trade mark..In accordance with that agreement in October 2008, 100% of shares in Donelle were transferred to the Company and the Company became the sole shareholder in Donelle.

In March 2009, the Company signed an addendum to the sales purchase agreement for acquisition of Donelle, which stipulated that the Company will give up 10.93% of the shares in Donelle in lieu of settlement of the outstanding payable for Donelle shares of RR 235,000 (Note 14). This transaction was recorded as an increase in non-controlling interest with the corresponding decrease in other accounts payable.

4. Segment Information

For the management purposes, the Group is organised into two main reportable operating segments: (1) production and wholesale of pharmaceutical products and (2) production and wholesale of medical equipment and disposables. The medical equipment segment arose as a result of the acquisition of OJSC "TZMOI" in 2005 and is represented by OJSC "TZMOI". External sales of the both operating segments are conducted through OJSC "Pharmstandard" as the single trading house of the Group.

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

Management is preparing separate budgets for these operating segments and is separately monitoring their sales, cost of sales, operating expenses and other operating results for the purpose of making decisions about resource allocation and performance assessment.

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

4. Segment Information (continued)

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.

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

Six months period ended 30 June 2008 (unaudited)	**Production and wholesale of pharmaceutical products**	**Production and wholesale of medical equipment**	**Eliminations**	**Group**
Sales to external customers	5,671,712	526,332	-	6,198,044
Total revenue	**5,671,712**	**526,332**	**-**	**6,198,044**
Gross profit	3,493,161	157,287	-	3,650,448
Segment result	**2,374,627**	**116,176**	**-**	**2,490,803**
Finance costs, net				(124,251)
Profit before income tax				**2,366,552**
Income tax expense				(609,618)
Profit for the period				**1,756,934**
Capital expenditure (Note 6)	406,458	14,827	-	421,285
Depreciation and amortisation	246,408	25,901	-	272,309

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

4. Segment Information (continued)

The following table presents segment assets of the Group's operating segments as at 30 June 2009 and 31 December 2008:

	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Adjustments and eliminations (a)	Group
Segment assets				
At 30 June 2009	**20,697,690**	**1,043,926**	**1,180,469**	**22,922,085**
At 31 December 2008	15,838,329	1,191,534	1,180,469	18,210,332

(a) Segment assets do not include goodwill (RR: 1,180,469) as this asset is managed on a Group basis.

5. Balances and Transactions with Related Parties

The nature of the related party relationships for those related parties with whom the Group entered into transactions or had balances outstanding at 30 June 2009 and 31 December 2008 are detailed below.

Balances with Related Parties:

30 June 2009 (unaudited)	Cash and cash equivalents Note 10 (a)	Trade payables, other payables and accruals Note 14 (b)
Other related parties[1]	2,115,901	8,674
Total	**2,115,901**	**8,674**

31 December 2008 (audited)	Cash and cash equivalents Note 10 (a)	Trade payables, other payables and accruals Note 14 (b)
Other related parties[1]	92,930	6,495
Total	**92,930**	**6,495**

(a) This balance represented cash at a bank controlled by a related party.
(b) This balance represented obligation for the license fee, described in section "Transactions with related parties" below.

Cash balances with the related bank carry no interest. Cash equivalents at 30 June 2009 were represented by deposits with the related bank and carry 10.5-12.5% interest p.a.

[1] - *Other related parties represent entities under control of the Company's shareholders having significant influence over the Company.*

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

5. Balances and Transactions with Related Parties (continued)

Transactions with related parties included in the income statement:

Income statement caption	Relationship	6 months 2009 (unaudited)	6 months 2008 (unaudited)
License fee (included in distribution costs) (A)	Other related parties[1]	**11,730**	12,276
Warehouse rental expenses (included in distribution costs) (B)	Other related parties[1]	**21,111**	17,503
Office rental expenses (included in general and administrative expenses) (B)	Other related parties[1]	**8,033**	7,948

(A) License fee

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

(B) Rental expenses

The Group incurred warehouse and office rental expenses that is payable to an other related party.

Compensation to key management personnel

Key management personnel comprise 3 persons as at 30 June 2009 and 2008. Total compensation to key management personnel, amounted to RR 7,434 for the six months period ended 30 June 2009 (6 months 2008: RR 12,354). Such compensation represented short-term employee benefits (payroll and bonuses) included in general and administrative expenses.

6. Property, Plant and Equipment

Acquisitions and disposals

During the six months period ended 30 June 2009 the Group acquired property, plant and equipment with cost of RR 111,190 (6 months 2008: RR 421,285). Property, plant and equipment with net book value of RR 9,677 were disposed of by the Group during the six months ended 30 June 2009 (6 months 2008: RR 17,666), resulting in loss on disposal of RR 3,417 (6 months 2008: RR 8,959). Total depreciation of the property, plant and equipment for the six months period ended 30 June 2009 amounted to RR 224,719 (6 months 2008: 181,542).

