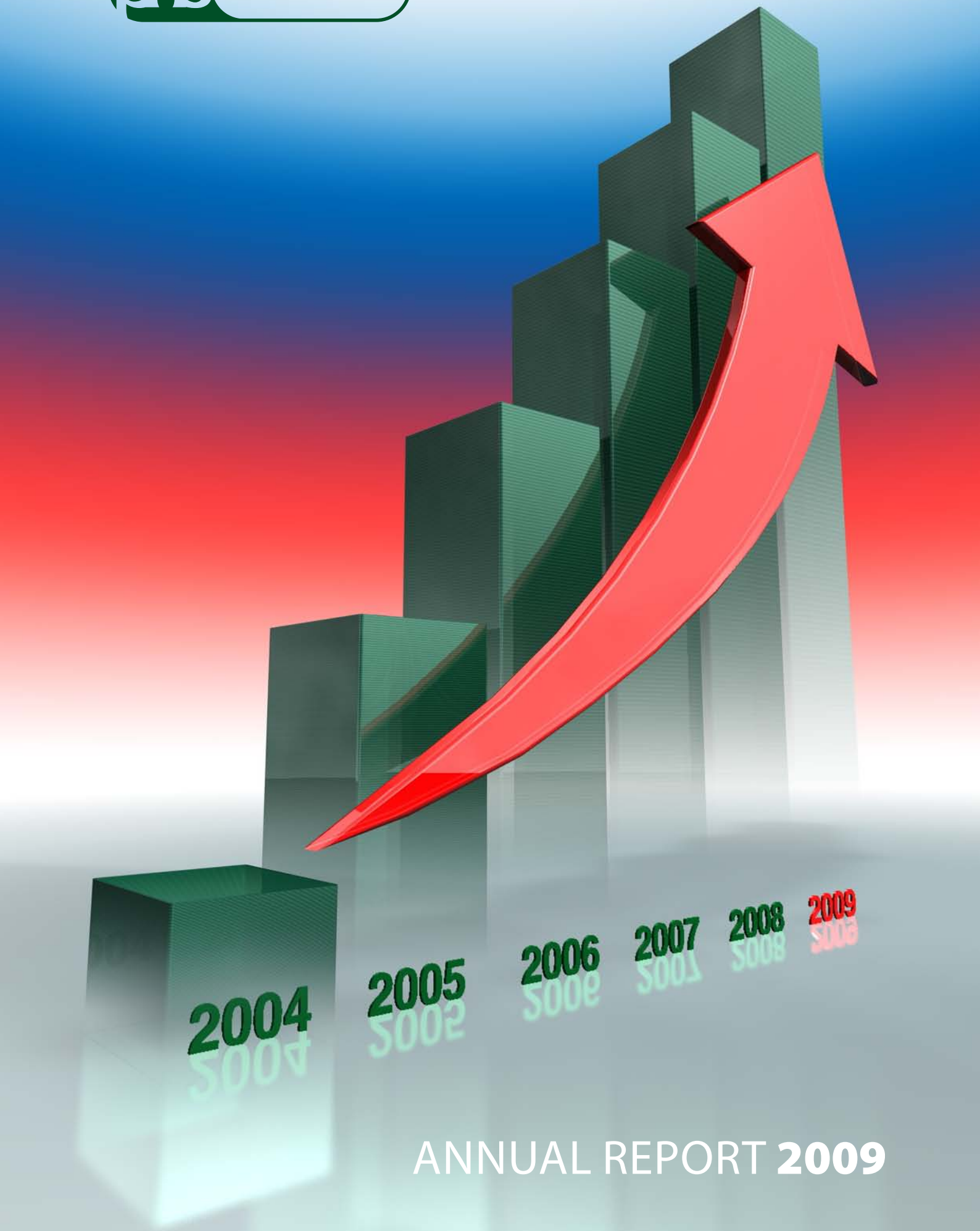
Pharmstandard



ANNUAL REPORT **2009**

ANNUAL REPORT 2009

Introducti

I welcome the opportunity to present you with the Pharmstandard annual report, discussing our performance in 2009 and share with you the major factors contributing to our success that allowed us to reach such high financial and operational results.

EMPLOYEE from left to right: **Victor Fedlyuk** – *Head of Legal Department,* **Sergey Dushelikhinsky** – *Chief Commercial Officer,* **Stanislav Reshetnikov** – *National Marketing Manager, OTC & Rx,* **Elena Arkhangelskaya** – *Chief Financial Officer,* **Olga Mednikova** – *Chief Sales & Marketing Officer,* **Igor Krylov** – *Chief Executive Officer*

PRODUCTS from left to right: **Complivit®, Pentalgin®, Afobazol®, Phosphogliv®, Flucostat®, Arbidol®, Codelac®**


ion
капсул
УКОНАЗОЛ
ЮКОС
грибковое
средство
20 КАПСУЛ
Средство от каш
растительного происхо
10 табле
Фармстандарт
Annual Report
2009

CEO Statement

Dear shareholders and partners,

I welcome the opportunity to present you with the Pharmstandard annual report, discussing our performance in 2009 and share with you the major factors contributing to our success that allowed us to reach such high financial and operational results.

It is the first time that a Russian company-manufacturer became the leader in the pharmaceutical market of Russia measured by sales. For three years we have been the leaders in commercial segment of Russian market. Furthermore, Pharmstandard remains the leader among the domestic manufacturing companies, measured by pharmaceutical product sales, having increased its market share from 18.9% to 20%.

It is a great pleasure that during the tenth anniversary of «Platinum Ounce 2009», the open competition among professionals of pharma business, Pharmstandard was awarded in the nominations for «The Company of the Year – the Russian pharmaceutical products manufacturer» and «The Company of the Decade – the Russian pharmaceutical products manufacturer».

Meanwhile, 2009 was the year of world financial crisis which resulted in serious changes to the macroeconomic environment and as a result many companies reconsidered their strategy and business tactics. Following the strategy of active costs control, the operational budget of the year 2009 was approved at the previous year level and we optimized marketing and promotional expenses.

Pharmstandard's management concentrated all efforts to the main strategic directions of the Company and increased the demand of leading brands through offering these brands at affordable prices to consumers at a level of November 2008, as well as executing effective marketing and promotion activities which allowed the Company to achieve a leadership position in the market. As a result, the organic growth of the company revenue increased by 46% in value and 13% in volume.

We significantly increased the share of our own pharmaceutical products as well as products produced by 3rd party manufacturers within «7 nosologies» and other reimbursement programs.

One of the important initiatives of Pharmstandard in 2009 was the Company's participation in the joint biotechnological project «Generium» in order to develop and manufacture innovative biological products within the state program of import substitution.

