OJSC "PHARMSTANDARD"

Interim Condensed Consolidated Financial Statements

For the six month period ended 30 June 2008

"OJSC "Pharmstandard"

Interim Condensed Consolidated Financial Statements

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Contents

OJSC "Pharmstandard"

Interim Condensed Consolidated Balance Sheet at 30 June 2008

(in thousands of Russian Roubles)

	Notes	30 June 2008 (unaudited)	31 December 2007 audited
ASSETS			
Non-current assets			
Property, plant and equipment	6	**3,913,355**	3,691,266
Intangible assets	8	**4,377,710**	4,468,477
Long-term financial assets	12	**245,398**	245,398
		8,536,463	8,405,141
Current assets			
Inventories	9	**2,094,991**	1,760,195
Trade receivables	10	**3,704,370**	4,176,200
VAT recoverable		**344,612**	358,767
Prepayments		**104,387**	130,479
Income tax prepayment		**185,677**	-
Short-term financial assets	12	**575,354**	111,899
Cash and cash equivalents	11	**1,016,265**	192,589
		8,025,656	6,730,129
Non-current assets classified as held for sale	7	**-**	158,855
Total assets		**16,562,119**	15,294,125
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	17	**37,793**	37,793
Retained earnings		**10,628,837**	9,004,021
		10,666,630	9,041,814
Minority interest	3	**171,035**	560,879
Total equity		**10,837,665**	9,602,693
Non-current liabilities			
Long-term borrowings and loans	13	**1,241,194**	1,954,576
Deferred tax liability	24	**983,038**	1,047,799
Derivative financial instruments	14	**71,052**	44,598
Other non-current liabilities		**35,205**	36,826
		2,330,489	3,083,799
Current liabilities			
Trade and other payables and accruals	16	**1,959,464**	1,046,520
Current portion of long-term borrowings	13	**1,252,245**	1,310,374
Income tax payable		**-**	37,934
Other taxes payable	15	**182,256**	212,806
		3,393,965	2,607,633
Total liabilities		**5,724,454**	5,691,432
Total equity and liabilities		**16,562,119**	15,294,125

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

25 August 2008

The accompanying notes on pages 7-25 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 2008

(in thousands of Russian Roubles)

	Notes	6 months 2008	6 months 2007
		(unaudited)	
Revenue - sale of goods	18	**6,198,044**	4,426,283
Cost of sales	19	**(2,547,596)**	(1,890,839)
Gross profit		**3,650,448**	2,535,444
Selling and distribution costs	20	**(963,792)**	(752,425)
General and administrative expenses	21	**(326,717)**	(249,403)
Other income	22	**212,083**	86,653
Other expenses	22	**(81,219)**	(184,174)
Financial income	23	**7,109**	502
Financial expense	23	**(131,360)**	(141,256)
Profit before income tax		**2,366,552**	1,295,341
Income tax expense	24	**(609,618)**	(333,118)
Profit for the period		**1,756,934**	962,223
Attributable to:			
Equity holders of the Parent		**1,750,040**	946,575
Minority interests		**6,894**	15,648
		1,756,934	**962,223**
Earnings per share (in Russian roubles) - basic and diluted, for profit of the period attributable to equity holders of the parent	17	**46.31**	25.05

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

25 August 2008

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OJSC "Pharmstandard"

Interim Condensed Consolidated Statement of Cash Flows

for the six months ended 30 June 2008

(in thousands of Russian Roubles)

