OJSC "PHARMSTANDARD"

Consolidated Financial Statements

For the year ended 31 December 2006

"OJSC "Pharmstandard"

Consolidated Financial Statements

For the Year Ended 31 December 2006

Contents

ERNST & YOUNG

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Independent Auditors' Report

To the Shareholders and Management of OJSC "Pharmstandard":

We have audited the accompanying consolidated financial statements of Russian open joint stock company "Pharmstandard" and its subsidiaries ("Group"), which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated statement of operations, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

ERNST & YOUNG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

23 March 2007

OJSC "Pharmstandard"

Consolidated Balance Sheet at 31 December 2006

(in thousands of Russian Roubles)

	Notes	2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	8	3,788,581	3,348,928
Investment property		14,522	18,787
Intangible assets	9	4,473,639	221,499
Other non-current assets	7	–	216,857
		8,276,742	3,806,071
Current assets			
Inventories	11	1,406,952	1,043,141
Trade receivables	12	3,373,741	1,830,858
VAT recoverable		222,675	370,176
Prepayments		169,232	279,169
Short term financial assets	14	104,866	346,593
Cash and cash equivalents	13	192,966	243,983
		5,470,432	4,113,920
Non-current assets classified as held for sale	10	22,655	393,121
Total assets		13,769,829	8,313,112
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	19	37,793	–
Retained earnings		5,838,906	–
Net assets attributable to the Participant of the Company	19	–	2,790,388
		5,876,699	2,790,388
Minority interest	5	463,664	1,134,474
Total equity		6,340,363	3,924,862
Non-current liabilities			
Long-term borrowings and loans	15	3,523,997	–
Deferred tax liability	25	1,080,828	441,463
Other non-current liabilities		47,767	60,292
		4,652,592	501,755
Current liabilities			
Trade payables and other payables and advances received	17	2,092,882	2,794,789
Short-term borrowings	15	351,415	583,530
Finance lease payable	18	–	81,955
Income tax payable		184,118	74,257
Other taxes payable	16	148,459	351,964
		2,776,874	3,886,495
Total equity and liabilities		13,769,829	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

23 March 2007

The accompanying notes on pages 8-42 are an integral part of these consolidated financial statements.

OJSC "Pharmstandard"

Consolidated Statement of Operations

For the Year Ended 31 December 2006

(in thousands of Russian Roubles)

	Notes	2006	2005
Revenue - sale of goods	20	8,522,780	5,684,824
Cost of sales	21	(3,581,237)	(2,507,102)
Gross profit		4,941,543	3,177,722
Selling and distribution costs	22	(1,268,160)	(1,069,452)
General and administrative expenses	23	(498,929)	(443,326)
Other expenses	24	(206,996)	(126,608)
Interest income		23,987	11,774
Interest expense		(291,363)	(106,413)
Profit before income tax		2,700,082	1,443,697
Income tax expense	25	(664,014)	(424,374)
Profit for the year		2,036,068	1,019,323
Attributable to:			
Equity holders of the Parent (Participant of the Company (Note 19))		1,897,671	906,221
Minority interests		138,397	113,102
Basic and diluted earnings per share, Russian Roubles	19	50.21	23.98

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

23 March 2007

The accompanying notes on pages 8-42 are an integral part of these consolidated financial statements.

OJSC "Pharmstandard"

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2006

(in thousands of Russian Roubles)

	Notes	2006	2005
Cash flows from operating activities:			
Profit before income tax		2,700,082	1,443,697
Adjustments for:			
Depreciation and amortization	8,9	284,797	181,373
Allowances for impairment of receivables and inventories	11,12	43,202	3,981
Loss on disposal of property, plant and equipment and intangible assets	8,9	160,145	49,785
Interest income		(23,987)	(11,774)
Interest expense		291,363	106,413
Operating cash flows before working capital changes		3,455,602	1,773,475
Increase in trade receivables	12	(1,099,267)	(242,908)
Increase in inventories	11	(74,735)	(76,853)
Decrease (increase) in VAT recoverable		151,436	(170,697)
Decrease in prepayments		109,937	43,595
Decrease in other short-term financial assets	14	41,014	101,843
(Decrease) increase in trade payables, other payables and advances received	17	(109,509)	250,826
(Decrease) increase in taxes payable other than income tax		(212,060)	101,298
Cash generated from operations		2,262,418	1,780,579
Income tax paid	25	(702,129)	(320,047)
Interest paid, net		(298,953)	(93,152)
Net cash from operating activities		1,261,336	1,367,380
Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets	8,9	(889,911)	(889,098)
Cash paid for subsidiaries acquisition	5	(3,945,860)	–
Cash in acquired subsidiary		76,097	57,105
Cash paid to settle the obligation for OJSC "TZMOI" shares acquired in 2005	5,7	(707,000)	–
Cash received from sale of investment property and property, plant and equipment	7,8	135,346	19,138
Cash received from sale of short-term financial assets, net	7	117,656	154,131
Cash paid for short-term financial assets, net		(34,466)	–
Cash received from sale of non-current assets classified as held for sale	10	370,466	–
Deposits repaid by (placed to) related bank, net	7	71,649	(71,649)
Loans provided to related parties	7	–	(154,007)
Loans repaid by related parties	7	283,743	151,194
Net cash used in investing activities		(4,522,280)	(733,186)
Cash flows from financing activities:			
Capital contribution from the Participant of the Company	5	802,400	–
Cash paid for minority interest in OJSC "Pharmstandard Ufavita"	5	(802,400)	–
Proceeds from loans and borrowings	15	3,875,412	286,193
Repayment of loans and borrowings	15	(513,530)	(699,025)
Repayment of loans to related parties	5,15	(3,994,242)	(499,242)
Proceeds from loan from related parties	5	3,924,242	–
Repayment of finance lease liabilities	18	(81,955)	(109,048)
Cash advance received for future share issue	7, 19	–	814,386
Dividends paid	19	–	(249,074)
Net cash from (used in) financing activities		3,209,927	(455,810)
Net (decrease) increase in cash and cash equivalents		(51,017)	178,384
Cash and cash equivalents at the beginning of the year	13	243,983	65,599
Cash and cash equivalents at the end of the year	13	192,966	243,983

The accompanying notes on pages 8-42 are an integral part of these consolidated financial statements.

