

OJSC “Pharmstandard”

Interim Condensed Consolidated Financial Statements

For the six month period ended 30 June 2006

OJSC “Pharmstandard”

Interim Condensed Consolidated Financial Statements

For the six month period ended 30 June 2006

Contents

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Report on Review of Interim Financial Information

To the Shareholders and Management of OJSC “Pharmstandard”:

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

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

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

15 September 2006

OJSC “Pharmstandard”

Interim Condensed Consolidated Balance Sheet at 30 June 2006

(in thousands of Russian Roubles)

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

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

General Director

I.K. Krylov

Finance Director

E.V. Arkhangelskaya

15 September 2006

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

OJSC “Pharmstandard”

Interim Condensed Consolidated Statement of Operations

for the six months ended 30 June 2006

(in thousands of Russian Roubles)

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

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

General Director

I.K. Krylov

Finance Director

E.V. Arkhangelskaya

15 September 2006

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

OJSC “Pharmstandard”

Interim Condensed Consolidated Statement of Cash Flows

for the six months ended 30 June 2006

(in thousands of Russian Roubles)

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

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

OJSC “Pharmstandard”

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

for the six months ended 30 June 2006

(in thousands of Russian Roubles)

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

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

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

OJSC “Pharmstandard”

Notes to the Interim Condensed Consolidated Financial Statements

For the six month period ended 30 June 2006

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

1. Corporate Information

OJSC “Pharmstandard” and its subsidiaries (“the Group”) principal activities are production and wholesale distribution of pharmaceutical and medical products. Prior to 5 May 2006, the Company was registered as a limited liability company under the name of “Biovit”. In May 2006, the Company was renamed as “Pharmstandard” and reorganized into an open joint stock company (see Note 16). The Group’s corporate office is in Dolgoprudny, Likhachevsky proezd, 5B, Moscow region, Russia and its manufacturing facilities are based in Kursk, Tomsk, Ufa, St. Petersburg, Nizhny Novgorod and Tyumen. The Company held shares of voting interests in the following major subsidiaries consolidated within the Group as of 30 June 2006 and 31 December 2005:

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

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

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

2. Basis of Preparation of the Financial Statements

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

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

OJSC “Pharmstandard”

Notes to the Interim Condensed Consolidated Financial Statements (continued)

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

These interim condensed consolidated financial statements should be read in conjunction with the complete consolidated financial statements as of 31 December 2005 and for the year then ended, considering the effect of adoption of new IFRS and revision of existing IAS, which is described below.

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

Other than the effect of adoption of new IFRS and revision of existing IAS, as described below, the Group followed the same accounting policies and methods of computation as compared with those applied in the consolidated financial statements at 31 December 2005 and for the year then ended.

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

Seasonality of operations

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

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

Given the seasonality of operations, the Group’s operating results for the six-month period ended 30 June 2006 are not necessarily indicative of the results that may be expected for the year ending 31 December 2006.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial period except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after 1 January 2006.

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

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

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

OJSC “Pharmstandard”

Notes to the Interim Condensed Consolidated Financial Statements (continued)

3. Acquisition of minority interest

Additional share issue by OJSC “Pharmstandard–Ufavita”

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

Acquisition of minority interest in OJSC “TZMOI”

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

4. Segment Information

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

There are no material transactions between the segments.

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

| Six months ended 30 June 2006 (unaudited) | Production and wholesale of pharmaceutical products | Production and wholesale of medical equipment | Eliminations | Group |
|--|--|---|----------------|------------------|
| Sales to external customers | 2,367,638 | 549,048 | – | 2,916,686 |
| Inter-segment sales | – | 8,647 | (8,647) | – |
| Total revenue | 2,367,638 | 557,695 | (8,647) | 2,916,686 |
| Segment result | 785,741 | 138,828 | (4,000) | 920,569 |
| Interest (expense) income, net | (33,435) | 9,389 | – | (24,046) |
| Profit before income tax | 752,306 | 148,217 | (4,000) | 896,523 |
| Income tax expense | (213,287) | (36,292) | – | (249,579) |
| Net profit | 539,019 | 111,925 | (4,000) | 646,944 |

OJSC “Pharmstandard”

Notes to the Interim Condensed Consolidated Financial Statements
(continued)

4. Segment Information (continued)

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

5. Balances and Transactions with Related Parties

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

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 30 June 2006 and 31 December 2005 are detailed below.

