OJSC "Pharmstandard"

Consolidated financial statements

For the year ended 31 December 2010

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Contents

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Independent auditors' report

To the Shareholders and Management of OJSC "Pharmstandard"

We have audited the accompanying consolidated financial statements of OJSC "Pharmstandard" and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

25 April 2011

OJSC "Pharmstandard"

Consolidated statement of financial position as at 31 December 2010

(in thousands of Russian Roubles)

	Notes	2010	2009
Assets			
Non-current assets			
Property, plant and equipment	11	**4,168,079**	3,685,845
Intangible assets	12	**6,686,210**	6,162,135
Prepayment for subsidiary acquisition	31	**184,072**	-
		11,038,361	9,847,980
Current assets			
Inventories	13	**7,466,214**	2,758,691
Trade and other receivables	14	**12,376,059**	9,289,082
VAT recoverable		**480,142**	258,932
Prepayments	15	**219,621**	136,729
Short-term financial assets	17	**3,682,023**	1,133,287
Cash and short term deposits	16	**4,156,258**	2,798,160
		28,380,317	16,374,881
Total assets		**39,418,678**	26,222,861
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	21	**37,793**	37,793
Treasury shares		**-**	(6)
Foreign currency translation reserve		**(245)**	-
Retained earnings		**26,409,993**	19,243,766
		26,447,541	19,281,553
Non-controlling interest		**428,214**	413,961
Total equity		**26,875,755**	19,695,514
Non-current liabilities			
Long-term borrowings and loans	18	**-**	391,511
Deferred tax liability	28	**642,334**	807,062
Derivative financial instruments	18,30	**11,249**	34,751
Other non-current liabilities		**-**	24,197
		653,583	1,257,521
Current liabilities			
Trade and other payables and accruals and advances received	9,20	**10,747,197**	3,905,979
Current portion of long-term borrowings	18	**395,823**	391,360
Income tax payable		**223,006**	403,961
Other taxes payable	19	**523,314**	568,526
		11,889,340	5,269,826
Total liabilities		**12,542,923**	6,527,347
Total equity and liabilities		**39,418,678**	26,222,861

Signed and authorised for release on behalf of the Board of Directors of OJSC Pharmstandard

Chief Executive Officer I.K. Krylov

Chief Financial Officer E.V. Arkhangelskaya

25 April 2011

The accompanying notes on pages 7-48 are an integral part of these consolidated financial statements.

OJSC "Pharmstandard"

Consolidated statement of comprehensive income

For the year ended 31 December 2010

(in thousands of Russian Roubles)

	Notes	2010	2009
Revenue	22	**29,686,636**	24,095,393
Cost of sales	23	**(16,700,838)**	(12,367,935)
Gross profit		**12,985,798**	11,727,458
Selling and distribution costs	24	**(2,916,202)**	(2,463,128)
General and administrative expenses	25	**(891,954)**	(711,245)
Other income	26	**188,025**	505,860
Other expenses	26	**(488,852)**	(400,603)
Financial income	27	**315,167**	132,878
Financial expense	27	**(47,680)**	(145,969)
Profit before income tax		**9,144,302**	8,645,251
Income tax expense	28	**(1,980,506)**	(1,792,810)
Profit for the year		**7,163,796**	6,852,441
Other comprehensive income			
Exchange differences on translation of foreign operations		**(245)**	-
Other comprehensive income for the year, net of tax		**(245)**	-
Total comprehensive income for the year, net of tax		**7,163,551**	6,852,441
Profit for the year			
Attributable to:			
Equity holders of the Parent		**7,149,543**	6,836,430
Non-controlling interest		**14,253**	16,011
		7,163,796	6,852,441
Total comprehensive income for the year, net of tax			
Attributable to:			
Equity holders of the Parent		**7,149,298**	6,836,430
Non-controlling interest		**14,253**	16,011
		7,163,551	6,852,441
Earnings per share (in Russian roubles) - basic and diluted, for profit of the period attributable to equity holders of the parent	21	**189.18**	180.89

Signed and authorised for release on behalf of the Board of Directors of OJSC Pharmstandard

Chief Executive Officer I.K. Krylov

Chief Financial Officer E.V. Arkhangelskaya

25 April 2011

OJSC "Pharmstandard"

Consolidated cash flow statement

For the year ended 31 December 2010

(in thousands of Russian Roubles)

	Notes	2010	2009
Cash flows from operating activities:			
Profit before income tax		9,144,302	8,645,251
Adjustments for:			
Depreciation and amortisation	11,12	792,016	752,058
Change in allowance for impairment of financial assets	14,26	(42,815)	(472,301)
Write-down of inventories to net realizable value	13	43,068	6,447
Gain recognised on sale of non-current assets classified as held for sale		-	(13,627)
(Reversal of impairment) impairment charge - intangible assets	12, 26	(29,258)	62,696
Impairment charge (reversal of impairment) - property, plant and equipment	11, 26	76,002	(13,374)
Loss from disposal of property, plant and equipment	26	5,311	7,578
Foreign exchange loss		4,412	138,589
Gain from disposal of financial assets	6,26	(47,487)	-
Expense related to the joint venture	26	248,298	-
Financial income	27	(315,167)	(132,878)
Financial expense	27	47,680	170,563
Operating cash flows before working capital changes		9,926,362	9,151,002
Increase in trade receivables	14	(2,956,557)	(4,062,775)
Increase in inventories	13	(4,750,590)	(280,229)
(Increase) decrease in VAT recoverable		(221,210)	67,276
Increase in trade prepayments	15	(82,892)	(63,185)
Increase in trade payables, advances received, other payables and accruals	20	6,815,907	2,586,467
(Decrease) increase in taxes payable other than income tax		(45,212)	229,219
Cash generated from operations		8,685,808	7,627,775
Income tax paid	28	(2,326,126)	(1,465,261)
Interest paid		(45,063)	(146,256)
Interest received		197,294	54,959
Net cash from operating activities		6,511,913	6,071,217
Cash flows from investing activities:			
Purchase of property, plant and equipment	11	(1,051,934)	(361,270)
Purchase of intangible assets	7,12	(806,032)	(167,801)
Cash paid as prepayment for subsidiary acquisition	31	(184,072)	-
Cash paid for acquisition of non-controlling interests		-	(25,103)
Cash received from sale property, plant and equipment		5,783	10,487
Cash received from sale of short-term financial assets	17	772,048	106,105
Cash paid for short-term financial assets	17	(3,311,700)	(1,073,562)
Cash paid for other financial assets	6	(481,065)	-
Cash received from sale of other financial assets	6	528,552	-
Cash paid for acquisition of assets transferred to the joint venture	26	(248,298)	
Loans provided	17	-	(50,000)
Loans provided to related parties	10	(1,400,000)	-
Loans repaid by related parties	10	1,400,000	-
Net cash used in investing activities		(4,776,718)	(1,561,144)
Cash flows from financing activities:			
Proceeds from loans and borrowings	18	1,300	-
Cash paid for treasury shares	5	-	(5,916)
Cash received from sale of treasury shares	5	16,690	-
Repayment of loans and borrowings	18	(395,087)	(1,692,821)
Net cash used in financing activities		(377,097)	(1,698,737)
Net increase in cash and cash equivalents, net of bank overdraft		1,358,098	2,811,336
Cash and cash equivalents at the beginning of the year, net of bank overdraft	16	2,798,160	(13,176)
Cash and cash equivalents at the end of the year, net of bank overdraft	16	4,156,258	2,798,160

The accompanying notes on pages 7-48 are an integral part of these consolidated financial statements.