OJSC "Pharmstandard"

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2006

(in thousands of Russian Roubles)

		Equity attributable to equity holders of the parent					
	Notes	Share capital	Retained earnings	Net assets (deficit) attributable to the Participant of the Company	Total	Minority interests	Total equity
Balance at 31 December 2004		**34,562**	**2,463,175**	**(313,842)**	**2,183,895**	**349,050**	**2,532,945**
Profit for the year		–	507,254	398,967	906,221	113,102	1,019,323
Minority interests arising on acquisition of subsidiary	**5.1**	–	–	–	–	**674,813**	**674,813**
Dividends	**19**	–	(246,583)	–	(246,583)	(2,491)	(249,074)
Effect of reorganization under common control – acquisition of Group companies by Biovit LLC	**19**	(34,562)	(2,723,846)	2,758,408	–	–	–
Distribution to Participant of the Company	**5.1**	–	–	(53,145)	(53,145)	–	(53,145)
Balance at 31 December 2005		–	–	**2,790,388**	**2,790,388**	**1,134,474**	**3,924,862**

The accompanying notes on pages 8-42 are an integral part of these consolidated financial statements.

OJSC "Pharmstandard"

Consolidated Statement of Changes in Equity (continued)

For the Year Ended 31 December 2006

(in thousands of Russian Roubles)

		Equity attributable to equity holders of the parent					
	Notes	Share capital	Retained earnings	Net assets attributable to the Participant of the Company	Total	Minority interests	Total equity
Balance at 31 December 2005		–	–	2,790,388	2,790,388	1,134,474	3,924,862
Contribution from the Participant of the Company for acquisition of additional shares in OJSC "Pharmstandard Ufavita"	5.2	–	–	802,400	802,400	–	802,400
Acquisition of additional shares in OJSC "Pharmstandard Ufavita" by minority shareholders	5.2	–	–	–	–	11,986	11,986
Effect of acquisition of additional shares in OJSC "Pharmstandard Ufavita" by the Company	5.2	–	–	199,291	199,291	(199,291)	–
Profit for the period		–	1,265,114	632,557	1,897,671	138,397	2,036,068
Issuance of shares in connection with legal reorganization	19	37,793	4,386,843	(4,424,636)	–	–	–
Effect of acquisition of minority interest in OJSC "TZMOI"	5.2	–	186,949	–	186,949	(621,902)	(434,953)
Balance at 31 December 2006		37,793	5,838,906	–	5,876,699	463,664	6,340,363

The accompanying notes on pages 8-42 are an integral part of these consolidated financial statements.

OJSC "Pharmstandard"

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2006

(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 Russia. 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 19).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 31 December 2006 and 2005, respectively:

Entity	Country of incorporation	Activity	2006 % share	2005 % share
1. "Pharmstandard" LLC	Russia	Management company and trading house	99	99
2. "Pharmstandard-Leksredstva" OJSC	Russia	Manufacturing of pharmaceutical products	99	99
3. "Pharmstandard-Tomskhimpharm" OJSC	Russia	Manufacturing of pharmaceutical products	91	91
4. "Pharmstandard-Ufavita" OJSC	Russia	Manufacturing of pharmaceutical products	97	56
5. "Pharmstandard-Octyabr" OJSC	Russia	Manufacturing of pharmaceutical products	93	93
6. "Pharmstandard-Phitofarm-NN" LLC	Russia	Manufacturing of pharmaceutical products	99	99
7. "TZMOI" OJSC	Russia	Manufacturing of medical equipment	90	55
8. "TMK" LLC (prior to 2006 "Urlan Invest" LLC)	Russia	Manufacturing of medical equipment	100	100
9. "Masterlek" CJSC	Russia	Manufacturing of pharmaceutical products	100	–
10. "Black Bird Investment Enterprises Corp"	British Virgin Islands	Financing activities	100	–

The Group was formed in 2005 through a reorganization in which the ownership interests in the companies listed above (1 through 6) were acquired by the Company from parties under common control. Other acquisitions of subsidiaries (7 through 10) are disclosed in Note 5.

As the Group has been formed through a reorganisation of entities under common control, these consolidated financial statements have been prepared using the uniting of interests method, and, as such, the financial statements, including corresponding figures, have been presented as if transfers of ownership interests in subsidiaries to the Company had occurred on the date they were originally established or acquired by the transferring party (the "Predecessor").

These consolidated financial statements were authorized for issue by the Board of Directors of the OJSC "Pharmstandard" on 23 March 2007.

2. Basis of Preparation of the Financial Statements

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of Accounting

Group companies maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The statutory financial statements have been adjusted to present these financial statements in accordance with IFRS. These adjustments principally relate to valuation and depreciation of tangible fixed assets, certain valuation reserves, purchase accounting for business combinations and the resulting income tax effects and also to consolidation.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, non-current assets classified as held for sale have been measured at lower of carrying amount and fair value less costs to sell.

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 amended standards and interpretations:

- IAS 19 (amended 2005) "Employee benefits";
- IAS 21 (amended 2005) "The Effects of Changes in Foreign Exchange Rates";
- IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement";
- IFRIC 4 "Determining whether an Arrangement contains a Lease";
- IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds".

There were no significant effects of these changes in policies on these 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:

- IFRS 7 "Financial Instruments: Disclosures";
- IAS 1 (amended 2005) "Presentation of Financial Statements – Capital Disclosures";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 9 "Reassessment of Embedded Derivatives";
- IFRIC 10 "Interim Financial Reporting and Impairment";
- IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions";
- IFRIC 12 "Service concession arrangements".

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

IFRSs and IFRIC Interpretations not yet effective (continued)

IFRS 7 "Financial Instruments: Disclosures" replaces the disclosure requirements of IAS 32 and must be applied for annual reporting periods that commence on or after 1 January 2007.

The amendment of IAS 1 "Presentation of Financial Statements – Capital Disclosures" requires disclosures regarding an entity's objectives, policies and processes for managing capital. The provisions are effective for reporting periods beginning on or after 1 January 2007.

IFRIC 8 clarifies that IFRS 2 applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. If the identifiable consideration given appears to be less than the fair value of the equity instrument granted, under IFRIC 8 this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies. IFRIC 8 becomes effective for financial years beginning on or after 1 May 2006.

IFRIC 9 clarifies, that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. An entity shall apply this interpretation for annual periods beginning on or after 1 June 2006.

Applying IFRIC 10, an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. An entity shall apply this interpretation for annual periods beginning on or after 1 November 2006.

IFRIC 11 addresses the issues whether the certain transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2, and concerns the accounting treatment for share-based payment arrangements that involve two or more entities within the same group. An entity shall apply this interpretation for annual periods beginning on or after 1 March 2007.

IFRIC 12 addresses the accounting issues relating to the service concession arrangements. An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2008.