	Notes	6 months 2008	6 months 2007
		----------(unaudited)---------	
Cash flows from operating activities:			
Profit before income tax		**2,366,552**	1,295,341
Adjustments for:			
Depreciation and amortization	6,8	**272,309**	257,989
Allowances for impairment of receivables, inventories and financial assets	9,10	**54,014**	46,214
Loss recognised on non-current assets classified as held for sale	7,22	**13,891**	-
Gain from disposal of property, plant and equipment and non-current assets classified as held for sale	6,7,22	**(25,148)**	(9,642)
Foreign exchange gain	22	**(142,209)**	(75,175)
Loss from revaluation of short-term financial assets	23	**2,985**	-
Financial income	23	**(7,109)**	(502)
Financial expense	23	**128,375**	141,256
Operating cash flows before working capital changes		**2,663,660**	1,655,481
Decrease in trade and other receivables	10	**439,215**	486,027
Increase in inventories	9	**(346,750)**	(298,402)
Decrease (increase) in VAT recoverable		**14,155**	(54,964)
Decrease in prepayments		**26,092**	53,704
Increase in trade payables and other payables	16	**491,766**	118,917
Decrease (increase) in taxes payable other than income tax	15	**(30,550)**	5,388
Cash generated from operations		**3,257,588**	1,966,151
Income tax paid		**(897,988)**	(524,684)
Interest paid		**(103,578)**	(138,790)
Interest received		**1,562**	506
Net cash from operating activities		**2,257,584**	1,303,183
Cash flows from investing activities:			
Purchase of property, plant and equipment	6	**(381,313)**	(193,257)
Cash paid to settle the obligation for OJSC "TZMOI" shares acquired in 2005		**-**	(824,723)
Cash paid for minority interest acquisition	3	**(140,755)**	-
Cash received from sale of short-term financial assets	12	**84,914**	32,853
Cash paid for short-term financial assets	12	**(556,474)**	(64,900)
Cash received from sale of non-current assets classified as held for sale	7	**141,086**	34,133
Cash received from sale of property, plant and equipment	6	**42,814**	3,210
Loans provided		**-**	(3,000)
Loans repaid by related parties	5	**5,121**	25,153
Net cash used in investing activities		**(804,607)**	(990,531)
Cash flows from financing activities:			
Repayment of loans and borrowings	13	**(629,301)**	(22,170)
Net cash used in financing activities		**(629,301)**	(22,170)
Net increase in cash and cash equivalents		**823,676**	290,482
Cash and cash equivalents at the beginning of the period	11	**192,589**	192,966
Cash and cash equivalents at the end of the period	11	**1,016,265**	483,448

OJSC "Pharmstandard"

Interim Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2007

(in thousands of Russian Roubles)

	Equity attributable to equity holders of the parent				
	Share capital	**Retained earnings**	**Total**	**Minority interests**	**Total equity**
Balance at 31 December 2006 (audited)	**37,793**	**5,838,906**	**5,876,699**	**463,664**	**6,340,363**
Profit for the period	–	946,575	946,575	15,648	962,223
Disposal of part of an ownership interests in subsidiaries	–	(66,476)	(66,476)	66,476	–
Balance at 30 June 2007 (unaudited)	**37,793**	**6,719,005**	**6,756,798**	**545,788**	**7,302,586**

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**	**Minority interests**	**Total equity**
Balance at 31 December 2007 (audited)	**37,793**	**9,004,021**	**9,041,814**	**560,879**	**9,602,693**
Profit for the period	-	1,750,040	1,750,040	6,894	1,756,934
Effect of de-recognition of minority interests	-	(63,742)	(63,742)	(155,532)	(219,274)
Effect of acquisition of minority 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**

The accompanying notes on pages 7-25 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 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 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 and Tyumen. The Company held shares of voting interests in the following subsidiaries consolidated within the Group as of 30 June 2008 and 31 December 2007, respectively:

Entity	Country of incorporation	Activity	2008 % share	2007 % share
1. "Pharmstandard" LLC (*)	Russian Federation	Central procurement	**100**	100
2. "Pharmstandard-Leksredstva" OJSC	Russian Federation	Manufacturing of pharmaceutical products	**99**	99
3. "Pharmstandard-Tomskhimpharm" OJSC	Russian Federation	Manufacturing of pharmaceutical products	**91**	91
4. "Pharmstandard-Ufavita" OJSC	Russian Federation	Manufacturing of pharmaceutical products	**99**	94
5. "Pharmstandard-Octyabr" OJSC	Russian Federation	Manufacturing of pharmaceutical products	**97**	93
6. "Pharmstandard-Phitofarm-NN" LLC	Russian Federation	Manufacturing of pharmaceutical products	**99**	99
7. "TZMOI" OJSC	Russian Federation	Manufacturing of medical equipment	**96**	89
8. "TMK" LLC**	Russian Federation	Manufacturing of medical equipment	**-**	100
9. "Masterlek" CJSC	Russian Federation	Manufacturing pharmaceutical products	**100**	100
10. "Black Bird Investment Enterprises Corp"	British Virgin Islands	Finance company	**100**	100