In the year 2009 the Russian Government paid the significant attention to the «Strategy of development of the Russian pharmaceutical industry – Pharma 2020» and forming-up the transparent regulatory system and control of the pharmaceutical market. Management anticipates that these government initiatives will be beneficial to the pharmaceutical market and may help Pharmstandard to further develop its position as leader of the Russian pharmaceutical industry.

I look forward to the future and have confidence that Pharmstandard will continue achieving profitable business growth and providing long term value to our stakeholders.

For and on behalf of the Board of Directors
Sincerely yours,

Igor Krylov

It is the first time that a Russian company-manufacturer became the leader in the pharmaceutical market of Russia measured by sales. For three years we have been the leaders in commercial segment of Russian market.

Igor Krylov
Chief Executive Officer

PRODUCTS from left to right:
Combilipen®
Biosulin® R
Rastan®
Arbidol®

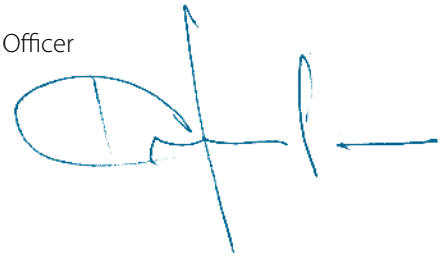
Directors' statement of responsibilities

The Directors are responsible for preparing this Annual Report of JSC Pharmstandard («Pharmstandard» or «the Company»), including financial statements in accordance with applicable law and regulations. Each of the current Directors, whose names and functions are listed in the Corporate governance section of the Annual Report 2009 confirms that, to the best of his or her knowledge:

- the Company's financial statements, which have been prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Business Report section contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Chief Executive Officer

Igor Krylov



Major Events and Achievements

Company

- Pharmstandard became the leader of the Russian pharmaceutical market as result of higher sales of medicines, and increasing its share in the market from 4.0% to 4.4%.
- Pharmstandard keeps the leadership in the commercial segment of the market, increasing its share from 5.2% to 5.5% as result of higher sales during 2009.
- Pharmstandard remains the uncontested leader among the domestic producers as result of higher sales of medicines increasing its share from 18.9% to 20.0%.
- In the framework of the tenth jubilee of the open contest of professionals in pharmaceutical branch «Platinum ounce 2009» Pharmstandard was elected the winner in the nominations «Company of the Year – Russian producer of medicines» and «Company of decade – Russian producer of medicines».
- Pharmstandard was the first Russian company to become a full-fledged member of the International Pharmaceutical Excipients Council Europe (IPEC Europe). Pharmstandard is the first Russian company included to the organization.
- In November 2009, Pharmstandard JSC has legally merged with two minor subsidiaries Pharmstandard-Oktyabr OJSC and Masterlek CJSC. This merger was performed to optimize the legal and organizational structure of the Group (which was comprised of Pharmstandard JSC and its subsidiaries) and had no significant impact on Pharmstandard business activities.
- In the 4th quarter of 2009 the management of the Group approved the plan for the foundation of a new Biotech joint venture as the part of a strategic plan incorporated in project «Generium». In February 2010 LLC «NauchTechStroy Plus» (LLC «NTS Plus») was established by two participants and duly registered. Pharmstandard owns 50% of the share capital.
- On April 2010 LLC «NauchTekhStroy Plus» signed an agreement with Affitech A/S (Denmark) for the joined development of innovative monoclonal antibody for treatment of oncological and other deseases. The amount of investments from the part of «NauchTekhStroy Plus» will total 23 millions euro. The commercialization of pharmaceutical preparations in Russia and CIS countries will be managed by Pharmstandard.
- On April 2010 the Pharmstandard acquired 11.3% of shares of Joint-Stock Company Grindeks, one of the biggest producers of medicines in Latvia, continuing the strategic partnership in the distribution and promotion of Mildronate® in Russia.

Financials

- **Revenue growth +68%,** total revenue RUR 24,095.4 million
- **Gross margin + 34%,** gross profit RUR 11,727.5 million or 49% of total sales
- **EBITDA growth +59%,** EBITDA RUR 9,410.4 million or 40% of total sales
- **Net profit growth + 96%,** net profit RUR 6,852.4 million or 28.4% of total sales

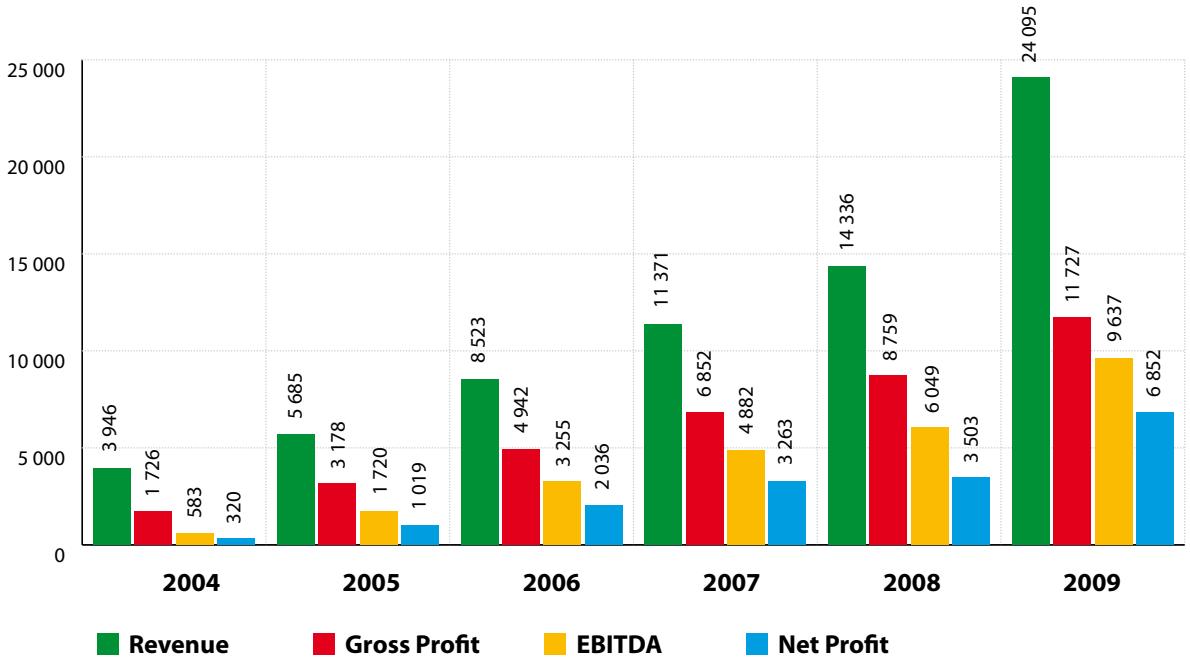
Products

- Antiviral product Arbidol® became the leader of Russian pharmaceutical market as result of significantly increased sales for year the 2009. The efficacy of Arbidol® as preventive measures and treatment of «swine flu» A/H1N1 was confirmed by the leading Russian virology science centers. The sales of Arbidol® in year 2009 reached RUR 5,503 millions.
- Arbidol® was elected the winner and was awarded the «Platinum ounce 2009» in the nominations «Over-the-counter preparation of the year» and «Over-the-counter preparation of the decade». The preparation Pentalgin® became the winner of the award «HOUSEHOLD BRAND/BRAND №1 in Russia» in the category «Analgesic drug». The preparation Complivit® became the winner of the award «Brand of Trust» in the category «Vitamins».
- 7 brands of the company entered the list of 15 best-selling brands in the segment of domestic producers in 2009. They are: Arbidol® (antiviral product), Pentalgin® (pain reliever), Complivit® (vitamins + minerals), Amixin® (immunostimulatory agent), Terpincod® (antiflu), Codelac® (antiflu), Flucostat® (antifungal).