Balances with Related Parties:

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

OJSC “Pharmstandard”

Notes to the Interim Condensed Consolidated Financial Statements (continued)

5. Balances and Transactions with Related Parties (continued)

- (a) The Company’s subsidiary, OJSC “Pharmstandard–Ufavita”, received cash advances of RR 814,386 from the entities controlled by the Group’s ultimate controlling party (Note 16), of which RR 802,400 was ultimately contributed by the Company’s Participant to its capital (Note 3). These advances were provided in accordance with share subscription agreements between those entities and OJSC “Pharmstandard – Ufavita” in connection with the additional OJSC “Pharmstandard – Ufavita” share issuance which was registered in 2006 (Note 3).
- (b) Other payables at 30 June 2006 represented the obligation for the voting shares of OJSC “TZMOI” originated from their acquisition in 2005 and 2006 (Note 3).

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

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

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

Transactions with Related Parties:

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

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

Acquisition of assets

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

OJSC “Pharmstandard”

Notes to the Interim Condensed Consolidated Financial Statements (continued)

5. Balances and Transactions with Related Parties (continued)

Disposal of assets held for sale

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

Sale of OJSC “Pharmstandard-Octyabr” buildings

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

Compensation to Key Management Personnel:

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

6. Property, Plant and Equipment

Acquisitions and disposals

During the six months ended 30 June 2006 the Group acquired property, plant and equipment with a cost of RR 516,862 (2005: RR 221,907, not including fixed assets acquired through a business combination in 2005). Property, plant and equipment with a net book value of RR 139,351 were disposed of by the Group during the six months ended 30 June 2006 (2005: RR 23,667), resulting in a loss on disposal of 36,351 (2005: RR 23,667). The total amount of disposals in the six month period ended 30 June 2006 included buildings of OJSC “Pharmstandard-Octyabr” with net book value of RR 103,000 sold to a related party (Note 5).

7. Assets Classified as Held for Sale

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

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

OJSC “Pharmstandard”

Notes to the Interim Condensed Consolidated Financial Statements
(continued)

8. Inventories

Inventories consist of the following:

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

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

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

9. Trade and Other Receivables

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

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

10. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

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

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

OJSC “Pharmstandard”

Notes to the Interim Condensed Consolidated Financial Statements
(continued)

11. Other Current Assets

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

12. Short-term Borrowings

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

13. Other Taxes Payable

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

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

14. Trade and Other Payables and Advances Received

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

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

OJSC “Pharmstandard”

Notes to the Interim Condensed Consolidated Financial Statements (continued)

15. Obligations Under Finance Leases

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

16. Share Capital

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

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

In May 2006, the Company was renamed as “Pharmstandard” and reorganized into an open joint stock company. The authorised number of ordinary shares issued upon reorganization equated to 37,792,603 with a par value per share of one Russian Rouble. All the issued shares were exchanged for ownership interest previously held by the Participant of the Company.

In January 2006, the Participant of the Company provided to the Company a capital contribution in the amount of RR 802,400 to finance the acquisition of additional shares issued by OJSC “Pharmstandard–Ufavita” (Note 3). This contribution was credited to net assets attributable to the Participant of the Company.

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

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

OJSC “Pharmstandard”

Notes to the Interim Condensed Consolidated Financial Statements
(continued)

17. Sales of Goods

Group’s products may be divided into pharmaceuticals, which comprise generic products sold either in the OTC (“Over-the-counter”) market or with a prescription, and medical equipment and disposables. Sales breakdown by product groups comprised the following:

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

18. Cost of Sales

The components of cost of sales were as follows:

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

OJSC “Pharmstandard”

Notes to the Interim Condensed Consolidated Financial Statements
(continued)

19. Selling and Distribution Costs

Selling and distribution costs comprised the following:

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

20. General and Administrative Expenses

General and administrative expenses comprised the following:

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

21. Income Tax

The major components of income tax expense comprised the following:

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

OJSC “Pharmstandard”

Notes to the Interim Condensed Consolidated Financial Statements
(continued)

21. Income Tax (continued)

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

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

Movements in deferred tax balances were as follows:

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

22. Contingencies, Commitments and Operating Risks

Operating Environment of the Group

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

OJSC “Pharmstandard”

Notes to the Interim Condensed Consolidated Financial Statements (continued)

22. Contingencies, Commitments and Operating Risks (continued)

Taxation

Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained. Because of the uncertainties associated with the Russian tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as of 30 June 2006.

Management's estimate of the amount of possible liabilities, including fines that could be incurred in the event that the tax authorities disagree with the Group's position on certain tax matters and certain tax practices used by the Group is approximately RR 55,222 at 30 June 2006. Should the Russian tax authorities decide to issue a claim and prove successful in the court, they would be entitled to recover the amount claimed, together with fines amounting to 20% of such amount and interest at the rate of 1/300 of the Central Bank of Russia rate for each day of delay for late payment of such amount. Management believes that it is not probable that the ultimate outcome of such matters would result in a liability. Therefore, no provision for these contingencies was recorded in the accompanying financial statements.

23. Post Balance Sheet Events

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

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