* Before 1 April 2007, this entity performed the functions of managing company and trading house of the Group, which were then transferred to the Company. Since 1 April 2007, Pharmstandard LLC is specialized in procurement activities, primarily representing purchase of API (raw materials) for the Group production entities.

**As of 31 December 2007 this entity was classified as non-current asset held for sale. This entity was sold in the 1st Quarter 2008 for cash consideration of RR 140,000 (Note 7).

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors of the OJSC "Pharmstandard" on 25 August 2008.

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 2007 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 2007 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 2008 are not necessarily indicative of the results that may be expected for the year ending 31 December 2008.

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 2008.

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

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

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

- IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions";
- IFRIC 12 "Service Concession Arrangements";
- IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction";

There were no significant effects of these changes in accounting policies on these interim condensed consolidated financial statements.

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 13 "Customer Loyalty Programmes";
- IFRIC 15 "Agreements for the Construction of Real Estate";
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation";
- IFRS 8 "Operating segments";
- IAS 23 (amended 2007) "Borrowing costs".
- IFRS 2 "Share-based Payments" – Vesting Conditions and Cancellations;
- IFRS 3R "Business Combinations" and IAS 27R "Consolidated and Separate Financial Statements";
- IAS 1 Revised "Presentation of Financial Statements";
- Amendments to IAS 32 and IAS 1 "Puttable Financial Instruments";
- Amendments to IFRS 1 and IAS 27 "Determining the cost of an investment in the separate financial statements";
- Amendment to IAS 39 "Eligible Hedged Items";
- "Improvements to IFRSs" — a collection of insignificant amendments to International Financial Reporting Standards (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	Subject of amendment
IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"	Plan to sell the controlling interest in a subsidiary
IAS 1 Presentation of Financial Statements	Current/non-current classification of derivatives
IAS 16 Property, Plant and Equipment	Recoverable amount Sale of assets held for rental

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

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

IFRS	Subject of amendment
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 23 Borrowing Costs	Components of borrowing costs
IAS 27 Consolidated and Separate Financial Statements	Measurement of subsidiary held for sale in separate financial statements
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 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

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.

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

3. Acquisition and de-recognition of minority interests

In 1st Quarter 2008, the Company's management approved a plan to acquire minority interests in several subsidiaries. In June 2008, the Company acquired 5% interest in OJSC "Pharmstandard-Ufavita", 4% interest in OJSC "Pharmstandard-Octyabr" and 7% interest in OJSC "TZMOI", resulting in an increase in the Company's interests in OJSC "Pharmstandard-Ufavita", OJSC "Pharmstandard-Octyabr" and OJSC "TZMOI" to 99%, 97% and 96%, respectively. Total consideration due for the acquired minority interests was RR 302,688. Of that amount, RR 140,755 was paid in cash and RR 161,933 was recorded as payables at 30 June 2008 (Note 16). Consequently, the difference of RR 61,482 between the total consideration and the carrying amount of the minority interests acquired of RR 241,206 was debited directly to equity.

Further, in accordance with Russian regulations which were introduced in respect of joint stock companies with a controlling shareholder interest more than 95% and in accordance with the approved plan on minority interest acquisition the Group derecognised the remaining minority interests in OJSC "Pharmstandard-Ufavita", OJSC "Pharmstandard-Octyabr", OJSC "Pharmstandard-Leksredstva" and OJSC "TZMOI" in the total amount of RR 155,532 and accrued a total liability to minority shareholders in an amount of RR 219,274 as at 30 June 2008 (Note 16). The liability was measured, based on the unconditional shares purchase value offered by the Company to the minority shareholders in accordance with the regulations. The difference of RR 63,742 between the total unconditional shares purchase value offered to the minority shareholders and the carrying amount of the minority interests derecognised of RR 155,532 was debited 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. The second segment arose as a result of the acquisition of OJSC "TZMOI" in 2005 and is entirely represented by OJSC "TZMOI".