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. The adoption of IFRS 7 will significantly affect the disclosures relating to financial instruments as presented in the notes to the financial statements.

3. Summary of Significant Accounting Policies

3.1 Principles of Consolidation

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than 50 percent of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interest is the interest in subsidiaries with equity not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented as an equity item.

Business Combinations

The purchase method of accounting is used to account for business combinations by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the fair value of the Group's share of identifiable net assets is recorded as goodwill (Note 3.8). If the cost of the acquisition is less than the fair value of the Group's share of identifiable net assets of the subsidiary acquired the difference is recognized directly in the statement of operations.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

Acquisition of Subsidiaries from Parties under Common Control

Purchases of subsidiaries from parties under common control are accounted for using the uniting of interests method. The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the carrying amounts of the transferred entity (the Predecessor) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

These financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

3. Summary of Significant Accounting Policies (continued)

3.2 Cash and Cash Equivalents

Cash in the balance sheet comprises cash at banks and in hand and short-term deposits with an original maturity of three months or less.

3.3 Trade Receivables

Trade receivables, which generally have a short term, are carried at original invoice amount less an allowance for any uncollectible amounts. Allowance is made when there is objective evidence that the Group will not be able to collect the debts.

3.4 Value Added Tax

The Russian tax legislation permits settlement of value added tax ("VAT") on a net basis.

Value Added Tax Payable

Prior to 2006, VAT was payable by the Group to tax authorities upon collection of receivables from customers. VAT on purchases, which had been settled at the balance sheet date, was deducted from the amount of VAT payable. In addition, VAT related to sales which had not been collected, and therefore currently not due, at the balance sheet date was included in the VAT payable line item.

Starting from 2006, VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the balance sheet date, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Value Added Tax Recoverable

VAT recoverable arises when VAT related to purchases exceeds VAT related to sales.

In addition, prior to 2006, VAT recoverable line item included VAT related to purchases, which had not been settled at the balance sheet date, and to property, plant and equipment not yet put into operation. However, this amount was reclaimable against VAT related to sales only upon payment for the purchases or putting property, plant and equipment into operation.

3.5 Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

3. Summary of Significant Accounting Policies (continued)

3.6 Non-current Assets Held for Sale

An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.

3.7 Property, Plant and Equipment

Property, plant and equipment are stated at cost or deemed cost at the date of transition to IFRS (herein referred to as cost) less accumulated depreciation and impairment losses. Deemed cost was determined for property, plant and equipment at 1 January 2004 by reference to their fair value through valuation by an independent appraisal company. Depreciation is calculated on a straight-line basis. The depreciation periods, which represent the estimated useful economic lives of the respective assets, are as follows:

	Number of years
Buildings	10 to 50
Plant and machinery	5 to 30
Equipment and motor vehicles	3 to 7

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised, and the assets replaced are derecognised. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of operations as incurred.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

3.8 Goodwill

Goodwill on an acquisition of a subsidiary is included in intangible assets. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

3. Summary of Significant Accounting Policies (continued)

3.8 Goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

3.9 Other Intangible Assets

Intangible assets acquired separately from business combinations are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination are initially recognized at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with a finite life are amortised on a straight-line basis over the useful economic lives (for trade marks useful economic life is determined as 20 years) and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

3.10 Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest method; any difference between the fair value of the consideration received (net of transaction costs) and the unwinding of discount is recognised as an interest expense over the period of the borrowings.

3.11 Deferred Income Taxes

Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

3. Summary of Significant Accounting Policies (continued)

3.11 Deferred Income Taxes (continued)

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3.12 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

3.13 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

3. Summary of Significant Accounting Policies (continued)

3.14 Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

For the purpose of earnings per share calculation the weighted average number of ordinary shares outstanding during the period and for all periods presented is adjusted for events, other than the conversion of potential ordinary shares that have changed the number of ordinary shares outstanding without a corresponding change in resources.

Dividends

Dividends declared by Group subsidiaries are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Such dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

3.15 Revenue Recognition

Revenues are recognized when products are delivered to final customers warehouse, which is when the title passes to the customer, assuming that collection is reasonably assured and sales price to final customers is fixed or determinable. Revenues are measured at the fair value of the consideration received or receivable.

3.16 Employee Benefits

Pension Costs

In the normal course, of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

3.17 Foreign Currency Transactions

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 and all subsidiaries except for Black Bird Investment Enterprises Corp. Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to the consolidated statement of operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

4. Significant Accounting Estimates

4.1 Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Lease agreements

A lease is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership, otherwise it is classified as operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. If the lease term is for longer than 75 percent of the economic life of the asset, or that at the inception of the lease the present value of the minimum lease payments amount to at least 90 percent of the fair value of the leased asset, the lease is classified by the Group as finance lease, unless it is clearly demonstrated otherwise.

The Group has entered into several lease agreements with the state municipal bodies for land on which the Group's factories and buildings, comprising the Group's principal manufacturing facilities, are located. The lease agreements specify lease terms between 10 and 50 years with an option to prolong the lease term for another 10 years. In addition, the lease agreements include a purchase option after termination of the lease. Purchase price will be determined based on fair value of the land as determined by the municipal authorities. The Group has classified these lease agreements as operating leases. More details are provided in Note 8.

4.2 Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Useful life of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss.

4. Significant Accounting Estimates (continued)

4.2 Estimation Uncertainty (continued)

Impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. The assets subject to such assessment are primarily property, plant and equipment and trade marks. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. No indications that the Group's assets may be impaired existed at 31 December 2006.

The determination of impairments involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any asset impairment.

The following factors are considered in assessing impairment of major specific assets of the Group:

- *Property, plant and equipment:* changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists.
- *Trade marks:* changes in current competitive conditions, changes in the regulations, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, introduction of alternative products on the market and other changes in circumstances that indicate impairment exists.

Fair Values of Assets and Liabilities Acquired in Business Combinations

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

4. Significant Accounting Estimates (continued)

4.2 Estimation Uncertainty (continued)

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was RR 1,180,469 (2005: 218,854). More details are provided in Note 9.

Allowance for doubtful accounts

The Group maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2006, allowances for doubtful accounts have been created in the amount of RR 79,308 (2005: 83,049).

Inventory Provision

The Group determines the provisions for obsolete or slow moving items of inventories based on their expected future use and realizable value. The net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of sale or distribution. Selling prices and costs to sale are subject to change as new information become available. Revisions to the estimates may significantly affect future operating results.

Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurr frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As of 31 December 2006 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Note 26.