OJSC "Pharmstandard"

Consolidated statement of changes in equity

For the year ended 31 December 2010

(in thousands of Russian Roubles)

	Equity attributable to equity holders of the parent						
	Share capital	Treasury shares	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 31 December 2008	**37,793**	**-**	**-**	**12,413,396**	**12,451,189**	**163,203**	**12,614,392**
Profit for the year	-	-	-	6,836,430	6,836,430	16,011	6,852,441
Total comprehensive income for the year	**-**	**-**	**-**	**6,836,430**	**6,836,430**	**16,011**	**6,852,441**
Acquisition of treasury shares (Note 5)	-	(6)	-	(5,910)	(5,916)	-	(5,916)
Effect of sale of non-controlling interest in subsidiary	-	-	-	(150)	(150)	234,730	234,580
Recognition of non-controlling interest in MDR Pharmaceuticals	-	-	-	-	-	17	17
Balance at 31 December 2009	**37,793**	**(6)**	**-**	**19,243,766**	**19,281,553**	**413,961**	**19,695,514**
Profit for the year	-	-	-	7,149,543	7,149,543	14,253	7,163,796
Other comprehensive income for the year	-	-	(245)	-	(245)	-	(245)
Total comprehensive income for the year	**-**	**-**	**(245)**	**7,149,543**	**7,149,298**	**14,253**	**7,163,551**
Sales of treasury shares (Note 5)	-	6	-	16,684	16,690	-	16,690
Balance at 31 December 2010	**37,793**	**-**	**(245)**	**26,409,993**	**26,447,541**	**428,214**	**26,875,755**

The accompanying notes on pages 7-48 are an integral part of these consolidated financial statements.

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

1. Corporate information

OJSC "Pharmstandard" ("the Company") and its subsidiaries ("the Group") principal activities are production and wholesale distribution of pharmaceutical and medical products. The Company is incorporated in the Russian Federation. Since May 2007, the Company's shares are publicly traded (Note 21). The Group's corporate office is in Dolgoprudny, Likhachevsky proezd, 5B, Moscow region, Russian Federation and its manufacturing facilities are located in Kursk, Tomsk, Ufa, Nizhny Novgorod and Tyumen. The Company controlled the following subsidiaries consolidated within the Group as at 31 December 2010 and 2009:

Entity	Country of incorporation	Activity	2010 % share	2009 % share
1. "Pharmstandard" LLC	Russian Federation	Central procurement	**100**	100
2. "Pharmstandard-Leksredstva" OJSC	Russian Federation	Manufacturing of pharmaceutical products	**100**	100
3. "Pharmstandard-Tomskhimpharm" OJSC	Russian Federation	Manufacturing of pharmaceutical products	**91**	91
4. "Pharmstandard-Ufavita" OJSC	Russian Federation	Manufacturing of pharmaceutical products	**100**	100
5. "Pharmstandard-Phitofarm-NN" LLC	Russian Federation	Manufacturing of pharmaceutical products	**99**	99
6. "TZMOI" OJSC	Russian Federation	Manufacturing of medical equipment	**100**	100
7. Donelle Company Limited	Cyprus	Finance and holding Company*	**89**	89
8. Aphopharm CJSC	Russian Federation	Assets holder*	**89**	89
9. MDR Pharmaceuticals	Cyprus	Assets holder*	**50.05**	50.05
10. Vindexpharm CJSC	Russian Federation	Assets holder*	**100**	-

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

In addition, the Group holds 50% of share capital in new joint venture "Nauchtechstroy Plus" LLC ("NTS+"). This research company was formed in February 2010 and it is in start up phase now (for more details see Note 8).

These consolidated financial statements were authorised for issue by the Board of Directors of OJSC "Pharmstandard" on 25 April 2011.

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

The Group's Russian entities 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 consolidated financial statements in accordance with IFRS. These adjustments principally relate to valuation and depreciation of property, plant and equipment, valuation and amortisation of intangible assets, certain valuation allowances, using fair values for certain assets and derivative instruments, purchase accounting for business combinations and the resulting income tax effects, and also to consolidation of subsidiaries.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, derivative instruments and certain short-term assets are recorded at fair value and non-current assets classified as held for sale are recorded at the 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 the following new and amended IFRS and IFRIC interpretations as of 1 January 2010.

- IFRS 3 (revised) *Business Combinations;*
- IAS 27 (revised) *Consolidated and Separate Financial Statements*;
- IFRIC 17 *Distributions of Non-cash Assets to Owners;*
- IAS 39 *Financial Instruments: Recognition and Measurement* - Eligible Hedged Items;
- Amendments to IFRS 2 *Share-based Payments* - Group Cash-settled Share-based Payment Transactions;
- *Improvements to IFRSs-2009* – a second collection of amendments to IFRSs that will not be included as part of another major project. The following table shows the list of IFRSs where amendments have been made that can result in accounting changes for presentation, recognition or measurement purposes and the topics addressed by these amendments:

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

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

Changes in accounting policies (continued)

IFRS (amended in 2009)	Subject of amendment
IFRS 2 *Share-based Payment*	Scope of IFRS 2 and revised IFRS 3 *Business Combinations*
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations
IFRS 8 *Operating Segments*	Disclosure of information about segment assets
IAS 1 *Presentation of Financial Statements*	Current/noncurrent classification of convertible instruments
IAS 7 *Statement of Cash Flows*	Classification of expenditures on unrecognised assets
IAS 17 *Leases*	Classification of leases of land and buildings
IAS 18 *Revenue*	Determining whether an entity is acting as a principal or as an agent
IAS 36 *Impairments of Assets*	Unit of accounting for goodwill impairment test
IAS 38 *Intangible Assets*	Additional consequential amendments arising from revised IFRS 3 Measuring the fair value of an intangible asset acquired in a business combination
IAS 39 *Financial Instruments: Recognition and Measurement*	Treating loan prepayment penalties as closely related embedded derivatives Scope exemption for business combination contracts Cash flow hedge accounting
IFRIC 9 *Reassessment of Embedded Derivatives*	Scope of IFRIC 9 and revised IFRS 3
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	Amendment to the restriction on the entity that can hold hedging instruments

The revised IFRS 3 *Business Combinations* ("IFRS 3R") is effective for periods beginning on or after 1 July 2009. IFRS 3R introduces changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results. A change to the scope of IFRS 3R increases the number of transactions to which it must be applied, by including combinations of mutual entities and combinations without consideration (e.g., dual listed shares). This revised standard has been adopted by the Group together with the revised IAS 27 *Consolidated and Separate Financial Statements*, including consequential amendments to IFRS 2, IFRS 7 and IAS 39.

IAS 27 (revised) *Consolidated and Separate Financial Statements* ("IAS 27R") is effective for periods beginning on or after 1 July 2009. This standard requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control over a subsidiary. The amended standard has been adopted by the Group together with IFRS 3R, including consequential amendments to IFRS 5, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39.

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

Changes in accounting policies (continued)

IFRIC 17 *Distributions of Non-cash Assets to Owners* provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. This interpretation is effective for annual periods beginning on or after 1 July 2009

The amendment to IAS 39 *Financial Instruments: Recognition and Measurement* - Eligible Hedged Items is effective for financial years beginning on or after 1 July 2009. This amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations.

Amendment to IFRS 2 *Share-based Payments* has been amended to clarify the accounting for group cash-settled share-based payment transactions, where a subsidiary receives goods or services from employees or suppliers but the parent or another entity in the group pays for those goods or services. This amendment is effective for annual periods beginning on or after 1 January 2010 and supersedes IFRIC 8 and IFRIC 11.

There were no significant effects of above changes on accounting policies on the consolidated financial statements. However, the adoption of IFRS 3R and IAS 27R will affect the recognition of assets and liabilities and disclosures relating to future acquisition of businesses.