7. Intangible Assets

In June 2009 the Group acquired certain patents ("know-how") for RR 77,751.

Total amortization of the intangible assets for the six months period ended 30 June 2009 amounted to RR 142,925 (6 months 2008: 90,767). This amortization is included in the cost of sales line item (Note 17).

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

8. Inventories

Inventories consist of the following:

	30 June 2009 (unaudited)	31 December 2008 (audited)
Raw materials - at cost	**1,708,321**	1,113,174
Work in progress - at cost	**225,694**	179,319
Finished goods:		
- at cost	**1,529,000**	1,216,896
- at net realisable value	**1,505,901**	1,192,417
	3,439,916	2,484,910

9. Trade Receivables

	30 June 2009 (unaudited)	31 December 2008 (audited)
Trade receivables (net of allowance for impairment of receivables of RR 500,371 (31 December 2008: RR 568,676))	**6,462,777**	4,761,359
	6,462,777	4,761,359

At 30 June 2009 RR 58,631 of trade receivables were denominated in currencies other than Russian Roubles, primarily in US$ (31 December 2008: RR 172,870).

The allowance for impairment at 31 December 2008 included RR 476,131 in relation to the bankruptcy of one of the Group's distributors CJSC "Genesis". In 2009, CJSC "Genesis" receivable was partially collected resulting in reversal of the allowance in the amount of RR 120,160 which was recorded as other income (Note 20).

10. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	30 June 2009 (unaudited)	31 December 2008 (audited)
Cash in bank – Russian Roubles	**901,072**	183,688
Cash in bank – US$ and Euro	**11,024**	2,378
Cash deposit placed to secure participation in the state tenders (a)	**147,492**	-
Short-term bank deposits with original maturity less than 90 days – Russian Roubles (b)	**1,220,000**	-
	2,279,588	186,066

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

10. Cash and Cash Equivalents (continued)

(a) In 2009, the Group entered into several tenders for pharmaceutical supplies financed from the state budget and placed cash deposits with the authorized state body to secure its participation in those tenders in accordance with the regulations. Such deposits are interest free and are restricted in use for 3 months since the placement date. t.

(b) Short term deposits carry interests at 10.5-12.5% per annum.

11. Financial Assets

Short-term financial assets at fair value through profit or loss

	30 June 2009 (unaudited)	31 December 2008 (audited)
Promissory notes	220,100	104,300
Trade securities and other	11,590	9,695
	231,690	113,995

12. Borrowings and Loans and derivative financial instruments

In 2009, the Group repaid US$ 26,692 thousand (RR 880,989) of the Syndicated borrowing organised by Citibank ("Citibank loan"). Also, the Group repaid RR 4,671 of the other loans. The amount of borrowings and loans also increased by RR 193,425 due to effect from foreign exchange loss primarily recognised as a result of revaluation of the Citibank loan which was denominated in US$.

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

13. Other Taxes Payable

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

	30 June 2009 (unaudited)	31 December 2008 (audited)
Value-added tax	216,775	292,064
Property and other taxes	55,051	47,243
	271,826	339,307

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

14. Trade and Other Payables and Accruals

	30 June 2009 (unaudited)	31 December 2008 (audited)
Trade payables	**4,310,220**	1,193,029
Payable for Afobazol trade mark acquisition (Note 3)	**-**	235,000
Payable for non-controlling interests acquisitions	**236**	24,606
Other payables – related parties (Note 5)	**8,674**	6,495
Other payables and accruals	**256,948**	248,414
	4,576,078	1,707,544

At 30 June 2009 RR 1,116,099 of trade payables were denominated in currencies other than Russian Rouble, primarily in US$ (31 December 2008: RR 527,018).

15. 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 Ruble. All authorised shares are issued and fully paid. There were no transactions with own shares during six months period ended 30 June 2009.

As at 30 June 2009 and 31 December 2008 more than half of voting shares of OJSC "Pharmstandard" were held by "Augment Investments Limited" ("Augment"), a company registered under the laws of Cyprus. On 26 March 2008, Victor Kharitonin, a Russian citizen obtained control over more than a half of voting shares of the Company. He became the Group's ultimate controlling party since that date.

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

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

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

Earnings per share are as follows:

	6 months 2009	6 months 2008
	----------(unaudited)----------	
Weighted average number of ordinary shares outstanding	**37,792,603**	37,792,603
Profit for the period attributable to the shareholders	**2,583,998**	1,750,040
Basic and diluted earnings per share, Russian Roubles	**68.37**	46.31

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

16. Revenue - Sale of Goods

The Group's products are divided into pharmaceuticals, including products sold in the OTC ("Over-the-counter") market or with a prescription, and medical equipment and disposables.