Facilities

- Pharmstandard announced the receipt of European Union Good Manufacturing Practice (EU GMP) certificates of conformity for 6 manufacturing lines after the State Agency of Medicines of Latvia audited Pharmstandard-Leksredstva JSC (Pharmstandard-Leksredstva). The Agency inspected drug product manufacture and quality control management for compliance with the EU Good Manufacturing Practice. Pharmstandard-Leksredstva was the first Russian company to be entered into the European database EudraGMP (European Medicines Agency, EMEA).

Pharmstandard in figures



	2004	2005	2006	2007	2008	2009
Revenue, *RUR mln*	**3,946**	**5,685** +44%	**8,523** +50%	**11,371** +33%	**14,336** +26%	**24,095** +68%
Gross Profit, *RUR mln*	**1,726**	**3,178** +84%	**4,942** +56%	**6,852** +39%	**8,759** +28%	**11,727** +33%
EBITDA, *RUR mln*	**583**	**1,720** +195%	**3,255** +89%	**4,882** +50%	**6,049** +24%	**9,637** +59%
Net Profit, *RUR mln*	**320**	**1,019** +218%	**2,036** +100%	**3,263** +60%	**3,503** +7%	**6,852** +96%

Sergey Dushelikhinsky – *Chief Commercial Officer*

PRODUCTS from left to right: **Renipril®, Cyclodol®, Combilipen®, Biosulin® P, Rastan®, Azithrox®**

Shareholders Structure

Pharmstandard became a public company in 2007 by offering to the public 25.0% of its share capital in the form of GDR during the Initial Public Offering (IPO) on the London Stock Exchange (LSE) and 18.3% of its share capital in the form of ordinary shares on two local stock exchanges (RTS, MICEX).

In May 2008, the major Pharmstandard shareholder, Augment Investments Limited, placed 2.5% of JSC Pharmstandard share capital in the form of GDR at the market price.

The following table provides information about Pharmstandard shares ownership.

	As of 31 December	
	2009	2008
Augment Investments Limited	54.31%	54.2%
Treasury Shares (Pharmstandard)	0.02%	–
Free Float	45.67%	45.8%
GDR	27.57%	27.5%
Local shares	18.10%	18.3%

Dividends

The Board of Directors recommends not paying dividends for the financial year ended December 31, 2009. Like in 2007 and 2008, no dividends on ordinary shares will be paid out of 2009 earnings. The Company will retain earnings for possible M&A deals and development of biotech projects.

Corporate Governance

JSC Pharmstandard is subject to applicable corporate governance regulations. In 2009, the Company continued its efforts to advance adoption of international corporate governance standards.

Throughout 2009, the Company fully complied with international ethical standards and the requirements set forward by the London Stock Exchange.

Corporate Code

The Corporate Code sets out internal control procedures for Pharmstandard financial and business operations. In particular, it specifies:

- procedures for the internal controls over our financial and business operations,
- procedures for the internal audit of compliance with internal controls.

The Company will announce the date and location of 2009 Annual General meeting in a special press release

Victor Fedlyuk
Head of Legal Department

In addition, the Corporate Code regulates the use of insider information by Pharmstandard's management and employees. Thus, the Corporate Code provides that members of the Company's Board of Directors, Chief Executive Officer and internal auditors shall use insider information (as defined by the Corporate Code) only for the benefit of the Company, pursuant to applicable law and in accordance with the Corporate Code. The Corporate Code also provides for certain procedures implemented to ensure that all relevant individuals observe regulations set forward by this document.

PRODUCTS from left to right: **Complivit®, Arbidol®, Afobazol®, Pentalgin®, Phosphogliv®, Codelac®, Flucostat®**

The Corporate Code also establishes the requirement for the members of the Company's Board of Directors and the General Director to disclose any trading in the Company shares.

The updated version of the Corporate Code was approved by the Company's Board of Directors on 1 October 2008.

The Company's governing bodies are:

- Annual General Meeting,
- Board of Directors,
- Board of Directors Committees,
- Management Board.

Annual General Meeting

The Annual General Meeting attended by all shareholders is the Company's highest decision-making body. The Company will announce the date and location of 2009 Annual General Meeting in a special press release.

Board of Directors

The Board of Directors principal goal has always been to represent the interests of Pharmstandard shareholders and other stakeholders. The Board of Directors consists of 11 members; 3 of them are independent.

The Board of Directors comprises:

Viktor Kharitonin	*Chairman of Board of Directors*	Mr. Kharitonin has served as Chairman of our Board of Directors since May 2006. Mr. Kharitonin graduated from Novosibirsk State University.
Igor Krylov	*Board Member, Chief Executive Officer*	Mr. Krylov serves as our Chief Executive Officer since 2003 and member of Board of Directors since May 2006. He has more than 16 years experience working in the pharmaceutical industry. Previously, Mr. Krylov held positions with Eli Lilly and Sanofi–Aventis. He graduated with honours from Kirov Military Medical Academy.
Elena Arkhangelskaya	*Board Member, Chief Financial Officer*	Ms. Arkhangelskaya has served as our Chief Financial Officer since 2003 and member of board of Directors since June 2008. She has 13 years experience working in the pharmaceutical industry. Previously, she held senior positions at Eli Lilly. Ms. Arkhangelskaya graduated from the State Financial Academy and obtained a master of business administration (MBA) degree.
Yegor Kulkov	*Board Member*	Mr. Kulkov has served as a member of our Board of Directors since May 2006. Mr. Kulkov has held a number of senior financial positions in various companies, and currently serves as Head of the Operational Department at Commercial Bank Aresbank and as General Director of both Vita Realt. He graduated from Novosibirsk State University.