IFRSs and IFRIC interpretations not yet effective

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

- IFRS 9 *Financial Instruments,* effective from 1 January 2013;
- Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* - Limited Exemption from Comparative IFRS 7 *Disclosures for First-time Adopters,* effective from 1 July 2010;
- Amendment to IAS 24 *Related Party Disclosures,* effective from 1 January 2011;
- Amendment to IAS 32 *Financial Instruments: Presentation* - Classification of rights issues denominated in a foreign currency, effective for annual periods beginning on or after 1 February 2010;
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*, effective for annual periods beginning on or after 1 July 2010;
- Amendment to IFRIC 14 *IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction* - Prepayment of a minimum funding requirement, effective from 1 January 2011;
- Amendments to IFRS 7 *Financial Instruments: Disclosures* - Transfers of financial assets;
- Amendments to IAS 12 *Income Taxes* - set out in Deferred Tax: Recovery of Underlying Assets;
- Narrow amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* - "The date of transition to IFRSs" and "Resume presenting financial statements" effective from 1 July 2011;

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

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

Changes in accounting policies (continued)

- *Improvements to IFRSs-2010*, effective for annual periods beginning on or after 1 July 2010 or effective for annual periods beginning on or after 1 January 2011 – a new collection of amendments to IFRSs that will not be included as part of another major project. The following table shows the list of IFRSs where amendments have been made that can result in accounting changes for presentation, recognition or measurement purposes and the topics addressed by these amendments:

IFRS (amended in 2010)	Subject of amendment
IFRS 3R *Business Combinations*, effective from 1 July 2010	Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS
	Limiting the accounting policy choice to measure non-controlling interests upon initial recognition
	Un-replaced and voluntarily replaced share-based payment awards
IAS 27R *Consolidated and Separate Financial Statements*, effective from 1 July 2010	Clarifying that the amendments to IAS 21, IAS 28 and IAS 31 resulting from IAS 27R should be applied prospectively
IFRS 1 *First-time Adoption of IFRSs*	Accounting policy changes (IAS 8) in the year of adoption is not applicable
	Introducing guidance for entities that publish interim financial in the year of adoption
	Revaluation basis as deemed cost
	Use of deemed cost for operations subject to rate regulation
IFRS 7 *Financial Instruments: Disclosures*	Amending and removing existing disclosure requirements
IAS 1 *Presentation of Financial Statements*	Clarification of statement of changes in equity
IAS 34 *Interim Financial Reporting*	Events and transactions that require disclosure under IAS 34
IFRIC 13 *Customer Loyalty Programmes*	Clarification of fair value of award credits

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

3. 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.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to the Group. Non-controlling interest at the reporting 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. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Non-controlling interest is presented as an equity item, separately from the equity of the owners of the parent.

Business combinations

From 1 January 2010, the acquisition 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 non-controlling interest. For each business combination, the Group measures the non-controlling interest in the acquired subsidiary at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

The excess of purchase consideration over the fair value of the Group's share of identifiable net assets is recorded as goodwill (Note 3.6). 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 recognised directly in the profit or loss.

Prior to 1 January 2010, business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

3. Summary of significant accounting policies (continued)

3.1 Principles of consolidation (continued)

Interest in a joint venture

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the ventures have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognises its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intra group balances, income and expenses and unrealised gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to additional interests in existing subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

Acquisition of productive assets (single asset entities)

Acquisition of a subsidiary that does not constitute a business but a single asset or a group of productive assets is not considered a business combination and the cost of such acquisition is allocated to the identifiable assets and liabilities in the group based on their relative fair values at the date of acquisition.

3.2 Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and in hand, short-term deposits with an original maturity of three months or less and cash deposits placed to secure participation in the state tenders with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement cash and cash equivalents consist of cash and short-term deposits as defined above net of outstanding bank overdrafts.

Interest receivable on deposits is classified as other receivables.

3. Summary of significant accounting policies (continued)

3.3 Value added tax

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

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 reporting 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.

3.4 Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost is determined on a first in, first out 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.

3.5 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 depreciation methods are reviewed, and adjusted as appropriate, at each financial year end. Land is not depreciated.

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 profit or loss as incurred.

3. Summary of significant accounting policies (continued)

3.6 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.

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.

3.7 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 recognised 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 estimated between 15 and 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 profit or loss in the expense category consistent with the function of the intangible asset.

3.8 Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Group does not have held-to-maturity investments and financial assets at fair value through profit or loss.

3. Summary of significant accounting policies (continued)

3.8 Investments and other financial assets (continued)

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the two preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in other comprehensive income until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in other comprehensive income is recognised in the profit or loss.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

Amortised cost

Loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

3. Summary of significant accounting policies (continued)

3.8 Investments and other financial assets (continued)

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in the profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the profit or loss. For more information in relation to trade receivables see Note 3.3.

Available-for-sale financial investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit or loss, is transferred from other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through the profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised.

3.9 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.

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.

3.10 Income taxes

Income tax expense comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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)

3.10 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 reporting date.

Deferred tax assets and deferred tax liabilities can be offset only if: (a) a Group entity has a legally enforceable right to set off current tax assets against current tax liabilities; and (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either: (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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.

The effect from a change in tax rates is recognised in profit or loss except to the extent that it relates to items previously charged or credited to other comprehensive income.

3.11 Leases

Operating lease payments are recognised as an expense in the profit or loss on a straight line basis over the lease term.

3.12 Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

3. Summary of significant accounting policies (continued)

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.

Expense relating to any provision is presented in profit or loss. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects where appropriate the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3.14 Equity

Share capital

Ordinary shares are classified as equity.

Dividends

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

3.15 Revenue recognition

Revenues are recognised 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 excluding discounts and rebates.

3.16 Employee benefits

In 2010, under provision of the Russian legislation, social contributions are made through a social tax ("ST") calculated by the Group by the application of a ST rate 26% to the gross remuneration of each employee. The rate 26% was applicable only to the gross remuneration of each employee not more than RR 415 calculated from the beginning of the year. The Group allocates the ST to three social funds (state pension fund, social and medical insurance funds), where the rate of contributions to the pension fund was 20% depending on the annual gross salary of each employee. The Group's contributions relating to ST are expensed in the year to which they relate. Total contributions for ST amounted to RR 335,067 during the year ended 31 December 2010 (2009: RR 265,015) and they were classified as labour costs in these consolidated financial statements.

In addition, the Russian legislation provides for an increase the current ST rate from 26% to 34% effective from 1 January 2011. Furthermore, the new ST rate 34% will be applicable to the gross remuneration of each employee not more than RR 463 calculated from the beginning of the year.

3. Summary of significant accounting policies (continued)

3.17 Foreign currency transactions

The consolidated financial statements are presented in RR, which is the functional currency of the Company and its Russian subsidiaries. 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 reporting date. All resulting differences are taken to profit or loss. 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.

At 31 December 2010, the exchange rates used for translation foreign currency balances were US$ 1 = 30.48 rubles; Euro 1 = 40.33 rubles (2009: USD 1 = 30.24 rubles; Euro 1= 43.39 rubles).

The functional currency of the foreign operations is the United States dollar (US$). As at the reporting date, the assets and liabilities of those subsidiaries are translated into the presentation currency of the Group (the Russian Rouble) at the rate of exchange ruling at the reporting date and its statement of comprehensive income is translated at the weighted average exchange rate for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. In 2010 and 2009, the foreign subsidiaries did not perform any significant operations and held minor assets and liabilities, therefore its translation into the presentation currency had no significant effect on these consolidated financial statements.

3.18 Impairment of non-financial assets

At each reporting date the Group assesses whether there is any indication that an asset or cash generating unit (CGU) may be impaired. The assets or CGUs 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 or CGU's recoverable amount. An asset's or CGU's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU 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 or CGUs.

4. Significant accounting judgements and estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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 and intangible assets

The Group assesses the remaining useful lives of items of property, plant and equipment and intangible assets 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 intangible assets and on depreciation and amortization recognised in profit or loss.

Impairment of non-financial assets

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 an asset or 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 asset or 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.

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 2010 and 2009 was RR 1,180,469. More details are provided in Note 12.

4. Significant accounting judgements and estimates (continued)

Allowance for doubtful accounts receivable

The Group maintains an allowance for doubtful accounts receivable 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 receivable, 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 at 31 December 2010, allowances for doubtful accounts receivable amounted to RR 48,781 (2009: RR 94,910). More details are provided in Note 14.

Allowance for write-down of inventories to net realizable value

The Group determines the allowance for write-down of inventories to net realizable value 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 becomes available. Revisions to the estimates may significantly affect future operating results.

Fair value of derivatives

The fair value of derivatives is determined using valuation techniques. These valuation techniques are based on assumptions such as future interest rate changes and the applicable notional amount. Management believes the estimated fair values resulting from the valuation technique which are recorded in the statement of financial position and the related changes in the fair values recorded in the profit or loss are reasonable and the most appropriate at the reporting date.

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur 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 2010 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 29.

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.