Sales breakdown by product groups comprised the following:

Product group	**6 months 2009**	**6 months 2008**
	----------(unaudited)---------	
Pharmaceutical products		
OTC		
Branded	**4,835,838**	3,729,945
Non-branded	**895,917**	593,983
	5,731,755	4,323,928
Prescription		
Branded (a)	**3,840,260**	1,220,793
Non-branded	**174,490**	106,353
	4,014,750	1,327,146
Other	**42,128**	20,638
Total pharmaceutical products	**9,788,633**	5,671,712
Medical equipment and disposables	**273,258**	526,332
	10,061,891	6,198,044

(a) In 2009, the Group won the state tender and was admitted to supply Velcade prescription medicine. Velcade is original prescription product of the "Janssen-Cilag" company. In June 2009, the Group supplied this product to hospitals of Russian Federation. The amount of revenue from Velcade sales is RR 2,278,101 (Note 17).

17. Cost of Sales

The components of cost of sales were as follows:

	6 months 2009	**6 months 2008**
	----------(unaudited)----------	
Materials, components and goods for resale (a)	**4,520,379**	1,914,646
Production overheads	**333,854**	294,598
Depreciation and amortization	**333,035**	241,885
Direct labour costs	**99,949**	96,467
	5,287,217	2,547,596

(a) This line includes Velcade (Note 16) is purchased from a other vendor and accounted for as goods for resale in the amount of RR 2,186,977

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

18. Selling and Distribution Costs

Selling and distribution costs comprised the following:

	6 months 2009	**6 months 2008**
	(unaudited)	
Advertising	**441,275**	478,605
Labour costs	**276,995**	269,476
Freight, communication and insurance of goods in transit	**64,118**	58,159
Trainings and other services	**10,005**	27,363
Certification expenses	**16,303**	12,775
Rent	**21,417**	22,196
Commission and license fee	**22,893**	19,622
Materials, maintenance and utilities	**31,976**	19,855
Travel and entertainment	**19,968**	27,037
Depreciation	**25,461**	17,705
Other expenses	**12,796**	10,999
	943,207	963,792

19. General and Administrative Expenses

General and administrative expenses comprised the following:

	6 months 2009	**6 months 2008**
	(unaudited)	
Labour costs	**202,696**	207,686
Utilities and services	**33,260**	24,294
Travel and entertainment	**7,207**	7,961
Taxes other than income tax	**7,318**	7,432
Property insurance	**7,273**	6,971
Freight and communication	**10,890**	13,857
Depreciation	**9,148**	12,718
Rent	**13,065**	13,456
Materials and maintenance	**9,500**	10,954
Other	**20,788**	21,388
	321,145	326,717

20. Other Income and Other Expenses

Other income comprised the following:

	6 months 2009	**6 months 2008**
	(unaudited)	
Foreign exchange gain, net	**-**	142,209
Income from non-core operations (a)	**8,135**	44,726
Gain from disposal of property, plant and equipment and investments property	**-**	25,148
Gain from reversal of impairment of "Genesis" receivables (Note 9)	**120,160**	-
	128,295	212,083

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

20. Other Income and Other Expenses (continued)

(a) Income from non-core operations in 2008 includes agency fee and reimbursement of marketing and promotional expenses incurred in respect of certain products. Income from non-core operations in 2009 includes agency fee and licence fee remuniration incurred in respect of certain products

Other expenses comprised the following:

	6 months 2009	6 months 2008
	----------(unaudited)----------	
Foreign exchange loss, net	**259,814**	-
Other taxes	**26,718**	28,182
Loss recognised on non-current assets classified as held for sale	-	13,891
Charity	**7,880**	2,309
Loss from disposal of property, plant and equipment	**3,417**	-
Writing-off of other short-term financial assets	-	-
Other	**16,497**	36,837
	314,326	81,219

21. Finance Income and Costs

Finance income and costs comprised the following:

	6 months 2009	6 months 2008
	----------(unaudited)----------	
Finance income:		
Income from changes of fair value of financial assets recognised in the income statement	**1,767**	-
Income from changes in fair value of the Interest Rate Swap (Note 12)	**21,342**	-
Interest income from loans and deposits	**19,946**	7,109
	43,055	7,109
Finance costs:		
Loss from changes of fair value of financial assets recognised in the statement of operations	-	2,985
Expense from changes in fair value of the Interest Rate Swap	-	26,454
Loss from Interest Rate Swap	**41,915**	16,975
Interest expense on borrowings and loans	**50,975**	84,946
	92,890	131,360

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

22. Income Tax

	6 months 2009	6 months 2008
	--------(unaudited)---------	
Income tax expense – current	**661,214**	674,379
Deferred tax expense (credit) – origination and reversal of temporary differences	**25,321**	(64,761)
Income tax expense	**686,535**	609,618

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

	6 months 2009	6 months 2008
	--------(unaudited)---------	
Income before taxation	**3,274,456**	2,366,552
Theoretical tax charge at statutory rate of 20% (2008: 24%) (a)	**654,891**	567,972
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	**31,644**	41,646
Income tax expense	**686,535**	609,618

(a) On 20 November 2008, the Russian Government enacted a law which reduced the statutory income tax rate from 24% to 20% effective from 1 January 2009. This reduction in the statutory income tax rate is reflected in the deferred tax balances as at 31 December 2008.