Pavel Mileyko	*Board Member*	Mr. Mileyko has served as a member of our Board of Directors and Management Board since May 2006. Mr. Mileyko graduated from Novosibirsk State University.
Sergey Dushelikhinsky	*Board Member, Chief Commercial Officer*	Mr. Dushelikhinsky has served as our Chief Commercial Officer since 2003 and member of Board of Directors since June 2008. He has 13 years experience in sales. Previously, Mr. Dushelikhinsky worked for CJSC Veropharm and FTK Vremya. Mr. Dushelikhinsky graduated from Moscow Technical University.
Viktor Fedlyuk	*Board Member, Head of Legal Department*	Mr. Fedlyuk has served as our Head of Legal Department since 2003 and member of Board of Directors since June 2008. He has more then 11 years of experience in the legal profession, and worked for JSC Sibneft from 1996 to 2003. Mr. Fedlyuk graduated from the National Law Academy of Ukraine.
Olga Pokrovskaya	*Board Member*	Ms. Pokrovskaya has served as a member of our Board of Directors since October 2006. She also serves as a member of Evraz Group S.A Board of Directors. Ms. Pokrovskaya has more than 15 years of financial experience. Ms. Pokrovskaya graduated from the State Financial Academy and is a certified public accountant.
Roman Goryunov	*Independent Board Member*	Mr. Goryunov has been a Board Member since June 2008. Previously, he held executive positions at NP RTS Stock Exchange. Currently, Mr. Goryunov is Chairman of RTS JSC Management Board. He graduated from St. Petersburg Technical University Department of Economics and Management with a degree in Economics and Information Systems.
Alexandr Pevzner	*Independent Board Member*	Mr. Pevzner has served as a member of our Board of Directors since June 2008. Previously, he held various executive positions in a number of business corporations. Currently, Mr. Pevzner holds the position of Adviser to the General Director of JSC Wholesale Power Market Sixth Generating Company.
Ivan Tyryshkin	*Independent Board Member*	Mr. Tyryshkin has served as an independent member of our Board of Directors since October 2006. He also serves as a member of OJSC RTS Board of Directors. He previously served as President of NP RTS from 2001 to 2003 and as President of CJSC Russkoye Zerno from 2003 to 2004. Since 2006, he was served as both Managing Director and General Director of LLC ATON. Currently, Mr. Tyryshkin has served as Chairman of Rusgrein Holding. Mr. Tyryshkin graduated from the Russian Academy of Economics.

Board of Directors Committees

The Board of Directors has the following committees

- Audit Committee
- Remuneration and Nomination Committee

Audit Committee

The following table provides information about the members of the Audit Committee. All members of Audit Committee are independent members.

Ivan Tyryshkin	Committee Chairman
Roman Goryunov	Committee Member
Alexandr Pevzner	Committee Member

The Audit Committee is authorized to carry out the following functions relating to the control of the Company's financial and business operations:

- Evaluating and selecting the external auditors to be nominated for election at an Annual General Meeting;
- Reviewing the external auditors' terms of engagement;
- Determining the scope and the review of the results of external and internal audits;
- Review our financial statements and analyze changes in accounting policies, as well as any material adjustments introduced as a result of audit;
- Report internal control and accounting issues to the Board of Directors.

Remuneration and Nomination Committee

The following table provides information about the members of the Remuneration and Nomination Committee.

Ivan Tyryshkin	Committee Chairman
Olga Pokrovskaya	Committee Member
Yegor Kulkov	Committee Member

The Remuneration and Nomination Committee contributes to building a sustainable, highly professional and motivated executive team. It is authorized to:

- Assist the Board of Directors in the development of our remuneration and benefits policies;
- Develop a remuneration system for the members of the Board of Directors and Chief Executive Officer;
- Select and interview potential nominees to the Board of Directors and CEO position; and
- Prepare recommendations for the Board of Directors with respect to these matters.

Management Board

The Board has delegated to the Management Board the coordination of the Company's day-to-day business operations. The Management Board is headed by the Chief Executive Officer and also includes the following members:

Igor Krylov	*Chief Executive Officer*	Mr. Krylov serves as our Chief Executive Officer since 2003.
Pavel Mileiko	*Board Member*	Mr. Mileyko has served as a member of our Board of Directors since May 2006.
Olga Mednikova	*Chief Sales & Marketing Officer*	Ms. Mednikova has served as our Chief Sales and Marketing Officer since 2003. She has more then 14 years experience working in the healthcare industry. Previously, Ms. Mednikova held senior management positions in marketing and promotion at Glaxo Welcome and IVAX. Ms. Mednikova graduated from Samara State Medical University and holds an MD PhD degree.

Business

At Pharmstandard, we are dedicated to the development and production of advanced pharmaceutical products, which meet healthcare requirements and patients' expectations

EMPLOYEE from left to right: **Sergey Pyltsin** – *HR Director,* **Aleksey Fedotov** – *Head of Administration,* **Sergey Dushelikhinsky** – *Chief Commercial Officer,* **Dmitry Sadeev** – *Chief Information Officer,* **Olga Mednikova** – *Chief Sales & Marketing Officer*

PRODUCTS from left to right: **Imudon®, Corvalol, Biosulin® N, Amixin®, Pentalgin® Plus, IRS® 19**


Repor
ИРС®19
Комплексный препа
для лечения
и профилактик
респираторных инф
Спрей назал
20 мл
АМИКСИ
тилорон, 60 м
Противовирусное
и иммуномодулиру
средство
phs®
ПЕНТАЛГИН®
плюс
PENTALGIN
PENTALGIN
Серия:
Годен до:

Mission

At Pharmstandard, we are dedicated to the development and production of advanced pharmaceutical products, which meet healthcare requirements and patients' expectations.

The Company is committed to the following guiding principles:

- **Innovation** – speedy implementation of cutting-edge scientific developments in medicine and pharmacology in close cooperation with Russian and international scientists
- **Efficiency** – implementation of business process management procedures based on an efficient and balanced combination of technical and scientific innovations with a vast practical experience acquired over the years of extensive involvement in pharmaceutical market
- **Responsibility** – the use of international administrative and technological standards as part of the Company's responsible consumer policy. Compliance with ecological standards and commitment to the reduction of industrial effect on the environment in the context of the Company's responsibility to future generations

Strategy

We strongly believe that our achievements depend on successful implementation of the Company Strategy. Our goal is to further strengthen our leading position in the Russian pharmaceutical market. The key elements of our strategy are as follows:

- **Promote our market-leading brands to drive sales growth and profitability.** We intend to strengthen our market position in Russia by continuing to leverage our strong brand loyalty and brand awareness through effective sales and marketing of our market-leading brands. We will continue promoting these brands by introducing line extensions of trusted and established products, such as our well-known branded product ranges Pentalgin®, Complivit®, Arbidol® and Flucostat®. We will also continue to focus on promoting higher value added brands – Afobazol®, Phospogliv®, Neupomax®, Biosulin®, Rastan®.
- **Launch new pharmaceutical products in a timely manner to capture market share.** We intend to maintain strong growth and capture market share by leveraging the brand loyalty and brand awareness of our market-leading brands to develop and launch new products in our Core Therapeutic Segments. We also intend to develop and launch new products in potential for our growth new therapeutic segment. Specifically, we intend to:
  - focus on the timely identification and development of new products, including the development of line-extensions of current brands;
  - focus on the timely identification and development of new products that complement our Core Therapeutic Segments and develop new products to penetrate new therapeutic areas;
  - launch these new pharmaceutical products in a timely manner to capture significant market share;
  - leverage our sales and marketing infrastructure to promote new product launches and achieve leading market positions for new branded products
- **Maintain our focus on cost control.** Our focus and ability to control costs is an important element of both our operating and financial performance. We will continue to evaluate and respond to manufacturing and distribution cost inefficiencies. We also plan to further rationalize our manufacturing costs in order to keep gross profit margins by managing our product mix on the basis of the demand for our pharmaceutical products.