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.

The following table presents revenue and profit and certain asset and liability information regarding the Group's business segments:

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**
Financial expense, net				(124,251)
Profit before income tax				**2,366,552**
Income tax expense				(609,618)
Net profit				**1,756,934**

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

4. Segment Information (continued)

Six months period ended 30 June 2007 (unaudited)	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Eliminations	Group
Sales to external customers	3,777,487	648,796	–	4,426,283
Total revenue	**3,777,487**	**648,796**	–	**4,426,283**
Gross profit	2,249,940	285,504	-	2,535,444
Segment result	**1,222,489**	**213,606**	–	**1,436,095**
Financial expense, net				(140,754)
Profit before income tax				**1,295,341**
Income tax expense				(333,118)
Net profit				**962,223**

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 2008 and 31 December 2007 are detailed below.

Balances with Related Parties:

30 June 2008 (unaudited)	Short-term financial assets	Cash and cash equivalents Note 11 (b)	Trade payables, other payables and accruals Note 16 (a)
Other related parties[1]	-	994,657	6,649
Total	-	**994,657**	**6,649**

31 December 2008 (audited)	Short-term financial assets Note 12	Cash and cash equivalents Note 11 (b)	Trade payables, other payables and accruals Note 16 (a)
Other related parties	5,111	168,836	6,990
Total	**5,111**	**168,836**	**6,990**

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

Major conditions of the loans included in short-term financial assets above are as follows:

[1] *- other related parties represent entities under control of the Company's shareholders having the 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)

Caption	Interest rate, % 30 June 2008 (unaudited)	Interest rate, % 31 December 2007 (audited)	Maturity period 30 June 2008 (unaudited)	Maturity period 31 December 2007 (audited)
Current deposits to related parties	-	2%	-	3 months

Cash balances with related bank carry no interest. Cash equivalents represented by deposits with related bank carry 9-10% interest p.a.

Transactions with related parties included in the statement of operations:

Statement of operations caption	Relationship	6 months 2008 (unaudited)	6 months 2007 (unaudited)
License fee (included in distribution costs) (A)	Entity under common control	**12,276**	11,847
Warehouse rental expenses (included in distribution costs) (B)	Entity under common control	**17,503**	15,178
Office rental expenses (included in general and administrative expenses) (B)	Entity under common control	**7,948**	3,873

(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 to another related party.

Compensation to Key Management Personnel

Key management personnel comprise 3 persons as of 30 June 2008 and 31 December 2007. Total compensation to key management personnel actually amounted to RR 12,354 for the six months period ended 30 June 2008 (6 months 2007: RR 41,878). Such compensation represented the following short-term employee benefits: (i) payroll and bonuses included in general and administrative expenses and (ii) for the six months period ended 30 June 2007 one-off remuneration for achievement of the IPO-related targets (Notes 17 and 22) included in other expenses in the statement of operations.

6. Property, Plant and Equipment

Acquisitions and disposals

During the six months period ended 30 June 2008 the Group acquired property, plant and equipment with a cost of RR 421,285 (6 months 2007: RR 210,643). Property, plant and equipment with a net book value of RR 17,666 were disposed of by the Group during the six months ended 30 June 2008 (6 months 2007: RR 13,483), resulting in a loss on disposal of RR 8,959 (6 months 2007: RR 1,836). Total depreciation of the property, plant and equipment for the six months period ended 30 June 2008 amounted to RR 181,542 (6 months 2007: 176,416).

In addition several social objects (buildings of the nursery school) with zero carrying value were sold in 2008 for cash consideration of RR 34,107 and the respective gain was recognized in the consolidated statement of operations.