5. Reorganization of Group's structure and sale of subsidiary

Reorganization of Group's structure

In July 2009, the management approved a plan to reorganise the legal structure of some of the Group's subsidaries. This plan included a legal merger of OJSC "Pharmstandard-Octyabr" and CJSC "Masterlek" with OJSC "Pharmstandard". In November 2009, OJSC "Pharmstandard-Octyabr" and CJSC "Masterlek" were merged into OJSC "Pharmstandard".

OJSC "Pharmstandard-Oktyabr" and CJSC "Masterlek" did not conduct any operating activities during 2009. These subsidiaries had only minor assets and liabilities. The reorganization has improved the structure of Group's assets and liabilities and has enhanced the Group business efficiency.

In accordance with Russian legislation, shareholders have the right to unconditionally offer their shares for redemption by the Company, in the event of reorganization. In 2009, certain shareholders executed this right and the Company acquired 6,000 treasury shares with par value 1 (one) Russian Ruble. These shares comprise less than 0.02% of the authorized share capital. The difference between the nominal value of the treasury shares and consideration paid was debited directly to equity. In October 2010, these treasury shares were sold by the Company at the Russian Stock Exchange (MICEX). The difference between the nominal value of the treasury shares and consideration received, amounted to RR 16,684 was credited directly to equity.

Sale of subsidiary

In 2009 the management approved a plan to dispose of "Black Bird Investment Enterprises Corp". This subsidiary did not conduct any business activities and had a loan balance payable and receivable. This subsidiary was sold during the 4th quarter of 2009 to a related party (Note 10) for a cash consideration of RR 13,770. This arrangement resulted in a gain amounting to RR 13,627 that was recognised in other income (Note 26).

6. Acquisition and disposal of ordinary shares of JSC "Grindeks"

In April 2010, the Group acquired 1,090,844 ordinary shares representing 11.38%of share capital of JSC "Grindeks AS" ("Grindeks"), a company registered under the laws of Republic of Latvia, for a cash consideration of EURO 12,210 thousand (RR 481,065). The ordinary shares of Grindeks are listed on the stock exchange "NASDAQ OMX Riga". The Group has held strategic partnership with Grindeks in respect of distribution and promotion of its pharmaceutical product Mildronate® in the Russian Federation since January 2008. In 4th Quarter 2010, the Board of Directors of the Company accepted an offer to sell 1,090,844 ordinary shares of Grindeks to a third party. In October 2010, all ordinary shares of Grindeks were sold for cash consideration of EURO 12,447 thousand (RR 528,552). The gain from disposal of these financial assets amounting to RR 47,487 was recognized in profit and loss (Note 26).

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

7. Acquisition of Acipol trade mark

In August 2010 the Company signed a contract with shareholders of Vindexpharm CJSC ("Vindexpharm") with the purpose of acquiring Acipol trade mark through the purchase of all outstanding Vindexpharm's shares for a cash consideration of US$ 26,250 thousand (RR 806,032). On 2 September 2010 all shares of Vindexpharm were transferred to the Company.

Vindexpharm is a holder of Acipol trade mark being its the only asset. Therefore, the acquisition of Vindexpharm was accounted for as the acquisition of a single-asset entity. The consideration paid amounting to RR 806,032 was allocated fully to the value of trade mark (Note 12).

8. Foundation of joint venture

In the 4th quarter of 2009, the management of the Group approved the plan for the foundation of a new joint venture. In February 2010, "NauchTechStroy Plus" LLC ("NTS+") was registered in the Russian Federation as a joint venture of the Company and another participant. Main purpose of "NTS+" is to build and commence its operations as a research and development center in Vladimir region of the Russian Federation specialized in bioengineering medical products and universal diagnostic researches. Commencement of its operation is scheduled in 2011.

The Group holds 50% interest in "NTS+" in the amount of RR 150,004, which was fully paid in cash. The Group also incurred certain expenditures on provision of financial assistance to "NTS+" presented as other expenses (Note 26).

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

	2010
Current assets	156,831
Long-term assets	223,600
Current liabilities	(6,586)
Long-term liabilities	-
Income	-
Expenses	(16,160)

There were no any capital commitments of the Group in relation to its interests in "NTS+" as of 31 December 2010.

The share of the Group in the capital commitments of "NTS+" was equal to RR 11,948 as of 31 December 2010.

9. Segment information

For the management purposes, the Group is organised into two main reportable operating segments: (1) production and wholesale of pharmaceutical products and (2) production and wholesale of medical equipment and disposables. The medical equipment segment is primarily represented by OJSC "TZMOI", as production subsidiary, and by equipment department of OJSC "Pharmstandard", as managing and logistics division.

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

9. Segment information (continued)

Management monitors sales, gross profits and segment results of these business segments separately for the purpose of making decisions about resource allocation and performance assessment. For the management purposes, budgets of income and expense are planned, made and analyzed for each of operating segments separately.

Segment result is segment revenue less segment expenses. Segment expenses consist of cost of sales, selling and distribution costs, general and administrative expenses and other income and expenses that can be directly attributed to the segment on a reasonable basis.

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

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, financial assets, receivables and operating cash. There were no assets unallocated to segments as of 31 December 2010 and 2009. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate liabilities. Capital expenditure comprises of additions to property, plant and equipment.

No significant intercompany transactions were entered to and between these operating segments.

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

Year ended 31 December 2010	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Group
Sales to external customers	29,056,140	630,496	29,686,636
Total revenue	**29,056,140**	**630,496**	**29,686,636**
Gross profit	12,812,092	173,706	12,985,798
Segment result	**8,885,953**	**(9,138)**	**8,876,815**
Financial income, net			267,487
Profit before income tax			9,144,302
Income tax expense			(1,980,506)
Profit for the year			**7,163,796**
Segment assets	38,521,575	897,103	39,418,678
Total assets	**38,521,575**	**897,103**	**39,418,678**
Segment liabilities	**11,224,770**	**45,741**	**11,270,511**
Unallocated liabilities			1,272,412
Total liabilities			**12,542,923**
Acquisition of property, plant and equipment (Note 11)	1,032,007	18,125	1,050,132
Intangible assets acquisition (Note 12)	806,032	-	806,032
Depreciation and amortisation	738,026	53,990	792,016
Reversal of impairment of intangible assets (Note 12)	29,258	-	29,258
Impairment charge of property, plant and equipment (Note 11)	-	76,002	76,002

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

9. Segment information (continued)

Year ended 31 December 2009	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Group
Sales to external customers	23,406,685	688,708	24,095,393
Total revenue	**23,406,685**	**688,708**	**24,095,393**
Gross profit	11,533,284	194,174	11,727,458
Segment result	**8,550,210**	**108,132**	**8,658,342**
Financial expense, net			(13,091)
Profit before income tax			8,645,251
Income tax expense			(1,792,810)
Profit for the year			**6,852,441**
Segment assets	25,215,141	1,007,720	26,222,861
Total assets	**25,215,141**	**1,007,720**	**26,222,861**
Segment liabilities	**4,466,577**	**32,125**	**4,498,702**
Unallocated liabilities			2,028,645
Total liabilities			**6,527,347**
Acquisition of property, plant and equipment (Note 11)	224,294	11,079	235,373
Intangible assets acquisition (Note 12)	167,801	-	167,801
Depreciation and amortisation	695,683	56,375	752,058
Impairment charge	62,696	-	62,696

Revenues from some individual customers in the pharmaceutical products segment exceeded 10% of total Group's segment revenue.

The table below shows the revenue from these customers:

Customer	2010	2009
The Ministry of health and social department (state tenders)[1]	**3,102,226**	3,905,778
Customer 1 (third party products, Note 22)	**3,838,173**	-
Customer 2	**3,479,700**	3,289,494
Customer 3	**3,394,848**	3,169,648

10. 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 or if parties are under common control (this includes parents, subsidiaries and fellow subsidiaries). In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

[1] Advances received recorded as of 31 December 2010 represented advances received from the Ministry of health and social department under state tenders (Note 20)

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

10. Balances and transactions with related parties (continued)

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 2010 and 2009 are detailed below.