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

5. Business Combinations and acquisition of minority interests

5.1 Business Combinations

OJSC "TZMOI" acquisition

On 1 January 2005, an entity under common control, the Predecessor as defined in Note 3.1 acquired 55% of the voting shares of OJSC "TZMOI", a company involved in the production of the medical equipment located in Tyumen, Russia for cash consideration of RR 1,043,625. Shortly after acquisition the Predecessor transferred the stake in OJSC "TZMOI" to the Group for RR 1,096,770. The respective payable was recorded by the Group as of 31 December 2006 (Notes 7 and 17).

The fair value of identifiable assets, liabilities and contingent liabilities of "TZMOI" as at the date of acquisition by the Predecessor were as follows:

	Fair value recognised on acquisition
Property, plant and equipment	977,174
Other non-current assets	14,927
Cash and cash equivalents	57,105
Trade, prepayments and other receivables	303,730
Inventories	267,382
Available-for-sale investments	70,027
Other current assets	50,796
	1,741,141
Trade, advances received and other payables	86,268
Income tax payable	5,877
Deferred tax liability (Note 25)	149,412
	241,557
Fair value of net assets	**1,499,584**
Less: minority interests	**(674,813)**
Group's share of the fair value of net assets	**824,771**
Goodwill arising on acquisition (Note 9)	**218,854**
Consideration paid by the Predecessor	**1,043,625**

The comparative consolidated financial statements for the period ended 31 December 2005 are presented as if OJSC "TZMOI" had been acquired by the Group on the date it was originally acquired by the Predecessor. The assets and liabilities of OJSC "TZMOI" transferred under common control are recorded in the financial statements at the carrying amounts of the Predecessor at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in the consolidated financial statements. The difference between the consideration paid by the Predecessor and the cost of the OJSC "TZMOI" stake for the Group of RR 53,145 was accounted for in the comparative consolidated financial statements for the period ended 31 December 2005 as a distribution to the Participant of the Company.

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

5. Business Combination and acquisition of minority interests (continued)

5.1 Business Combinations (continued)

At the acquisition date as OJSC TZMOI has never prepared financial statements in accordance with IFRS, it is impracticable to present the carrying amounts of its assets and liabilities, determined in accordance with IFRSs, immediately before the combination.

Acquisition of subsidiaries in 2006

The Group acquired 100% interest in CJSC "Masterlek" ("Masterlek") which is involved in the marketing and sale of pharmaceutical products and a related immaterial company on 1 August and 22 September 2006, respectively.

The aggregated effect of these acquisitions is presented in the following table:

	Fair value recognised on acquisition	IFRS carrying value immediately before the acquisition
Property, plant and equipment	4,851	4,851
Intangible assets (Note 9)	3,278,151	4,232
Cash and cash equivalents	76,097	76,097
Trade and other receivables	443,810	443,810
Inventories	307,080	307,080
Other current assets	29,187	24,955
	4,139,176	**861,025**
Trade and other payables	367,589	367,589
Deferred tax liability (Note 25)	787,342	586
	1,154,931	**368,175**
Fair value of net assets	**2,984,245**	**492,850**
Group's share of the fair value of net assets	**2,984,245**	**492,850**
Goodwill arising on acquisition (Note 9)	**961,615**	
Consideration paid	**3,945,860**	

Of the total consideration amount, RR 3,912,385 was paid for 100% of voting shares of Masterlek and RR 33,475 for 100% interest in the other company. Masterlek acquisition of the total consideration amount, RR 3,912,385 was paid for 100% of voting shares of Masterlek and RR 33,475 for 100% interest in the other company. Masterlek acquisition was entirely financed through shareholder loan with maturity date 24 July 2007 which attracted interest of 12% per annum. In December 2006, this shareholder loan has been entirely refinanced from the syndicated borrowing organized by Citibank (Note 15).

Goodwill related to the acquisition of Masterlek represents the fair value of the expected synergies and other benefits from combining the Masterlek's trade marks with production assets of the Group.

5. Business Combination and acquisition of minority interests (continued)

5.1 Business Combinations (continued)

From the date of the acquisition, CJSC "Masterlek" contributed RR 264,883 (adjusted for the interest expense relating to cost of financing the acquisition) to the net profit of the Group. If the acquisition had taken place at the beginning of the year, the profit of the Group in 2006 would have been RR 2,006,339 (i.e. aggregate profit of the Company and Masterlek as adjusted for the additional interest expense relating to cost of financing the acquisition) and revenue of the Group in 2006 would have been RR 9,374,153.

5.2 Acquisition of Minority Interests

Additional share issue by OJSC "Pharmstandard–Ufavita"

In April 2006, the Company and certain minority shareholders acquired additional shares issued by OJSC "Pharmstandard Ufavita" for the cash consideration of RR 802,400 and RR 11,986, respectively. This resulted in the Company's interest increasing from 56% to 97% of the share capital as not all minority shareholders subscribed to OJSC "Pharmstandard Ufavita" share increase. This acquisition was financed by a capital contribution of RR 802,400 provided by the Company's Participant (Note 19). As a result of the dilution effect on the minority shareholders of the above transaction, net assets attributable to the Participant of the Company increased by RR 199,291.

Acquisition of minority interest in OJSC "TZMOI"

In June 2006 and in July 2006, the entities controlled by the Group's sole shareholder (Note 19) acquired a 35% interest in the Company's subsidiary, OJSC "TZMOI", for RR 434,953 from minority shareholders and sold this interest to the Company for the same amount, resulting in an increase in the Company's interest in OJSC "TZMOI" from 55% to 90%. The total consideration was recorded as other payables (Note 17) at 31 December 2006. The difference between the cost of acquisition and the carrying amount of the minority interest acquired of RR 186,949 was credited directly to equity.

6. 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 TZMOI in 2005 as described in Note 5.1 and is entirely represented by TZMOI.

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash, and mainly exclude investments. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate liabilities. Capital expenditure comprises additions to property, plant and equipment. Impairment loss and provisions relate only to those charges made against allocated assets.