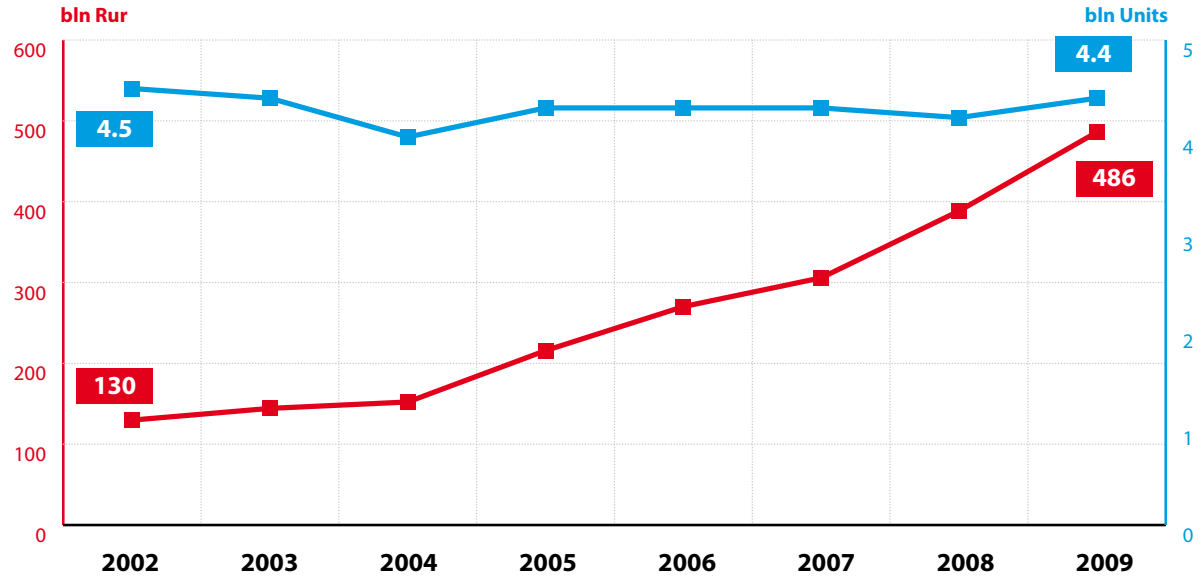
- **Expand our sales and marketing capabilities.** Our sales team has more than doubled in the last two years and amounted to 485 sales people by the end of 2009. We also intend to promote further specialization of the Company sales force by therapeutic areas and expect our more specialized sales and marketing team to facilitate our increased calling efforts on medical practitioners, regional and national distributors and other customers. This measure will help to increase customer awareness of our product portfolio and drive further sales growth.
- **Grow through acquisitions and realize synergies.** We intend to complement our organic growth through the assessment and use of acquisition opportunities, including opportunities for specific brands, trademarks and patents.
- **Cooperation with leading pharmaceutical companies.** We intend to complement our organic growth through cooperation with leading pharmaceutical companies based on co-manufacturing or exclusive marketing and promotion of their most successful pharmaceutical products. Starting from 2008 together with Solvay Pharmaceuticals (France), we have successfully launched SOLMIR Project for the manufacturing of two immunomodulating products – IRS19® and Imudon®. Starting from 2008 we established cooperation with Grindeks (Latvia) for exclusive marketing, promotion and distribution of Mildronate® on the Russian pharmaceutical market.
- **Exploit opportunities arising from government funding of healthcare.** We believe that we are well positioned to benefit from potential changes in the Federal Reimbursement Programme (FRP), which are expected to increase the participation of local producers. We plan further participation in the Federal Reimbursement Programme (FRP), namely in the Federal Programme for 7 costly diseases with our GNA product Rastan® (somatotropin), and in the ONLC Programme with our insulin product Biosulin® and some other Rx products (both programmes are parts of FRP). In 2009, Pharmstandard won a state auction under Seven nosologies program (part of the FRP) in the anticancer drug category. As a distributor of Velcade® (INN: bortezomib), an original medication by Janssen-Cilag.

Operating Environment

Russian Pharmaceutical Market

Russian Pharmaceutical market keeps tendency of growth in 2009 despite the world financial crisis. From our point of view it is a continuous confirmation of the significant potential of its furthermore growth and development.

Chart #1. Total Market ■ by value ■ by volume



As opposed to decrease in the other industrial sectors (auto industry, retail and wholesale) pharmaceutical market growth rate in RUR in 2009 is considerable and equals to 25.1%*. Thus despite the crisis Russian pharmaceutical market continues to be the one of the fast growing.

Overall volume of Russian pharmaceutical market in 2009 in monetary terms amounted to 485,970 mln RUR*.

It is obviously that one of the factors of growth of the market in monetary terms was increase of prices for medicines as a result of inflation. Thus the growth rate of the average market price per package equaled to 21.6% in 2009. However this figure is 7% lower than in 2008 when price growth due to the starting recession was the biggest for the last 3 years*.

In 2009, the biggest growth rate of 29.1% in monetary terms was demonstrated by the commercial segment of the market which is 3.6% higher than in the previous year. In 2008, the biggest growth rate in monetary terms was demonstrated by the segment of Federal reimbursement program (FRP). Given continuous domination of the commercial segment in the pharmaceutical market structure in monetary terms (76.8%), the main customers, as during the previous years, are represented by individual consumers*. It should be stressed that in 2009, the pharmaceutical market showed 2.8% increase in volume as opposed to the previous year 1.2% decrease due to the financial crisis started in the second half

* preliminary data of the Center of Marketing Researches (CMR) «Pharmexpert»

Organic revenue growth for pharmaceuticals amounted to 46%. OTC drugs have demonstrated a growth of 43%, Rx drugs grew 71.7%.

Olga Mednikova
Chief Sales & Marketing Officer

of 2008. The main contribution in growth of the market in volume was made by the commercial segment (+3.4%)*.