Balances with related parties:

2010	Short-term financial assets (a)	Cash and short-term deposits-(a) Note 16	Other receivables - (a) Note 14	Trade payables, other payables and accruals - (b) Note 20
Other related parties[2]	632,000	3,887,404	53,699	770,545
Total	**632,000**	**3,887,404**	**53,699**	**770,545**

2009	Short-term financial assets (a)	Cash and short-term deposits (a) Note 16	Other receivables-(a) Note 14	Trade payables, other payables and accruals - (b) Note 20
Other related parties[2]	440,000	2,475,900	16,507	12,004
Total	**440,000**	**2,475,900**	**16,507**	**12,004**

(a) This balance primarily represented cash, short-term bank deposits and interest receivable at a bank controlled by a related party.

(b) This balance represented obligation for the license fee, payables for marketing services and payables for supply of the third-party products, described in section "Transactions with related parties" below.

Cash balances with the related bank carry no interest. Short-term financial assets at 31 December 2010 include cash deposits in the related bank and carry 8%-12.5% interest p.a. (for more details see Notes 16 and 17).

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

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

10. Balances and transactions with related parties (continued)

Significant transactions with related parties:

Statement of comprehensive income caption	Relationship	2010	2009
License fee (included in distribution costs) (A)	Other related parties	**(30,341)**	(30,401)
Warehouse rental expenses (included in distribution costs) (B)	Other related parties	**(74,636)**	(53,801)
Office rental expenses (included in general and administrative expenses) (B)	Other related parties	**(26,671)**	(15,654)
Marketing and advertising expenses (included in distribution costs) (C)	Other related parties	**(80,658)**	-
Cost of sales of third-party products (D)	Other related parties	**(679,463)**	-
Agency fee income (included in other income) (E)	Other related parties	**-**	4,779
Gain from disposal of subsidiary (F)	Other related parties	**-**	13,627
Interest income from loan provided to majority shareholder (G)	Majority shareholder	**31,483**	-

(A) License fee

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

(B) Rental expenses

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

(C) Marketing and advertising expenses

In 2010, the Group acquired the results of clinical research related to one of the Group pharmaceutical products developed by a Russian scientific institute from a related party. This research was performed in 2007-2010 and the related party acted as an intermediary between the scientific institute and the Group. The Group plans to use the research result to promote the product on the market and, accordingly, related cost was classified as marketing and advertising expenses in the consolidated financial statements.

(D) Cost of sales of third-party products

In 2010, the Group signed purchase contracts for supply of third-party product Koagil VII manufactured by that related party. The amount includes the cost of this product sold by the Group through state tenders (Notes 22 and 23). As of 31 December 2010 the Group had no unsold inventory balances of Koagil VII.

(E) Agency fee income

In 2009, the Company held an agency contract with the related party for purchase of certain equipment on behalf of that party.

10. Balances and transactions with related parties (continued)

Significant transactions with related parties (continued)

(F) Gain from disposal of subsidiary

This includes a gain received from disposal of a subsidiary to a related party (for more information see Note 5).

(G) Loans provided to the majority shareholder

In 2nd quarter 2010, the Company's majority shareholder "Augment Investments Limited" ("Augment"), a company registered under the laws of Cyprus (see Note 21), applied to the Company with request to provide short-term interest loan for the purpose of financing the current business activity of Augment not related to the Group. In accordance with the conditions of the syndicated borrowing organised by Citibank ("Citibank loan") (Note 18), the Group received written consent from the lenders of Citibank loan for the Augment's loan. In July 2010, the Group provided a short-term loan to Augment with maturity date not later than 15 January 2011 in the amount of RR 1,400,000 with fixed interest rate of 7.75% per annum. In October 2010, this loan was fully repaid by Augment. The interest income from this operation was recognised as financial income in profit or loss (Note 27).

Acquisition of intangible assets

In 2009, the Group acquired an intangible asset (trade mark) for RR 90,050 from the related party.

Compensation to key management personnel

Key management personnel comprise 3 persons as at 31 December 2010 and 2009. Total compensation to key management personnel, amounted to RR 46,343 for the year ended 31 December 2010 (2009: RR 39,310). Such compensation represents the payroll and bonuses included in general and administrative expenses.

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

11. Property, plant and equipment

Property, plant and equipment consist of the following:

31 December 2010	Land	Buildings	Plant and machinery	Equipment and motor vehicles	Assets under construction	Total
Cost						
Balance at 31 December 2009	32,986	2,204,001	2,518,059	282,375	205,512	5,242,933
Additions	-	3,867	81,951	132,931	831,383	1,050,132
Transfers	1,144	38,888	142,168	5,948	(188,148)	-
Disposals	(218)	(598)	(28,586)	(5,085)	(1,899)	(36,386)
Balance at 31 December 2010	**33,912**	**2,246,158**	**2,713,592**	**416,169**	**846,848**	**6,256,679**
Accumulated depreciation and impairment						
Balance at 31 December 2009	-	276,562	1,094,501	152,566	33,459	1,557,088
Depreciation charge	-	66,232	350,885	63,684	-	480,801
Disposals	-	(25)	(23,340)	(1,926)	-	(25,291)
Impairment (a)	-	-	73,800	-	2,202	76,002
Balance at 31 December 2010	-	**342,769**	**1,495,846**	**214,324**	**35,661**	**2,088,600**
Net book value						
Balance at 31 December 2009	32,986	1,927,439	1,423,558	129,809	172,053	3,685,845
Balance at 31 December 2010	**33,912**	**1,903,389**	**1,217,746**	**201,845**	**811,187**	**4,168,079**

31 December 2009	Land	Buildings	Plant and machinery	Equipment and motor vehicles	Assets under construction	Total
Cost						
Balance at 31 December 2008	32,986	1,959,337	2,322,910	282,368	464,589	5,062,190
Additions	-	7,815	60,613	14,578	152,367	235,373
Transfers	-	238,754	165,850	2,531	(407,135)	-
Disposals	-	(1,905)	(31,314)	(17,102)	(4,309)	(54,630)
Balance at 31 December 2009	**32,986**	**2,204,001**	**2,518,059**	**282,375**	**205,512**	**5,242,933**
Accumulated depreciation and impairment						
Balance at 31 December 2008	-	213,249	794,702	103,671	33,459	1,145,081
Depreciation charge	-	64,367	336,824	60,756	-	461,947
Disposals	-	(1,054)	(23,651)	(11,861)	-	(36,566)
Reversal of impairment (b)	-	-	(13,374)	-	-	(13,374)
Balance at 31 December 2009	-	**276,562**	**1,094,501**	**152,566**	**33,459**	**1,557,088**
Net book value						
Balance at 31 December 2008	32,986	1,746,088	1,528,208	178,697	431,130	3,917,109
Balance at 31 December 2009	**32,986**	**1,927,439**	**1,423,558**	**129,809**	**172,053**	**3,685,845**

(a) Impaired assets represent equipment for production of medical disposables, including syringes, removed from active use due to decline in customer demand and low profitability of these disposables. The impairment charge equals to the carrying value of those equipment and assets under construction (Note 31).

(b) Due to changes in the market situation for medical devices during 2009 the Group resumed the production of syringes. As a result the previous impairment of the related equipment has been reversed.

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

11. Property, plant and equipment (continued)

In 2010 and 2009, the Group did not receive new borrowings and there were no new qualifying assets, therefore no interest expense was capitalized.

The Group assets include only a minor portion of 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. The lease agreements specify lease terms between 1 and 20 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 total amount of rental payments for the use of the land during 2010 was RR 8,682 (2009: RR 8,187). Such payments are reassessed by the state authorities on an annual basis. No such reassessment has been completed for 2011 and beyond as of the date of approval of these consolidated financial statements for issue.