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

6. Segment Information (continued)

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

Year ended 31 December 2006	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Eliminations	Group
Sales to external customers	7,326,380	1,196,400	–	8,522,780
Inter-segment sales	–	15,867	(15,867)	–
Total revenue	**7,326,380**	**1,212,267**	**(15,867)**	**8,522,780**
Segment result	**2,817,508**	**155,543**	**(5,593)**	**2,967,458**
Interest expense, net				(267,376)
Profit before income tax				2,700,082
Income tax expense				(664,014)
Net profit				**2,036,068**
Segment assets	12,106,791	1,663,038	–	13,769,829
Total assets	**12,106,791**	**1,663,038**	–	**13,769,829**
Segment liabilities	1,380,061	115,395	–	1,495,456
Unallocated liabilities				5,934,010
Total liabilities				**7,429,466**
Capital expenditure (Note 8)	882,139	58,455	–	940,594
Intangible assets acquisition (Note 9)	84,317	–	–	84,317
Depreciation and amortisation	226,076	58,721	–	284,797

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

6. Segment Information (continued)

Year ended 31 December 2005	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Eliminations	Group
Sales to external customers	4,673,704	1,011,120	–	5,684,824
Inter-segment sales	–	10,861	(10,861)	–
Total revenue	**4,673,704**	**1,021,981**	**(10,861)**	**5,684,824**
Segment result	**1,349,585**	**192,111**	**(3,360)**	**1,538,336**
Interest expense				(94,639)
Profit before income tax				1,443,697
Income tax expense				(424,374)
Net profit				**1,019,323**
Segment assets	6,236,063	2,077,049	–	8,313,112
Total assets	**6,236,063**	**2,077,049**	**–**	**8,313,112**
Segment liabilities	1,971,396	115,681	–	2,087,077
Unallocated liabilities				2,301,173
Total liabilities				**4,388,250**
Capital expenditure	780,741	108,357	–	889,098
Depreciation and amortisation	123,681	57,692	–	181,373

7. 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 transactions or had balances outstanding at 31 December 2006 and 2005 are detailed below.

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

7. Balances and Transactions with Related Parties (continued)

Balances with Related Parties:

2006	Trade receivables (a) Note 12	Short-term financial assets (a) Note 14	Cash and cash equivalents Note 13	Other non-current assets	Short-term borrowings Note 15	Trade payables, other payables and advances received – (c) Note 17
Entities under common control	–	5,111	124,632	–	–	824,723
Associates	18,974	25,153	–	–	–	–
Total	18,974	30,264	124,632	–	–	824,723

2005	Trade receivables (a) Note 12	Short-term financial assets (a) Note 14	Cash and cash equivalents Note 13	Other non-current assets	Short-term borrowings Note 15	Trade payables, other payables and advances received – (b) Note 17
Entities under common control	–	150,503	–	–	–	1,934,840
Associates	12,925	25,153	181,319	210,000	70,000	–
Total	12,925	175,656	181,319	210,000	70,000	1,934,840

(a) Trade receivables from related parties are discussed in detail in comment (A) of section Transactions with Related Parties below. Receivables in the amount of RR18,974 and loans in the amount of RR 25,153 reflected in the balance sheet as of 31 December 2006 were repaid in January 2007.

(b) As of 31 December 2005, 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 19), of which RR 802,400 was ultimately contributed by the Company's Participant to its capital (Note 5.2). 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. Further, all the additional shares were acquired by the Company from the entities controlled by the Group's sole shareholder (Note 5).

The remaining balance of RR 1,132,440 included in this caption of 31 December 2005 represented obligation for the voting shares of OJSC "TZMOI" originated from their acquisition in 2005 (Note 5).

(c) This balance represented obligation for the voting shares of OJSC "TZMOI" originated from their acquisition in 2005 and 2006 form the entities controlled by the Group's sole shareholder (Note 5).

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

7. Balances and Transactions with Related Parties (continued)

Balances with Related Parties (continued)

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

Caption	Interest rate, % 2006	Interest rate, % 2005	Maturity period 2006	Maturity period 2005
Current loans to related parties	2%	2-12%	1-12 months	6-12 months
Deposits	–	8-9%	-	2-6 months
Non-current loans	–	11%	-	6 years
Current loans from related bank	–	14%	-	4 months

Cash balances with related bank carry no interest.

Transactions with Related Parties:

Statement of operations caption	Relationship	2006	2005
Sales of medical equipment (A)	Associate	4,167	17,593
Property insurance	Entity under common control	–	21,200
License fee (included in distribution costs) (B)	Entity under common control	18,686	9,273
Warehouse rental expenses (included in distribution costs) (C)	Entity under common control	19,915	7,365
Office rental expenses (included in general and administrative expenses)	Entity under common control	9,494	3,422

(A) Sale of medical equipment

In 2006, the Group's sales of medical equipment to an associate did not exceed 1% of its total revenues. These sales were provided based on the standard price list. Trade receivables from related parties are due within 90 days and bear no interest. For the year ended 31 December 2006, the Group has not made any provision for doubtful debts relating to amounts owned by related parties (2005: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. Outstanding balances at year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables.

(B) 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.

7. Balances and Transactions with Related Parties (continued)

Transactions with Related Parties (continued)

(C) Warehouse rental expenses

The Group incurred warehouse rental expenses to an entity under common control. Rental fees quoted by the lessor in this transaction approximated average market rates established for Moscow region where the warehouse is located.

Acquisition of intangible assets

In 2006, the Group acquired intangible assets (trade marks) for RR 84,317 from an entity under common control. The consideration paid for the trade marks approximated their fair value confirmed by an independent appraiser.

Disposal of non-current assets classified as held for sale

Non-current assets classified as held for sale reflected in the balance sheet as of 31 December 2005 in the amount of RR 370,466 were sold to entities under common control in 2006 at their carrying value.

Sale of OJSC "Pharmstandard-Octyabr" buildings

In 2006, the Group terminated operations of "Pharmstandard-Octyabr" OJSC. This decision was in line with the business strategy to concentrate manufacturing of certain products (primarily 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 with the carrying value of RR 103,000 were sold to an entity under common control in 2006 for cash consideration equal to their carrying value.

Shareholder's loan for Masterlek acquisition

On 2 August 2006, the Group received a loan from shareholder in the amount of US$ 146,200 thousand (RR 3,912,385) for CJSC "Masterlek" acquisition (Note 5). In December 2006 this shareholder's loan has been refinanced by the syndicated borrowing organized by Citibank (Note 15).

Compensation to Key Management Personnel

Key management personnel comprise 3 persons as of 31 December 2006 and 2005. Total compensation to key management personnel, all of which represented short-term employee benefits (payroll), included in general and administrative expenses in the statement of operations amounted to RR 16,129 for the year ended 31 December 2006 (2005: RR 2,559).