The overall volume of the market in 2009 equaled to 4,354 mln packages*.

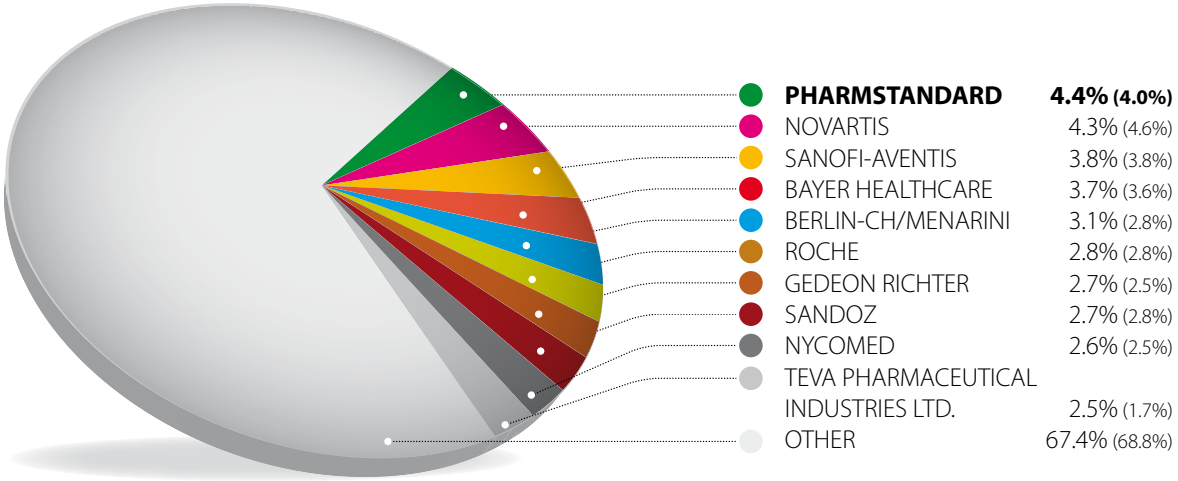
One of the significant factors which influenced the dynamics of the pharmaceutical market in 2009 was epidemic situation with acute respiratory viral infection (ARVI) and flu including A/H1N1* type, widely spread in the second half of 2009.

Statistics of the Federal Service for Supervision of Consumer Rights Protection and Human Welfare in 2009 indicates growth of acute respiratory viral infection (ARVI) and flu in comparison with the previous

* Pandemic of so-called «swine» flu, official name – A/H1N1 was announced by the World Health Organization (WHO) in June 2009

Complivit®

Chart #3. Share of leading companies in Russian pharmaceutical market, *in RUR, %*



year. In particular, ARVI rate increased by 21.6% and flu by a factor of 1.9 in comparison with the same period in 2008. As per expert opinion, the growth of ARVI rate was also related to the epidemic of A/H1N1 flu strain. That time the Ministry of Health and Social Development published and distributed methodical recommendations on prevention and treatment of influenza caused by A/H1N1 virus. Above recommendations in addition to those set by WHO included Arbidol®, which confirmed its effect in respect of this flu strain for models in vivo and in vitro. source (1), (2), (3) on page 59

The quarterly analysis of the pharmaceutical market shows that during the 1st and 2nd quarters of 2009 there was negative dynamics of market volume in packages, -2.2% and -2.9% respectively. This tendency was in line with decrease of medicine consumption started in 3 quarters of 2008 due to significant price increase. The 3rd quarter 2009 demonstrated positive dynamics in comparison with the previous year (+1.4%) and essential market growth in packages occurred in the 4th quarter 2009 (+15.1%). During that period as a response to increasing diseases rate, growth of demand took place for almost all drugs categories used for treatment of acute viral infections. They include antiviral, immune modulating, antibacterial medicine as well as fever treatment, nasal drugs, etc. In general, consumption then could be characterized as «purchase not only for the current needs but also to make reserves for the future» anticipating epidemic and shortage of medicines curing flu. As mentioned above it resulted in increase of retail sales volume of the respective product categories.

According to the preliminary statistics of CMR market share of the main suppliers to the Russian pharmaceutical market significantly changed as compared to 2008. The first time Pharmstandard took leadership in the total pharmaceutical market and its market share increased from 4.0% in 2008 to 4.4% in 2009 as presented on the Chart #3.

In the commercial segment of pharmaceutical market Pharmstandard keeps the leading position during the last 3 years, demonstrating positive dynamics of market share from 5.2 % in 2008 to 5.5% in 2009 as presented on the Chart #4.

It is necessary to point out that during the last 4 years Pharmstandard demonstrated positive annual dynamics of market share in the whole pharmaceutical market, in the commercial segment and the segment of domestic companies.

As the previous year, 2009 was characterized by certain events that influenced short-term and long-term development of Russian pharmaceutical market. In 2009, the State initiatives continued to be implemented in respect of controls over

Chart #4. Share of leading companies in commercial segment of Russian pharmaceutical market, *RUR, %*