7. Non-Current Assets Classified as Held for Sale

Sale of non-current Assets Classified as Held for Sale

The non-current Assets Classified as Held for Sale carried in the balance sheet as at 31 December 2007 in the amount of RR 140,000 and represented by TMK LLC (Note 1), were sold in 1st Quarter 2008 for cash consideration of RR 140,000. A loss recognised on non-current Assets Classified as Held for Sale amounting to RR 13,953 is caused by arrangement of TMK LLC intercompany trade receivable and trade payable. This loss was recognised in the statement of operations (Note 22).

The remainder of the non-current Assets Classified as Held for Sale in the balance sheet as at 31 December 2007 in the amount of RR 18,855 and represented some non-current assets located in St-Petersburg were sold in 1st Quarter 2008 for cash consideration of RR 18,917 (Note 22).

The part of cash consideration for TMK LLC and other non-current Assets Classified as Held for Sale in the amount of RR 17,731 was received in an advance in 2006 and 2007.

8. Intangible Assets

There were no acquisitions and disposals of the intangible assets for the six months period ended 30 June 2008 and 2007. Total amortization of the intangible assets for the six months period ended 30 June 2008 amounted to RR 90,767 (6 months 2007: 81,573). This amortization is included in the cost of sales line item (Note 19).

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

9. Inventories

Inventories consist of the following:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Raw materials (at cost)	**818,954**	841,703
Work in progress (at cost)	**163,653**	134,554
Finished goods and goods for resale:		
- at cost	**1,191,453**	851,052
- at net realisable value	**1,112,384**	783,938
	2,094,991	1,760,195

The amount of write-down of inventories recognised as an expense is RR 23,443 (6 months 2007: RR 31,459). This expense is included in the cost of sales line item as a cost of materials and components (Note 19).

No inventories have been pledged or restricted in use at 30 June 2008 and 31 December 2007.

10. Trade Receivables

	30 June 2008 (unaudited)	31 December 2007 (audited)
Trade receivables (net of provision for impairment of receivables of RR 200,546 and RR 167,933 as at 30 June 2008 and 31 December 2007, respectively)	**3,704,370**	4,176,200
	3,704,370	4,176,200

At 30 June 2008 RR 55,955 of trade receivables were denominated in currencies other than Russian Roubles, primarily in US$ (31 December 2007: RR 129,304).

11. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Cash in bank – Russian Roubles	**357,182**	119,126
Cash in bank – US$ and Euro	**24,083**	13,463
Short-term bank deposits with original maturity less than 90 days – Russian Roubles	**635,000**	60,000
	1,016,265	192,589

Short term deposits carry interests at 9-10% per annum.

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

12. Financial Assets

Short-term financial assets

	30 June 2008 (unaudited)	31 December 2007 (audited)
Promissory notes	**556,474**	81,300
Loans to related parties (Note 5)	**-**	5,111
Trading securities and other	**18,880**	25,488
	575,354	111,899

Long-term financial assets

	30 June 2008 (unaudited)	31 December 2007 (audited)
Non-listed shares	**245,398**	245,398
	245,398	245,398

13. Borrowings and Loans and derivative financial instruments

In 2008, the Group repaid US$ 26,692 thousand (RR 629,301) of the Syndicated borrowing organised by Citibank ("Citibank loan"). The amount of borrowings also decreased by RR 142,209 due to effect from foreign exchange gain primarily recognised as a result of revaluation of the Citibank loan which was denominated in US$.

14. Derivative financial instruments

Interest Rate Swap related to the Citibank loan was classified as derivative financial instrument. Loss from change in fair value of the Interest Rate Swap recognised in the statement of operations (Note 23) was RR 26,454 for the six months period ended 30 June 2008. .