Movements in deferred tax balances were as follows:

	31 December 2008 (audited)	Differences recognition and reversal	30 June 2009 (unaudited)
Tax effects of deductible temporary differences – asset (liability):			
Property, plant and equipment	**(291,116)**	(23,275)	**(314,391)**
Intangible assets	**(554,433)**	14,340	**(540,093)**
Trade and other receivables	**121,241**	(61,538)	**59,703**
Inventories	**21,113**	(27,088)	**(5,975)**
Trade and other payables and other taxes	**(55,124)**	75,985	**20,861**
Financial instruments	**17,817**	(4,268)	**13,549**
Other	**1,316**	523	**1,839**
Total net deferred tax liability	**(739,186)**	**(25,321)**	**(764,507)**

22. Income Tax (continued)

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.

23. Contingencies, Commitments and Operating Risks

Operating environment of the group

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

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 2009 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 2009. 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 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.

23. Contingencies, Commitments and Operating Risks (continued)

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.

24. Financial Risk Management Objectives and Policies

Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans and cash and cash equivalents. The main purposes of these financial instruments are to raise finance for the Group's operations and investment activities. The Group has various other financial assets and liabilities such as promissory notes, trade receivables and trade payables, which relate directly to its operations. During the period the Group did not undertake active trading in financial instruments. To reduce the risk of interest fluctuations related to long term LIBOR borrowings, the Group entered into an interest rate swap agreement.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. Management reviews and agrees policies for managing each of these risks which are summarised below.

Interest rate risk

The Group is exposed to interest rate risk through interest cash flow and market value fluctuations as the majority of interest rates on long-term borrowings are floating and based on LIBOR as disclosed in Note 12.

Foreign exchange risk

The Group has US dollar denominated long-term borrowings (see Note 12) and also certain US dollar denominated trade payables (Note 14) and trade receivables (Note 9). Therefore, the Group is exposed to foreign exchange risk.

The Group monitors the foreign exchange risk by following changes in exchange rates in the currencies in which its cash, payables and borrowings are denominated. However, the Group does not have formal arrangements to mitigate this foreign exchange risk.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its operating and financial commitments. The Group performs continuous monitoring of cash deficit risks and continuous monitoring of repayment of its financial liabilities on time. The Group performs daily planning and control cash flow procedures.

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

24. Financial Risk Management Objectives and Policies (continued)

Credit Risk

Financial assets, which potentially are subject to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Sales to customers are made in accordance with annually approved Marketing and Credit policy. The Group daily monitors sales and receivables conditions using effective internal control procedures.

The carrying amount of accounts receivable, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk. Although collection of receivables could be affected by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

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

Sales concentration to a small group of customers

The Group works with some distributors (not more than five) that together represent about 50% of the Group's revenue in commercial market (excludes revenue related to government tenders) for 6 months 2009 and 2008. Given the Russian market structure limited number of large distributors is not unusual. The Group has no other significant concentrations of credit risk but is exposed to general risk of the global credit crisis and its effects on the Group's distributors.

Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt (while taking into consideration terms and conditions set by the Citibank Loan Agreement (Note 12).

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio not more than 60%. The Group includes within net debt borrowings and loans, trade and other payables less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent.

	30 June 2009 (unaudited)	**31 December 2008 (audited)**
Borrowings and loans	**1,655,669**	2,343,234
Trade and other payables	**4,576,078**	1,707,544
Bank overdraft	**-**	199,242
Less: cash and cash equivalents	**(2,279,588)**	(186,066)
Net debt	**3,952,159**	4,063,954
Equity	**15,035,076**	12,451,189
Capital and net debt	**18,987,235**	16,515,143
Gearing ratio	**21%**	25%

25. Post Balance Sheet Events

Reorganization of the Group

In July 2009, management approved a plan of the Group reorganization. This plan provides for the merger of OJSC "Pharmstandard", OJSC "Pharmstandard-Octyabr" and CJSC "Masterlek". Upon completion of the merger OJSC "Pharmstandard-Octyabr" and CJSC "Masterlek" which became dormant since 2009 and hold minor assets and liabilities will cease to exist The reorganization will simplify the structure of the Group and improve business efficiency.