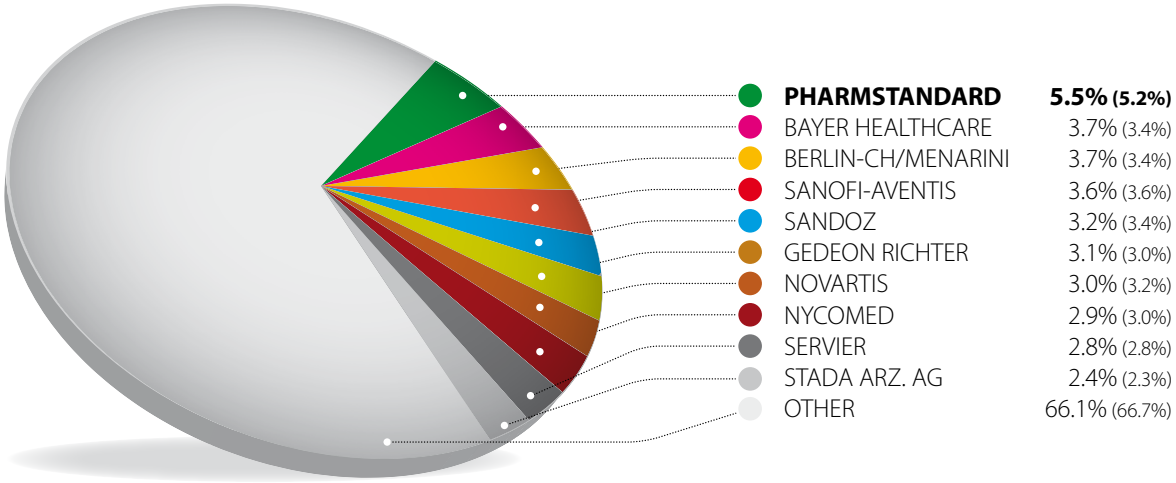
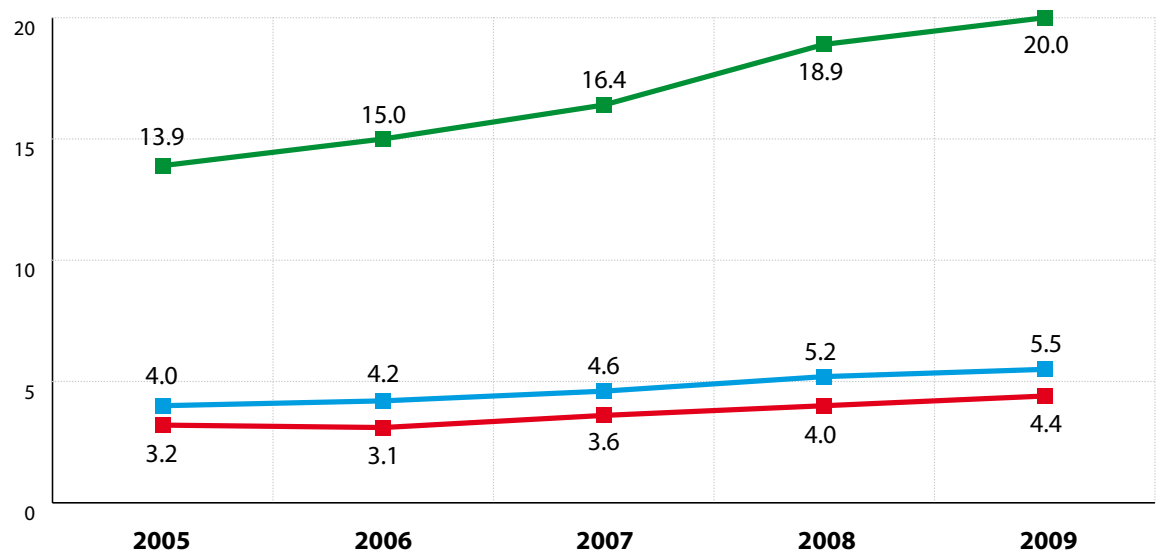


Chart #5. Dynamics of Pharmstandard's market share*



* preliminary data of the Center of Marketing Researches (CMR) «Pharmexpert»

drugs circulation. They included introduction of draft law «On drugs circulation», Decree of the Government «Improvement of State monitoring of prices for vital and essential drugs (VED)» and also approval of the new list of VED.

Within the framework of «Strategies of development of pharmaceutical industry of the Russian Federation for the period to 2020» elaborated in 2008, Prime-Minister of Russia, Mr. Vladimir Putin approved the list comprised of 50 drugs which attracted the largest share of budget expenditures. The main goal is to minimize those expenditures by means

of establishment of local production of those drugs in Russia, as well as development of domestic analogues by Russian manufacturers. In 2009, Pharmstandard and Closed Joint-Stock Company «Pharmaceutical Company Lekko» declared the establishment of joint biotechnological project «Generium» including production and scientific centers. Within this project recombinant product of Coagil VII – first biogeneric of original drug – was developed and registered in 2009. Coagulation factor VII is within the list of the drugs being purchased under the program «Seven nosologies» for treatment of patients with hemophilia. Inclusion of Coagil VII in the purchase program of 2010 could lead to budget savings under the program of FRP.

«Strategy of development of pharmaceutical industry of the Russian Federation for the period of 2020» the Head of Ministry of Health and Social Development Mrs. Tatiana Golikova set the transition period to GMP in 2012.

Wide discussion among participants of pharmaceutical market was caused by the draft regulation of relations between pharmaceutical companies and medical community, introduced by Federal Antimonopoly Service in response to the initiative of Mr. Vladimir V. Putin raised during the Government session and submitted by the end of 2009 to the State Duma for further processing.

Vital and Essential Drugs (VED)

As noted above one of the market growth factors in monetary terms in 2009 was price increase that started in the second half of 2008. Price growth took place in almost all phases of the business cycle, from the producer as a response to rising costs of raw materials and utilities to distribution channels including wholesale and retail segments. At the end of 2008 growth rate of average price per package was determined mainly by wholesale and retail price increase; in the beginning of 2009 change of producers prices influenced drastically the average price growth. During the second part of 2009 the situation stabilized and producers, wholesale and retail prices growth slowed down.*

Situation with prices growth during the crisis period, primarily for drugs included in the list of VED, led to the State additional measures to regulate the price of these drugs including not only registration of producers prices for VED, but also regulation of wholesale and retail mark-up.

Firstly, resolution №654 on the mandatory registration of producer prices for drugs included in the VED list was issued on 8 August 2009.

Further, the Federal Tariff Service Order dated 11 December 2009 №442-a approved the method of determining the limits of wholesale and retail mark up added on top of the actual producer selling prices for VED. This method defines the approach to the mark up assessment based on the analysis of routine data on sales volume, expenditures and profitability reported by the selected wholesale and retail enterprises. Further the Federal Tariff Service Order dated 14 December 2009 №983n approved the method of defining the limits of producer selling prices for VED. This method defines the approach to price registration in 2010 i. e. average sale price for the period from 1 July to 31 December 2009 would be the standard price to be registered. With respect to new drugs and those which were not in the market the standard price to be registered would approximate the maximum price for the analogues or if no such analogues exist then the

* According to the data of CMR

standard price to be registered would be determined based on cost of production. The method includes the obligatory input of the data on volume and prices of delivered products on the site of the Ministry of Health and Social Development. Thus producers of drugs included in the list of VED are obliged to maintain the level of prices of the second part of 2009 regardless of inflation and increase of production costs.

Producers prices registration date is defined as 1 April 2010. Therefore the entities of the Russian Federation are required to approve new limits for wholesale and retail mark up by 1 March 2010. According to the Regulation of the Government dated 30 December 2009 №2135-p new list of VED is approved. It includes about 500 international no-patented names which correspond to about 6,000 drugs or 2,000 trade names.

In the structure of the pharmaceutical market the VED comprised 34.8% in packages and 55.6% in monetary terms (RUR).*

The list of VED produced by Pharmstandard includes 44 International Not patented Names (INN), 46 trade names and 86 names of medicines and products dosage.