12. Intangible assets

	Goodwill	Trademarks and patents	Total
Cost			
Balance at 31 December 2009	1,180,469	5,924,109	7,104,578
Additions (a)	-	806,032	806,032
Balance at 31 December 2010	**1,180,469**	**6,730,141**	**7,910,610**
Accumulated amortisation and impairment			
Balance at 31 December 2009	-	942,443	942,443
Reversal of impairment (b)	-	(29,258)	(29,258)
Amortisation expense	-	311,215	311,215
Balance at 31 December 2010	-	**1,224,400**	**1,224,400**
Net book value			
Balance at 31 December 2009	1,180,469	4,981,666	6,162,135
Balance at 31 December 2010	**1,180,469**	**5,505,741**	**6,686,210**

	Goodwill	Trademarks and patents	Total
Cost			
Balance at 31 December 2008	1,180,469	5,756,308	6,936,777
Additions (a)	-	167,801	167,801
Balance at 31 December 2009	**1,180,469**	**5,924,109**	**7,104,578**
Accumulated amortisation and impairment			
Balance at 31 December 2008	-	589,636	589,636
Impairment (c)	-	62,696	62,696
Amortisation expense	-	290,111	290,111
Balance at 31 December 2009	-	**942,443**	**942,443**
Net book value			
Balance at 31 December 2008	1,180,469	5,166,672	6,347,141
Balance at 31 December 2009	**1,180,469**	**4,981,666**	**6,162,135**

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

12. Intangible assets (continued)

(a) Additions represent acquisition of Acipol trade mark (see Note 7). In 2009, there were acquisitions of a trade mark (see Note 10) and some patents (know-how).

(b) The reversal of impairment mainly relates to the increase in customer demand due to the pharmaceutical market growth and increase in consumption of certain pharmaceutical Group's products in 2010. The recoverable amount was determined based on a value in use calculation using cash flow projections developed on the basis of financial budgets approved by management covering a five-year period and cash flows beyond the five-year period are extrapolated using a 5% growth rate that is the mid-term average growth rate for pharmaceuticals market. The discount rate applied to cash flow projections is 14.7%.

(c) The impairment mainly relates to the decrease in customer demand due to the recent financial crisis. The recoverable amount was 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 5% growth rate that is the mid-term average growth rate for pharmaceuticals market. The discount rate applied to cash flow projections was 16.4%.

Carrying amount and remaining amortization period of major trade marks as of 31 December are as follows:

	Carrying amount		Remaining amortization period (years)	
Name	**2010**	**2009**	**2010**	**2009**
Afobazol®	**1,851,570**	1,955,884	**18**	19
Arbidol®	**1,611,825**	1,715,258	**15**	16
Acipol®	**788,120**	-	**15**	-
Flucostat®	**627,023**	667,259	**15**	16

Impairment testing of goodwill

Goodwill acquired through business combinations 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	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Carrying amount of goodwill	**961,615**	961,615	**218,854**	218,854	**1,180,469**	1,180,469

12. Intangible assets (continued)

Impairment testing of goodwill (continued)

The recoverable amount of the cash-generating units has been determined based on a value in use calculation using cash flow projections developed on the basis of financial budgets approved by management covering a five-year period and cash flows beyond the five-year period are extrapolated using a 5% growth rate that is the same as the mid-term average growth rate for pharmaceuticals and medical equipment market (2009: 5% for pharmaceuticals and medical equipment market). The discount rate applied to cash flow projections is 14.7% (2009: 16.4%).

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;
- Currency rates changes;
- 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 Capital Assets Pricing Model calculation at the reporting date.

Raw material price inflation – past actual raw materials price movements, including the effect of the devaluation of the Russian Rouble for US dollar denominated raw materials, have been used as an indicator of future price movements.

Currency exchange rates changes – estimated based on current trends on the foreign currency market.

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

Sensitivity to changes in assumptions

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the group of units to materially exceed its recoverable amount.

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

13. Inventories

Inventories consist of the following:

	2010	2009
Raw materials - at cost	1,931,686	1,448,918
Work in progress - at cost	304,338	330,508
Finished goods:		
- at cost	5,271,354	999,267
- at net realisable value (a)	5,230,190	979,265
	7,466,214	2,758,691

(a) On 31 December 2010, finished goods balance included third party products in the amount of RR 2,566,037 designated for sale under the terms of the state tenders won by the Company.

Movements in allowance for write-down of inventories to net realizable value were as follows:

	2010	2009
Balance at 1 January	20,002	24,479
Additional allowance	43,534	7,434
Unused amounts reversed	(466)	(987)
Utilised during the year	(21,906)	(10,924)
Balance at 31 December	41,164	20,002

14. Trade and other receivables

	2010	2009
Trade receivables (net of allowance for impairment of receivables of RR 48,781 (2009: RR 94,910))	12,271,212	8,994,926
Interest receivable (Note 10)	104,847	17,242
Other receivables (a)	-	276,914
	12,376,059	9,289,082

(a) Other receivables represented cash rebates on procurement.

At 31 December 2010 RR 153,236 of trade receivables were denominated in currencies other than Russian Roubles, primarily in US$ (2009: RR 52,584).

Movements in allowance for impairment of trade receivables were as follows:

	2010	2009
Balance at 1 January	94,910	568,676
Additional allowance	3,017	4,979
Unused amounts reversed	(45,832)	(477,279)
Utilised during the year	(3,314)	(1,466)
Balance at 31 December	48,781	94,910

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

14. Trade and other receivables (continued)

In 2008 the Group recognized an allowance in the amount of RR 476,131 related to the bankruptcy of one of the Group's distributor, CJSC "Genesis". In 2009 and 2010, a successor of the distributor, agreed to pay almost the entire balance receivable that had been previously provided for. The reversal of the allowance for accounts receivable, included in "Unused amount reversed" line, amounted to RR 28,460 (2009: RR 447,671) and recognised in profit or loss as other income (Note 26) and the remaining reversal amount was recognised in profit or loss as credit to cost of sales.

15. Prepayments

	2010	2009
Trade prepayments for services and materials	219,621	136,729
	219,621	136,729

16. Cash and short-term deposits

Cash and short-term deposits consist of the following:

	2010	2009
Cash in bank - Russian Roubles	3,898,237	1,604,760
Cash in bank - US$ and Euro	8,021	617,176
Short-term bank deposits with original maturity less than 90 days - Russian Roubles (a)	250,000	-
Cash deposits on tenders - Russian Roubles:		
- transferred to the Ministry of Health (b)	-	156,224
- placed in the related bank (c)	-	420,000
	4,156,258	2,798,160

(a) Short-term bank deposits bear an interest rate of 7% p.a. on average.

(b) This item represents cash deposits restricted for use placed to secure participation in tenders announced by the Government of the Russian Federation. Cash deposit transferred to the Ministry of Health is interest free.

(c) Cash deposits placed in the related bank carried an interest rate of 12.5% p.a.

17. Short-term financial assets

	2010	2009
Accounted for as loans and receivables:		
Promissory notes	614,700	331,120
Short-term bank deposits - Russian Roubles (Note 10)	2,697,000	440,000
Short-term bank deposits - US$	304,769	302,442
Short-term loans	50,000	45,500
Accounted for as available for sale:		
Securities	11,866	9,595
Other	3,688	4,630
	3,682,023	1,133,287

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

17. Short-term financial assets (continued)

The promissory notes, deposits and loans bear interest rate within the range from 8% p.a. to 12.5% p.a.

18. Borrowings and loans

	2010	2009
Long-term borrowings and loans		
(a) Citibank loan (Note 10)	**394,523**	782,871
Other loans	**1,300**	-
Less: Current portion of long-term borrowings and loans	**(395,823)**	(391,360)
	-	391,511

Long-term debt is repayable as follows:

	2010	2009
1 to 2 years	-	391,511
	-	**391,511**

As at 31 December 2010 and 2009 all the borrowings are US$ denominated. The foreign exchange risk in this respect is not covered by any derivative instruments.

(a) The Citibank loan was provided in December 2006 in two credit facilities:

- Facility A in the total amount of US$ 91 million with maturity period of 3 years (on 18 December 2009 this facility was repaid); and
- Facility B in the total amount of US$ 55 million with maturity period of 5 years.

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

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

In September 2007, when LIBOR rate interest was approximately 5.7%, the Group entered into an Interest Rate Swap agreement in respect to all interest payable under the Citibank loan swapping the LIBOR rate interest obligations into a fixed rate of 4.932% per annum. In this manner the Group protects itself against fluctuations of LIBOR rates. For more details see Note 30.

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

The Citibank loan agreement establishes certain financial ratios, restrictions on disposal of assets and distribution of dividends. There was no breach of these conditions by the Group.

The Citibank loan agreement also contains material adverse change clause.

In 2010, the Group repaid US$ 12,940 thousand (RR 395,087) of the Citibank loan (2009: US$ 53,385 thousand (RR 1,688,150)).