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

8. Property, Plant and Equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

31 December 2006	Land	Buildings	Plant and machinery	Equipment and motor vehicles	Assets under construction	Total
Cost						
Balance at 31 December 2005	**49,101**	**1,591,342**	**1,162,705**	**55,521**	**689,091**	**3,547,760**
Additions	12,738	–	235,693	71,806	620,357	940,594
Acquisition through business combination (Note 5)	–	–	–	4,851	–	4,851
Transfers	–	456,593	590,275	27,869	(1,074,737)	–
Disposals	(24,185)	(234,585)	(55,459)	(13,516)	(6,543)	(334,288)
Balance at 31 December 2006	**37,654**	**1,813,350**	**1,933,214**	**146,531**	**228,168**	**4,158,917**
Accumulated Depreciation						
Balance at 31 December 2005	–	**71,929**	**109,759**	**17,144**	–	**198,832**
Depreciation charge	–	55,034	146,536	13,929	–	215,499
Transfers	–	79	(7,234)	7,155	–	–
Disposals	–	(15,717)	(20,938)	(7,340)	–	(43,995)
Balance at 31 December 2006	–	**111,325**	**228,123**	**30,888**	–	**370,336**
Net Book Value						
Balance at 31 December 2005	**49,101**	**1,519,413**	**1,052,946**	**38,377**	**689,091**	**3,348,928**
Balance at 31 December 2006	**37,654**	**1,702,025**	**1,705,091**	**115,643**	**228,168**	**3,788,581**

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

8. Property, Plant and Equipment (continued)

31 December 2005	Land	Buildings	Plant and machinery	Equipment and motor vehicles	Assets under construction	Total
Cost						
Balance at 31 December 2004	**6,192**	**1,047,969**	**463,437**	**14,360**	**256,205**	**1,788,163**
Additions	13,857	20,338	358,835	7,348	486,075	886,453
Acquisition through business combination (Note 5)	29,052	532,562	305,271	26,328	83,961	977,174
Transfers	–	41,280	74,331	20,070	(135,681)	–
Disposals		(50,807)	(39,169)	(12,585)	(1,469)	(104,030)
Balance at 31 December 2005	**49,101**	**1,591,342**	**1,162,705**	**55,521**	**689,091**	**3,547,760**
Accumulated Depreciation						
Balance at 31 December 2004	–	33,722	36,452	1,530	–	71,704
Depreciation charge	–	51,880	110,237	19,256	–	181,373
Disposals	–	(13,673)	(36,930)	(3,642)	–	(54,245)
Balance at 31 December 2005	–	**71,929**	**109,759**	**17,144**	–	**198,832**
Net Book Value						
Balance at 31 December 2004	6,192	1,014,247	426,985	12,830	256,205	1,716,459
Balance at 31 December 2005	**49,101**	**1,519,413**	**1,052,946**	**38,377**	**689,091**	**3,348,928**

Plant and machinery in the amount of RR 286,193 had been pledged as security for borrowings at 31 December 2005 (Note 15). The Group did not used borrowings to finance capital expenditures, thus no interest expense was capitalized in 2006 and 2005..

The above tables include plant and machinery leased under finance lease agreements as of 31 December 2006 and 2005 as follows:

	2006	**2005**
Cost	–	148,140
Accumulated depreciation	–	(22,207)
	–	125,933

All lease agreements expired in 2006 and the respective plant and machinery was purchased by the Group.

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

8. Property, Plant and Equipment (continued)

The Group assets include only a minor portion of the land on which the Group's factories and buildings, comprising the Group's principal manufacturing facilities, are located, whilst the major portion of the land is held under operating lease agreements with the state municipal bodies (Note 4). The total amount of rental payments for the use of the land was RR 7,962 in 2006 (2005: RR 10,474). Such payments are assessed by the state authorities on an annual basis. No such assessment has been completed for 2007.

9. Intangible Assets

	Goodwill	Trademarks	Total
Cost			
Balance at 31 December 2005	218,854	2,645	221,499
Additions (Note 7)	–	84,317	84,317
Acquisition through business combination (Note 5)	961,615	3,278,151	4,239,766
Disposals	–	(2,645)	(2,645)
Balance at 31 December 2006	**1,180,469**	**3,362,468**	**4,542,937**
Accumulated Amortisation			
Balance at 31 December 2005	–	–	–
Amortisation expense	–	69,298	69,298
Balance at 31 December 2006	**–**	**69,298**	**69,298**
Net Book Value			
Balance at 31 December 2005	218,854	2,645	221,499
Balance at 31 December 2006	**1,180,469**	**3,293,170**	**4,473,639**

	Goodwill	Trademarks	Total
Cost			
Balance at 31 December 2004	–	–	–
Additions	–	2,645	2,645
Acquisition through business combination (Note 5)	218,854	–	218,854
Balance at 31 December 2005	**218,854**	**2,645**	**221,499**
Accumulated Amortisation			
Balance at 31 December 2004	–	–	–
Amortisation expense	–	–	–
Balance at 31 December 2005	**–**	**–**	**–**
Net Book Value			
Balance at 31 December 2004	–	–	–
Balance at 31 December 2005	**218,854**	**2,645**	**221,499**

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

9. Intangible Assets (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations in 2005 and 2006 has been allocated for impairment testing purposes to the following groups of cash-generating units, which are also reportable segments of the Group:

- production and wholesale of pharmaceutical products group of units ("Pharmaceuticals"); and
- production and wholesale of medical equipment group of units ("Equipment").

Carrying amount of goodwill allocated to each group of cash generating units:

	Pharmaceuticals		Equipment		Total	
	2006	2005	2006	2005	2006	2005
Carrying amount of goodwill	961,615	–	218,854	218,854	1,180,469	218,854

The recoverable amount of the cash-generating units has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a five-year period and cash flows beyond the five-year period are extrapolated using a 15% and 5% growth rate that is the same as the long-term average growth rate for Pharmaceuticals and Equipment groups of cash-generating units, respectively. The discount rate applied to cash flow projections is 13%.

Key assumption used in value in use calculations

The calculation of value in use for both Pharmaceuticals and Equipment groups of cash-generating units are most sensitive to the following assumptions:

- Discount rates;
- Raw material price inflation;
- Growth rate used to extrapolate cash flows beyond the budget period.

Discount rates - Discount rates reflect management's estimate of the risks specific to each group of units. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for each group of units, regard has been given to the interbank interest rate approved by Central Bank of Russia at the beginning of the budgeted year.

Raw material price inflation – past actual raw materials price movements have been used as an indicator of future price movements.

Growth rate estimates – Rates are based on published industry research.

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

10. Non-current 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 as of 31 December 2006 (2005: RR 393,121), which were classified as non-current assets held for sale as approval of the Group's plan on their disposal was made in 2005 (Note 28).