15. Other Taxes Payable

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

	30 June 2008 (unaudited)	31 December 2007 (audited)
Value-added tax	**134,183**	157,585
Property and other taxes	**48,073**	55,221
	182,256	212,806

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

16. Trade and Other Payables and Accruals

	30 June 2008 (unaudited)	31 December 2007 (audited)
Trade payables	**1,333,136**	766,007
Payables for minority interests acquisition (Note 3)	**161,933**	-
Accruals for minority interests de-recognition (Note 3)	**219,274**	-
Other payables – related parties (Note 5)	**6,649**	6,990
Other payables	**238,472**	273,523
	1,959,464	1,046,520

At 30 June 2008 RR 268,643 of trade payables were denominated in currencies other than Russian Rouble, primarily in US$ (31 December 2007: RR 274,167).

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 Ruble. All authorised shares are issued and fully paid. There were no transactions with own shares during six months period ended 30 June 2008.

As at 30 June 2008 and 31 December 2007 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. Therefore 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 May 2008 944,815 ordinary shares representing 2.5 percent of share capital of the Company were sold by Augment and were offered at London stock exchange (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.

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

17. Share Capital (continued)

Earnings per share are as follows:

	6 months 2008	6 months 2007
	----------(unaudited)----------	
Weighted average number of ordinary shares outstanding	**37,792,603**	37,792,603
Profit for the year attributable to the shareholders	**1,750,040**	946,575
Basic and diluted earnings per share, Russian Roubles	**46.31**	25.05

18. 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 2008	6 months 2007
	----------(unaudited)----------	
Pharmaceutical products		
OTC		
Branded	**3,729,945**	2,767,974
Non-branded	**593,983**	298,912
	4,323,928	3,066,886
Prescription		
Branded	**1,220,793**	545,387
Non-branded	**106,353**	124,454
	1,327,146	669,841
Other	**20,638**	40,760
Total pharmaceutical products	**5,671,712**	3,777,487
Medical equipment and disposables	**526,332**	648,796
	6,198,044	4,426,283

19. Cost of Sales

The components of cost of sales were as follows:

	6 months 2008	6 months 2007
	----------(unaudited)----------	
Materials, components and goods for resale	**1,914,646**	1,192,389
Production overheads	**294,598**	380,393
Depreciation and amortization	**241,885**	236,599
Direct labour costs	**96,467**	81,458
	2,547,596	1,890,839

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

20. Selling and Distribution Costs

Selling and distribution costs comprised the following:

	6 months 2008	6 months 2007
	(unaudited)	
Advertising	**478,605**	356,774
Labour costs	**269,476**	193,742
Freight, communication and insurance of goods in transit	**54,118**	53,959
Utilities and other services	**38,188**	16,953
Travel and entertainment	**27,037**	17,515
Rent (Note 5)	**22,196**	21,076
Commission and license fee (Note 5)	**19,622**	46,855
Depreciation	**17,706**	8,062
Materials and maintenance	**13,070**	12,752
Certification expenses	**12,775**	12,986
Other expenses	**10,999**	11,751
	963,792	752,425

21. General and Administrative Expenses

General and administrative expenses comprised the following:

	6 months 2008	6 months 2007
	(unaudited)	
Labour costs	**207,686**	155,745
Utilities and services	**24,294**	15,201
Freight and communication	**13,857**	8,684
Rent (Note 5)	**13,456**	16,553
Depreciation	**12,718**	13,328
Materials and maintenance	**10,954**	7,533
Taxes other than income tax	**7,432**	8,652
Property insurance	**6,971**	6,064
Other	**29,349**	17,643
	326,717	249,403

22. Other Income and Other Expenses

Other income comprised the following:

	6 months 2008	6 months 2007
	(unaudited)	
Foreign exchange gain	**142,209**	75,175
Other income from non-core operations	**44,726**	-
Gain from disposal of property, plant and equipment and other property	**25,148**	-
Gain from sale of non-current assets classified as held for sale	**-**	11,478
	212,083	86,653

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

22. Other Income and Other Expenses (continued)

Other expenses comprised the following:

	6 months 2008	6 months 2007
	----------(unaudited)----------	
Other taxes	**28,182**	35,387
Loss recognised on non-current assets classified as held for sale (Note 7)	**13,891**	-
Charity	**2,309**	1,821
Legal, audit, one-off management remuneration (Note 5) and other non-recurring expenses incurred in connection with IPO (Note 17)	-	100,874
Loss from disposal of property, plant and equipment	-	1,836
Writing-off of other short-term financial assets	-	13,657
Other	**36,837**	30,599
	81,219	184,174

23. Financial Income and Expense

Financial income and expense comprised the following:

	6 months 2008	6 months 2007
	----------(unaudited)----------	
Interest income:		
Interest income from loans and deposits	**7,109**	502
	7,109	502
Interest expense:		
Interest expense on borrowings and loans	**84,946**	141,256
Expense from changes in fair value of the Interest Rate Swap (Note 14)	**26,454**	-
Loss from Interest Rate Swap (Notes 14)	**16,975**	-
Loss from changes of fair value of financial assets recognised in the statement of operations	**2,985**	-
	131,360	141,256

24. Income Tax

	6 months 2008	6 months 2007
	--------(unaudited)----------	
Income tax expense – current	**674,379**	310,078
Gain from reversal of income tax liabilities resulting from reconciliation with tax authorities (a)	-	(14,480)
Deferred tax (credit) expense – origination and reversal of temporary differences	**(64,761)**	37,520
Income tax expense	**609,618**	333,118

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

24. Income Tax (continued)

(a) The Group identified overpayment of income tax in the prior periods as a result of routine reconciliation with the tax authorities. As a result the respective receivable from the budget was recognised.

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

	6 months 2008	6 months 2007
	--------(unaudited)---------	
Income before taxation	**2,366,552**	1,295,341
Theoretical tax charge at statutory rate of 24%	**567,972**	310,882
Gain from reversal of income tax liabilities resulting from reconciliation with tax authorities	-	(14,480)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	**41,646**	36,716
Income tax expense	**609,618**	333,118

Movements in deferred tax balances were as follows:

	31 December 2007 (audited)	Differences recognition and reversal	30 June 2008 (unaudited)
Tax effects of deductible temporary differences – asset (liability):			
Intangible assets	(697,026)	16,365	**(680,661)**
Property, plant and equipment	(360,359)	12,470	**(347,889)**
Inventories	(18,278)	15,574	**(2,704)**
Trade and other payables	19,656	1,447	**21,103**
Financial instruments	-	17,053	**17,053**
Trade and other receivables	4,399	3,732	**8,131**
Other	3,809	(1,880)	**1,929**
Total net deferred tax liability	**(1,047,799)**	**64,761**	**(983,038)**

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;
- provisions 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.

25. 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, Russian Federation 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.

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 2008 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 2008. 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 the accompanying 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.

26. 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 uses 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 13.

Foreign exchange risk

The Group has US$ denominated long-term borrowings (see Note 13) and also certain US$ denominated trade payables (Note 16) and trade receivables (Note 10). 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.

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 regularly monitors sales and receivables conditions using effective internal control procedures.

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

26. Financial Risk Management Objectives and Policies (continued)

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 five distributors that together represent more than 50% of the Group's revenue for the six months ended 30 June 2008. Given the Russian market structure limited number of large distributors is not unusual and due to the strong relationships with these distributors, management considers the related credit risk concentration as normal. The Group has no other significant concentrations of credit risk.

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 13).

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 2008 (unaudited)	**31 December 2007 (audited)**
Borrowings and loans	**2,493,439**	3,264,950
Trade and other payables	**1,959,464**	1,046,520
Less: cash and cash equivalents	**(1,016,265)**	(192,589)
Net debt	**3,436,638**	4,118,881
Equity	**10,666,630**	9,041,814
Capital and net debt	**14,103,268**	13,160,695
Gearing ratio	**24%**	31%

27. Post Balance Sheet Events

In August 2008, the Group signed a contract concerning the acquisition of 100% of the voting shares of "Donelle Company Limited", a company registered under the laws of Cyprus, for cash consideration of US$ 91.5 million. This company is the sole shareholder of the Russian company "Aphopharm" which owns several trade marks. The acquisition is entirely financed from Group's own funds.