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

19. Other taxes payable

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

	2010	2009
Value-added tax	445,634	520,305
Property and other taxes	77,680	48,221
	523,314	568,526

20. Trade and other payables and accruals, and advances received

	2010	2009
Trade payables	2,140,639	1,715,862
Payables for third parties products procurement	5,972,929	1,830,112
Payables for third parties products procurement and other payables - related parties (Note 10)	770,545	12,004
Advances received (Note 9)	1,337,032	
Other payables and accruals	526,052	348,001
	10,747,197	3,905,979

At 31 December 2010 RR 1,620,292 of trade payables were denominated in currencies other than Russian Rouble, primarily in US$ (2009: RR 1,253,586).

21. Share capital

In accordance with its charter documents the share capital of the Company is RR 37,793. The authorised number of ordinary shares is 37,792,603 with par value of 1 (one) Russian Rouble. All authorised shares are issued and fully paid. There were no other transactions with own shares during 2010 except for the sale of treasury shares (Note 5).

As at 31 December 2010 and 2009 more than half of voting shares of OJSC "Pharmstandard" were held by Augment controlled by Victor Kharitonin, a Russian citizen.

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

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

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 14,179,754 (unaudited) of undistributed and unreserved earnings as at 31 December 2010 (2009: RR 8,911,487- unaudited). In addition, the Company's share in the undistributed and unreserved earnings of the subsidiaries and joint venture was approximately RR 11,809,047 (unaudited) as at 31 December 2010 (2009: RR 9,307,037- unaudited).

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

21. Share capital (continued)

In accordance with the Citibank loan agreement (Note 18) the Group shall not pay, make or declare any dividend or other distribution without the prior written consent of the lenders.

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

Earnings per share

Earnings per share are as follows:

	2010	2009
Weighted average number of ordinary shares outstanding	**37,792,603**	37,792,603
Profit for the year attributable to the shareholders	**7,149,543**	6,836,430
Basic and diluted earnings per share, Russian Roubles	**189.18**	180.89

22. Revenue

Sales breakdown by product groups comprised the following:

Product group	2010	2009
Pharmaceutical products		
Over the Counter ("OTC")		
Branded	**13,338,950**	12,709,906
Non-branded	**2,242,147**	2,130,766
	15,581,097	14,840,672
Prescription		
Branded	**2,806,909**	2,022,368
Non-branded	**487,271**	315,741
	3,294,180	2,338,109
Third parties products (a)	**9,893,825**	6,156,359
Other	**287,038**	71,545
Total pharmaceutical products	**29,056,140**	23,406,685
Medical equipment and disposables	**630,496**	688,708
	29,686,636	24,095,393

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

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

23. Cost of sales

The components of cost of sales were as follows:

	2010	2009
Materials and components	6,653,267	5,697,714
Third parties products	8,272,386	4,973,093
Production overheads	813,178	790,751
Depreciation and amortisation	718,937	684,802
Direct labour costs	243,070	221,575
	16,700,838	12,367,935

24. Selling and distribution costs

Selling and distribution costs were as follows:

	2010	2009
Advertising	1,427,340	1,365,491
Labour costs	826,242	585,997
Freight, communication and insurance of goods in transit	164,331	150,738
Trainings and other services	43,413	25,641
Certification expenses	54,290	38,763
Rent	75,803	53,920
Commission and license fee	57,819	51,495
Materials, maintenance and utilities	96,739	58,006
Travel and entertainment	80,114	58,976
Depreciation	53,659	50,066
Other expenses	36,452	24,035
	2,916,202	2,463,128

The Group entered into a number of operating lease agreements for warehouses. Rental agreements are revised on an annual basis.

25. General and administrative expenses

General and administrative expenses were as follows:

	2010	2009
Labour costs	551,189	436,082
Services, legal, audit and consulting expense	75,491	45,384
Travel and entertainment	20,712	16,315
Taxes other than income tax	16,353	15,347
Property insurance	17,275	13,981
Freight and communication	28,811	25,134
Depreciation	19,420	17,190
Rent	34,963	27,359
Materials, maintenance and utilities	91,524	71,428
Other	36,216	43,025
	891,954	711,245

The Group entered into a number of operating lease agreements for office premises. Rental agreements are revised on an annual basis.

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

26. Other income and other expenses

Other income comprised the following:

	2010	2009
Income from non-core operations (a)	**82,820**	31,188
Reversal of impairment - property, plant and equipment (Note 11)	**-**	13,374
Reversal of impairment - intangible assets (Note 12)	**29,258**	-
Reversal of impairment of receivables (b)	**28,460**	447,671
Gain from disposal financial assets (Note 6)	**47,487**	-
Gain from sale of subsidiary (Note 5)	**-**	13,627
	188,025	505,860

(a) Income from non-core operations primarily includes (i) agency fee incurred in respect of sale of certain third-parties products by the Group (ii) income from sale of materials and other assets not included in other categories (iii) income from other non-core services

(b) This amount represents reversal of impairment initially recorded to other expenses. The total reversal amount presented in Note 14 also included reversal of impairment initially recorded to cost of sales.

Other expenses comprised the following:

	2010	2009
Foreign exchange loss, net	**16,393**	226,329
Impairment of property, plant and equipment (Note 11 and 31)	**76,002**	-
Loss from disposal of property, plant and equipment	**5,311**	7,578
Impairment of intangible assets (Note 12)	**-**	62,696
Expense related to the joint venture - Note 8 (a)	**248,298**	-
Charity	**22,425**	13,992
Bank charges (b)	**32,433**	9,213
Other taxes	**50,250**	53,959
Expenses for personnel reduction incurred in connection with closure of disposables production (Note 31)	**7,411**	-
Fees for factoring	**-**	24,594
Other	**30,329**	2,242
	488,852	400,603

(a) In 2010, the Group made an additional cash contribution of RR 480,000 to the joint-venture. This contribution was provided by the Group to allow the joint venture to commence its research and development activities. The excess of the contribution over Group's interest in the joint venture in the amount of RR 240,000 was considered as non-refundable assistance to the joint venture and, accordingly, recognized as an expense in 2010.

(b) Bank charges includes (i) commission for daily banking operations (ii) commission for certain bank guarantees obtained by the Group.

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

27. Financial Income and expense

Financial income and expense comprised the following:

	2010	2009
Interest income:		
Income from changes in fair value of Interest Rate Swap (Notes 18 and 30)	**23,502**	54,337
Interest income from loans and deposits	**289,409**	72,205
Other	**2,256**	6,336
	315,167	132,878
Interest expense:		
Loss from Interest Rate Swap (Notes 18 and 30)	**29,736**	74,074
Interest expense on borrowings and loans	**17,944**	71,895
	47,680	145,969

28. Income tax

	2010	2009
Income tax expense - current	**2,145,172**	1,724,934
Deferred tax (benefit) expense - origination and reversal of temporary differences	**(164,666)**	67,876
Income tax expense	**1,980,506**	1,792,810

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

	2010	2009
Profit before income tax	**9,144,302**	8,645,251
Theoretical tax charge at statutory rate of 20%	**1,828,860**	1,729,050
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	**151,646**	63,760
Income tax expense	**1,980,506**	1,792,810

Movements in deferred tax balances were as follows:

	31 December 2008	Temporary differences recognition and reversal	31 December 2009	Temporary differences recognition and reversal in profit and loss	Temporary differences recognition and reversal in other comprehensive income	31 December 2010
Tax effects of deductible temporary differences - asset (liability):						
Property, plant and equipment (Note 11)	(291,116)	(16,746)	(307,862)	21,905	-	(285,957)
Intangible assets (Note 12)	(554,433)	40,110	(514,323)	29,826	-	(484,497)
Trade and other receivables	121,241	(153,617)	(32,376)	56,347	-	23,971
Inventories	21,113	(8,782)	12,331	79,526	-	91,857
Trade and other payables and other taxes	(55,124)	71,482	16,358	(11,462)	-	4,896
Financial instruments	17,817	(10,867)	6,950	(4,700)	-	2,250
Other	1,316	10,544	11,860	(6,776)	62	5,146
Total net deferred tax liability	(739,186)	(67,876)	(807,062)	164,666	62	(642,334)

28. Income tax (continued)

The recognition and reversals of temporary differences primarily relates to the following:

- depreciation of property, plant and equipment in excess of the depreciation for tax purposes;
- fair value adjustments on acquisition;
- fair value of financial instruments in excess of the cost of these instruments for tax purpose;
- impairment of trade receivables;
- allowances to write inventory down to net realizable value;
- amortisation of trade marks in excess of the amortisation for tax purposes; and
- deemed cost adjustments upon conversion to IFRS.