In 2006, non-current assets classified as held for sale in the amount of RR 370,466 were sold at their carrying value to a related party (Note 7).

11. Inventories

Inventories consist of the following:

	2006	2005
Raw materials - at cost	**748,619**	496,434
Work in progress - at cost	**96,948**	94,665
Finished goods:		
- at cost	**596,992**	469,645
- at net realisable value	**561,385**	452,042
	1,406,952	1,043,141

The amount of write-down of inventories recognised as an expense is RR 32,606 (2005: RR 1,654). This expense is included in the cost of sales line item as a cost of materials and components, which is disclosed in Note 21.

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

12. Trade Receivables

	2006	2005
Trade receivables (net of provision for impairment of receivables of RR 79,308 and RR 83,049 as at 31 December 2006 and 2005, respectively)	**3,373,741**	1,830,858
	3,373,741	1,830,858

RR 68,549 of trade receivables were denominated in currencies other than Russian Roubles (primarily in US$) at 31 December 2006 (2005: RR 27,691).

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Notes to the Consolidated Financial Statements

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

13. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	2006	2005
Cash in bank – Roubles (Note 7)	158,239	94,058
Cash in bank – US$ and Euro	34,727	2,228
Short-term bank deposits with less than 90 days maturity - Roubles (Note 7)	–	147,697
	192,966	243,983

Balances with banks generally carry no interest.

14. Short-term Financial Assets

	2006	2005
Promissory notes	34,466	94,019
Loans to related parties (Note 7)	30,264	104,007
Bank deposits with maturity over 90 days (Note 7)	–	71,649
Other	40,136	76,918
	104,866	346,593

15. Borrowings and Loans

	2006	2005
Short-term borrowings		
International Moscow Bank (c)	–	425,604
Related bank (c)	–	70,000
Other	–	87,926
(a) Current portion of long-term borrowing	351,415	–
	351,415	583,530
Long-term borrowings and loans		
(a) Syndicated borrowing organized by Citibank ("Citibank loan")- Note 5	3,844,341	–
(b) Other loans	31,071	–
Less: Current portion of long-term borrowing	(351,415)	–
	3,523,997	–

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

15. Borrowings and Loans (continued)

Long-term debt is repayable as follows:

	2006
1 to 2 years	1,405,659
2 to 3 years	1,442,757
3 to 4 years	340,724
4 to 5 years	340,857
	3,523,997

As at 31 December 2005, loans were guaranteed by collateral of property, plant and equipment (see Notes 8).

As at 31 December 2006 all the borrowings are USD denominated (2005 – Rouble denominated).

(a) Citibank loan was applied towards the refinancing of the shareholder loan (Note 7). This loan was provided in December 2006 in two credit facilities:

- Facility A in the total amount of US$ 91 million (RR:2,396,130) with maturity period of 3 years; and
- Facility B in the total amount of US$ 55 million (RR: 1,448,211) with maturity period of 5 years.

Interest rate for facility A was established as 3 month LIBOR plus margin of 1.50% p.a.

Interest rate for facility B was established as 3 month LIBOR plus margin of 1.90% p.a.

In addition to interest, the Group is obliged to reimburse mandatory administrative costs, if any incurred by Citibank in connection with the Citibank loan.

Citibank loan is secured by guarantees issued by all the Group subsidiaries.

The Citibank loan agreement establishes certain financial ratios, limitations on disposal of assets and distribution of dividends to the Group.

(b) Other loans mature in September 2009 and bear fixed interest rate 7% per annum.

(c) IMB loan bore a fixed interest rate of 12%. Loans from related parties attracted interest at rates disclosed in Note 7.

The Group has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

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

16. Other Taxes Payable

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

	2006	2005
Value-added tax	112,482	338,879
Property and other taxes	35,977	12,036
Tax penalties and interest	–	1,049
	148,459	351,964

17. Trade and Other Payables and Advances Received

	2006	2005
Trade payables	1,071,596	789,532
Other payables – related party (Note 7)	824,723	1,132,440
Advances received – related party (Note 7)	–	802,400
Other payables	196,563	70,417
	2,092,882	2,794,789

RR 414,022 of trade payables were denominated in currencies other than Russian Rouble (primarily US$) at 31 December 2006 (2005: RR 34,883).

18. Obligations under Finance Leases

Obligations under finance leases comprised the following:

	2006	2005
Finance lease liabilities – minimum lease payments:		
Not later than 1 year	–	94,953
Later than 1 year and not later than 5 years	–	–
	–	94,953
Less: interest	–	(12,998)
Present value of finance lease liabilities	–	81,955
Representing lease liabilities		
- current	–	81,955
- non-current	–	–

Obligations under finance leases related to a lease with an effective interest of 11% per annum.

Obligations under finance leases were repaid in the annual period ended 31 December 2006.

19. Share Capital

The sole shareholder of OJSC "Pharmstandard" (the sole Participant prior to the reorganization described below) is "Augment Investments Limited", a company registered under the laws of Cyprus. In 2005 Victor Kharitonin held 70% interest in "Augment Investments Limited" and ultimately controlled the Group, while other individual held 30% interest in "Augment Investments Limited" ("Augment"). In 2006, additional shareholders were introduced, and as a result no individual party ultimately controlled the Group as of 31 December 2006.

As discussed in Note 1, the Group was formed through a reorganization of the pharmaceutical business included in six legal entities under common control of Victor Kharitonin. These 6 legal entities were reorganized under Biovit LLC during 2005 and then in May 2006 Biovit LLC was renamed as "Pharmstandard" and further reorganized into an open joint stock company. This reorganization process represents a transaction under common control whereby the ultimately controlling party transferred this pharmaceutical business to an open joint stock company. During this reorganization process there was a period of time upon which the business was temporary held in a limited liability company. The equity for this period is reflected to as Net Assets Attributable to Participant.

As this reorganization has been accounted for using the uniting of interest method, which resulted in presenting this reorganization in these financial statements as if it had happened from the beginning of the earliest period presented, the net assets attributable to the Participant, which was previously presented as a liability, has been reclassified as equity throughout all periods presented.

The authorised number of ordinary shares issued upon reorganization of the Company into an open joint stock company 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 accordance with Russian legislation, dividends may only be declared from accumulated undistributed and unreserved earnings as shown in Russian statutory financial statements. The Company had approximately RR 2,114,304 of undistributed and unreserved earnings as at 31 December 2006 (2005: RR 28,893). In addition, the Company's share in the undistributed and unreserved earnings of the subsidiaries was approximately RR 5,938,296 as at 31 December 2006 (2005: RR 2,954,265).