The aggregate amount of temporary differences associated with investments in subsidiaries and joint venture for which deferred tax liabilities have not been recognised was approximately RR 8,096,339 as at 31 December 2010 (2009: RR 5,839,675).

29. Contingencies, commitments and operating risks

Operating environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

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

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

29. Contingencies, commitments and operating risks (continued)

Taxation (continued)

As at 31 December 2010 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 2010. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Should the Russian tax authorities decide to issue a claim and prove successful in the court, they would be entitled to recover the amount claimed, together with fines amounting to 20% of such amount and interest at the rate of 1/300 of the Central Bank of the Russian Federation rate for each day of delay for late payment of such amount. Management believes that it is not probable that the ultimate outcome of such matters would result in a liability. Therefore, no provision for these contingencies was recorded in these consolidated financial statements.

Insurance policies

The Group holds insurance policies in relation to its property, plant and equipment, which cover majority of property, plant and equipment items. The Group holds no insurance policies in relation to its operations, or in respect of public liability.

30. Financial Instruments and financial risk management objectives and policies

Fair values

Management believes that fair value of cash and cash equivalents, loans receivable, promissory notes, short-term deposits, prepayments for subsidiary acquisition, other receivable or payables and investments approximate their carrying amounts due to their short maturity.

Fair values of long-term borrowings and loans are approximately equal to their carrying value as they are based on variable interest rates (LIBOR). Fair value of derivative financial instruments has been calculated by discounting the expected future cash flows at prevailing interest rates.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

30. Financial Instruments and financial risk management objectives and policies (continued)

Fair value hierarchy (continued)

The table below shows the assets measured at fair value as at 31 December 2010:

	Total	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets				
Securities (Note 17)	**11,866**	**11,029**	**-**	**837**
Liabilities measured at fair value				
Interest rate swap	**11,249**	**-**	**11,249**	**-**

31 December 2009:

	Total	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets				
Securities (Note 17)	9,595	8,774	-	821
Liabilities measured at fair value				
Interest rate swap	34,751	-	34,751	-

Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans, short-term bank deposits 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 year the Group did not undertake active trading in financial instruments. To reduce the risk of interest fluctuations related to long term LIBOR borrowings, the Group entered into an interest rate swap agreement (more details see below).

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 18.

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

30. Financial Instruments and financial risk management objectives and policies (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax for one year assuming the parallel shifts in the yield curves (through the impact on floating rate borrowings and changes in fair value in respect of the Interest Rate Swap):

	Increase/decrease in basis points	Effect on profit or loss (interest expense)	Effect on profit or loss (due to fair value change)
As at 31 December 2010	100	(2,440)	1,552
	(30)	732	(469)
As at 31 December 2009	100	(7,829)	6,429
	(25)	1,957	(1,711)

Foreign exchange risk

The Group has US dollar denominated long-term borrowings (see Note 18) and also certain US dollar denominated trade payables (Note 20), trade receivables (Note 14) and other liabilities. 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.

The table below shows the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax:

	Increase/decrease in US$ rate	Effect on profit before tax
As at 31 December 2010		
US$/Roubles exchange rate	+10%	(111,185)
US$/Roubles exchange rate	-10%	111,185
As at 31 December 2009		
US$/Roubles exchange rate	+10%	(104,057)
US$/Roubles exchange rate	-10%	104,057

Liquidity risk

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

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

30. Financial Instruments and financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's non-derivative financial liabilities based on contractual undiscounted payments including interest except for payables which normally have maturity periods shorter than 4 months.

As at 31 December 2010	Total	Less than 3 months	3 to 6 months	6 to 12 months
Borrowings (a)	**400,499**	100,975	100,399	199,125
Other current liabilities	**38,434**	-	-	38,434
Total	**438,933**	100,975	100,399	237,559

As at 31 December 2009	Total	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years
Borrowings (a)	**804,921**	102,039	102,039	204,078	396,765
Other non-current liabilities	**67,018**	-	-		67,018
Total	**871,939**	102,039	102,039	204,078	463,783

(a) The Citibank loan received in 2006 (see Note 18 for details) includes contractual principal amount of debt and interest rate calculated in accordance with corresponding terms of the loan agreement at 31 December 2010 and 2009.

Credit risk

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

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

Cash is placed in the related bank (Note 10), which is considered to have minimal risk of default.

The table below summarises the Group's trade receivables aging.

			Not impaired but past due				
	Total	Neither impaired nor past due	less 1 month	1-2 months	2-3 months	3 to 6 months	> 6 months (a)
31 December 2010	12,376,059	11,078,443	1,125,873	161,614	8,504	1,482	143
31 December 2009	9,289,082	8,455,737	612,742	19,995	10,657	14,175	175,776

(a) At 31 December 2009 these receivables primarily represent the amount of restructured receivable of CJSC "Genesis". In 2009 and 2010, the Group reversed impairment against the receivable from CJSC "Genesis", which was recorded in 2008. They were collected in January-March 2010 (for more details see Note 14).

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

30. Financial Instruments and financial risk management objectives and policies (continued)

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 2010 and 2009. Given the Russian market structure limited number of large distributors is not unusual. The Group has no other significant concentrations of credit risk but is exposed to general risk of the global credit crisis and its effects on the Group's distributors.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt (while taking into consideration terms and conditions set by the Citibank Loan Agreement, Note 18).

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.

	2010	2009
Borrowings and loans	395,823	782,871
Trade and other payables	9,410,165	3,905,979
Less: cash and short-term deposits	(4,156,258)	(2,798,160)
Net debt	5,649,730	1,890,690
Equity	26,447,541	19,281,553
Capital and net debt	32,097,271	21,172,243
Gearing ratio	18%	9%

31. Events after the reporting period

Acquisition of subsidiary

In 4th quarter 2010 the Company signed contracts with shareholders of Private Joint Stock Company "Kharkiv Enterprise Imunobiological and Medical Substances Production "Biolik" ("Biolik") with the purpose to acquire 55% of the voting shares of "Biolik", a company located in Ukraine involved in the production of various pharmaceutical products for a cash consideration of RR 393,234 (US$ 13,086 thousand).

Of the total consideration amount, payment of RR 39,162 is contingent upon achievement by "Biolik" of certain operational and financial targets by 31 December 2011. On 18 January 2011, the acquired shares of "Biolik" were transferred to the Company. The primary reason for the acquisition was the Group's intent to extend its operations to the Ukrainian market.

31. Events after the reporting period (continued)

Acquisition of subsidiary (continued)

The Group has not finalised the purchase price allocation for "Biolik" and the management of the Group is currently assessing the effect of acquisition on the consolidated financial statements.

Offer for 4.9% of Company's ordinary shares

On 18 January 2011, OJSC "Pharmstandard-Leksredstva" proposed voluntary offer to purchase up to 1,850,000 ordinary shares of the Company representing about 4.9% of the Company's authorized share capital. Under the terms of the offer, all Company's shareholders were invited to sell their ordinary shares of the Company at a price of 3,000 Russian Roubles per one share. On 18 February 2011, OJSC "Pharmstandard-Leksredstva" closed this offer to purchase up to 1,824,750 ordinary shares of the Company in the total amount of RR 5,474,250. The Company paid consideration for these treasury shares before the date of release of these consolidated financial statements.

Closure of disposables production line

On 18 February 2011 the management of the Group approved the plan to discontinue the operations of production line of medical disposables, including syringes, because of low profitability and decline in customer demand of these products. Impairment of assets represented equipment for production of medical disposables amounted to RR 76,002 (Note 11) and expenses on personnel reduction amounted to RR 7,411 were recognised in profit and loss (Note 26).