In accordance with the Citibank loan agreement (Note 15) the Group shall not pay, make or declare any dividend or other distribution without the prior written consent of the lenders.

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 7). This contribution was credited to equity.

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)

19. Share Capital (continued)

As a result of the Company's reorganization into an open joint stock company 37,792,603 shares were issued on 5 May 2006. This issue of shares occurred without a corresponding change in resources and, therefore, the number of shares issued was applied retrospectively for the purpose of the earnings per share calculation.

Earnings per share

Earnings per share calculated retrospectively are as follows:

	2006	2005
Weighted average number of ordinary shares outstanding (thousands)	37,793	37,793
Profit for the year attributable to Participant of the Company (sole shareholder since 5 May 2006)	1,897,671	906,221
Basic and diluted earnings per share, Russian Roubles	50.21	23.98

20. Revenue - Sale of Goods

The Groups' products may be divided into pharmaceuticals, which comprise 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:

Product group	2006	2005
Pharmaceutical products		
OTC		
Branded	5,340,643	3,274,968
Non-branded	690,844	626,948
	6,031,487	3,901,916
Prescription		
Branded	899,273	440,127
Non-branded	299,240	292,990
	1,198,513	733,117
Other	96,380	38,671
Total pharmaceutical products	7,326,380	4,673,704
Medical equipment and disposables	1,196,400	1,011,120
	8,522,780	5,684,824

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

21. Cost of Sales

The components of cost of sales were as follows:

	2006	2005
Materials and components	2,360,659	1,574,150
Production overheads	757,616	617,990
Depreciation and amortization	260,285	158,662
Direct labour costs	202,677	156,300
	3,581,237	2,507,102

22. Selling and Distribution Costs

Selling and distribution costs comprised the following:

	2006	2005
Advertising	665,108	628,813
Insurance of goods in transit	39,712	116,256
Labour costs	215,607	105,475
Freight and communication	90,119	67,043
Utilities and other services	17,428	26,889
Certification expenses	32,300	27,744
Rent (Note 7)	39,593	25,361
Commission and license fee	75,922	21,584
Materials and maintenance	28,587	12,899
Travel and entertainment	23,397	12,200
Depreciation	10,485	9,436
Other expenses	29,902	15,752
	1,268,160	1,069,452

The Group entered into a number operating lease agreements for warehouses. Rental agreements are revised on an annual basis. Future minimum operating lease payments classified as selling and distribution costs will not substantially change in 2007 compared to 2006.

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

23. General and Administrative Expenses

General and administrative expenses comprised the following:

	2006	2005
Labour costs	288,016	161,697
Utilities and services	87,637	116,199
Taxes other than income tax	18,362	34,058
Property insurance	15,772	21,200
Freight and communication	16,159	15,247
Depreciation	14,027	13,275
Rent (Note 7)	22,534	12,306
Materials and maintenance	11,005	7,575
Other	25,417	61,769
	498,929	443,326

The Group entered into a number operating lease agreements for office premises. Rental agreements are revised on annual basis. Future minimum operating lease payments classified as are general and administrative expense will not substantially change in 2007 compared to 2006.

24. Other Expenses

Other expenses comprised the following:

	2006	2005
Loss from disposal of property, plant and equipment and intangible assets	160,145	49,785
Charity	13,082	15,533
Other taxes	32,027	23,985
Other	1,742	37,305
	206,996	126,608

25. Income Tax

	2006	2005
Income tax expense – current	811,991	363,995
Deferred tax (credit) expense – origination and reversal of temporary differences	(147,977)	60,379
Income tax expense	664,014	424,374

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

25. Income Tax (continued)

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

	2006	2005
Income before taxation	**2,700,082**	1,443,697
Theoretical tax charge at statutory rate of 24%	**648,020**	346,487
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	**15,994**	77,887
Income tax expense	**664,014**	424,374

Movements in deferred tax balances were as follows:

	31 December 2004	Differences recognition and reversal	Effect of business combination in 2005 (Note 5)	31 December 2005	Differences recognition and reversal	Effect of business combination in 2006 (Note 5)	31 December 2006
Tax effects of deductible temporary differences – asset (liability):							
Property, plant and equipment (Note 8)	**(216,120)**	(16,200)	(143,662)	**(375,982)**	34,994	–	**(340,988)**
Intangible assets (Note 9)	**–**	–	–	**–**	64,990	(786,756)	**(721,766)**
Trade and other receivables	**(18,640)**	(35,175)	2,169	**(51,646)**	6,689	–	**(44,957)**
Inventories	**3,088**	(9,004)	(7,919)	**(13,835)**	17,522	(3,482)	**205**
Trade and other payables	**–**	–	–	**–**	18,628	2,896	**21,524**
Other	**–**	–	–	**–**	5,154	–	**5,154**
Total net deferred tax liability	**(231,672)**	(60,379)	(149,412)	**(441,463)**	147,977	(787,342)	**(1,080,828)**

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;
- impairment of trade receivables; and
- provisions to write inventory down to net realizable value.

26. 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.

26. Contingencies, Commitments and Operating Risks (continued)

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 31 December 2006 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 31 December 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 53 million at 31 December 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.

Insurance Policies

The Group holds insurance policies in relation to its property, plant and equipment, which cover about 70% of its carrying value because insurance coverage is based on statutory book value of property, plant and equipment, which is substantially lower than IFRS value. The Group holds no insurance policies in relation to its operations, or in respect of public liability.

27. Financial Risk Management

The Group's principal financial instruments comprise bank loans and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. During the year the Group did not undertake trading in financial instruments.

27. Financial Risk Management (continued)

Credit Risk

Financial assets, which potentially subject Group entities 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. The carrying amount of accounts receivable, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced 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.

Foreign Exchange Risk

The Group attracted substantial amount of US$ denominated long-term borrowings (see Note 15) and also had material amount of US$ denominated trade payables (Note 17) and is thus exposed to foreign exchange risk.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations.

Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings as the majority of interest rates on long-term borrowings are floating and based on LIBOR as disclosed in Note 15. The Group has not entered into any hedging arrangements in respect of its interest rate exposures.

The Group has no significant interest-bearing assets.

Fair values of financial instruments

Fair values of cash and cash equivalents, borrowings, trade and other receivables and trade and other payables approximate their carrying amounts due to their short maturity.

28. Post Balance Sheet Events

Non-current assets classified as held for sale reflected in the consolidated balance sheet as of 31 December 2006 in the amount of RR 22,655 were sold in February 2007 for cash consideration of US$ 1,311 thousand (RR 34,305).