The main VED medicines are:

No	INN	Trade mark
1	Azithromycin	Azithrox®
2	Arbidol®	Arbidol®
3	Insulin soluble (human genetically engineered)	Biosulin®
4	Insulin – izofan (human genetically engineered)	Biosulin®
5	Somatropin	Rastan®
6	Tilorone	Amixin®
7	Fluconazole	Flucostat®
9	Phospholipids + glyzyrrhizic acid	Phosphogliv®

* preliminary statistics of CMR «Pharmexpert»

Forecast for the Russian pharmaceutical market in crisis conditions

At the end of 2008, the forecasting of influence of the world financial crisis on the pharmaceutical market and drugs consumption seemed rather complicated. By the end of 2009 it could be concluded that the financial crisis had significant impact on the situation in Russia, including decrease in GDP as compared to 2008, decrease in export proceeds from oil and gas. Recently published preliminary data of ROSSTAT (Russian Statistics Committee) on GDP dynamics in 2009 shows reduction of GDP by 7.9%, which as opposed to the official estimate of the Ministry of Economic Development of this reduction by 8.5% looks optimistic. However many experts consider that this figure in any case exceeded the 1998 crisis decline when GDP dropped by 5.3%.

If we consider the structural changes of GDP, of 15 types of economic activity, only two of them increased, including health care and social services (0.6%) as well as the State governing and military security provision (3.2%).

One critical factor was that the Government has not reduced the costs of free drug supply, compared with the previous year and taking into account the fact that pensioners are one of the most important categories in consumption of drugs, it also introduced several increases of the basic pension amount, so that growth of pensions was ahead of the growth of consumer prices.

As compared to the decline in other economic segments and markets, growth in consumption of drugs in 2009, even with the substantial influence of the epidemiological situation with influenza and acute respiratory viral infection (ARVI), is significant. This is evidenced by the fact that the pharmaceutical market is less affected by the crisis only because of the need to treat fairly large number of diseases on long-term basis.

In the past three years the growth of the pharmaceutical market was mainly due to rising prices while maintaining the sustainability of consumption to price increases.

In that situation the market growth occurred mainly at the expense of those categories of drugs, consumption of which is less sensitive to price increases, i. e. when the consumer did not react by rejection.

Market growth is still likely in the next year.

However, the trend of the past three years shows that the market growth in packages was steadily declining because of the continuing practice of raising prices.

This may further lead to restriction of the ability and willingness of the consumer as a key participant of the pharmaceutical market to purchase more expensive drugs, particularly in the absence of current preconditions for rapid recovery and growth in purchasing power. Therefore, the growth of the market in monetary terms in the ongoing crisis could be slowed down.

The second possibility of market growth might crystallize due to prices decline in conjunction with an increase of consumption in packages. In this case the growth of the market in monetary terms due to the growth of consumption in packages can significantly mitigate the market decline resulted from the lower prices.

This could be contributed by the regulation of prices for the VED. In this case price increase for drugs that comprise 34.8% of the total market in volumetric terms, will be suspended.

One of the important factors which influences and in the long term will continue to influence the growth of the pharmaceutical market is further development of budget funding of medication supplies to the population. In the current situation, the Government fully complied with its obligations on budget spending for the supplies to the eligible categories of citizens.

In 2010, drugs for treatment of the eligible categories of citizens (FRP) will be financed in the amount of 88.4 billion RUR, i. e. by about 10% more than budget in 2009 (80,0 billion RUR). Further growth of segment of additional medical provision is possible with the inclusion in the program of an additional list of nosology and further extension of the eligible categories of citizens.

One of the major challenges set by the Government of Russia is to bring the rate of average consumption of medicines to the European average level, i. e. in the next 10 years, consumption of drugs may increase significantly.

Given the dominant market share, the retail pharmacy segment is a key element affecting the further growth of the market in crisis. Over the past few years a steady trend of pharmacy chains growth was formed in the Russian market, which influenced the overall growth of the retail segment.

This development of pharmacy chains on the pharmaceutical market was twofold, i.e., launch into operation of new retail outlets and purchase or merger of pharmacy chains. However, the crisis in 2008 affected the growth of pharmacy chains and the most retailers tended to reduce the number of pharmacy outlets. This can be explained primarily by the fact that the major pharmacy chains have focused on optimizing the business and improving the effectiveness of the existing outlets and closure of the unprofitable outlets.

Apparently, further growth of pharmacy chains considering the deficit of working capital and high interest rates is difficult. Under these conditions one of trends in the market is development by wholesale distributors of retail network and adoption of the format of the pharmacies to the current demand of consumers, including optimization of pricing policy. There are a number of successful examples in the market where regardless of the crisis, pharmacy chain demonstrates revenues growth without reducing the number of pharmacies by means of work in discounter format.

Given all the above, one of the main factors influencing the growth of the pharmaceutical market is the growing consumption of drugs, which, despite the ongoing crisis with slowing of prices growth for medicines can be possible.

Structure of the pharmaceutical market

The Russian pharmaceutical market consists of three segments: Commercial segment (Individual Consumer spending), FRP segment (necessary drugs supply + seven costly diseases, State healthcare budget for eligible categories of citizens) and Hospital segment (State healthcare budget from federal and regional level for the drug provision in hospitals and inpatient departments). Over the past year, there were no significant changes in the structure of the pharmaceutical market. According to preliminary data of CMR for 2009, the commercial segment is dominant in the market structure and occupies 77% in monetary terms (RUR).

Increase of the commercial market share by 2.4% relates to its growth both in monetary and volume terms, as compared with last year. The volume of the commercial segment in monetary terms in 2009 amounted to 373 billion RUR. The share of FRP segment decreased slightly as compared with 2008 from 18.2% to 16.5% due to the accelerated increase of the commercial segment. FRP segment in monetary terms amounted to 80 billion RUR (+9.3 billion RUR or +13.2% from 2008). The share of the hospital segment in the structure of the pharmaceutical market in 2009 was consistent with 2008 at 7% with increase in monetary terms by 14% to 32.9 billion RUR.

Table #1. Structure of Russian pharmaceutical market for the period of 2007–2009

Segment	2007, RUR billion	Market share, %	2008, RUR billion	Market share, %	2009, RUR billion	Market share, %
Commercial	230.0	75%	289.0	74%	373	77%
FRP	47.9	16%	70.7	18%	80	16%
Hospital	27.9	9%	28.9	7%	32.9	7%
Total	**305.8**	**100%**	**388.6**	**100%**	**486**	**100%**

Value of domestic and imported drugs, prescription and non-prescription medication in 2009 basically did not change in the pharmaceutical market structure as compared with 2008.

Commercial segment

Sales of medicines in the commercial segment of Russian pharmaceutical market amounted to 373.03 billion RUR and 3.97 billion packages in 2009. As compared with the same period of the last year the segment grew by 29.1% in monetary terms (RUR) and 3.4% in packages.*

In the 1st and in the 2nd quarters 2009 there was growth of the commercial market segment as compared to the same period of 2008 by 32% and 34% in monetary terms and decrease in by 1% and 3% respectively. These changes can be attributed to the effects of the crisis of 2008, when there was a decrease in packages in the distribution network in conjunction with the growth in wholesale and retail prices.

In the 3rd quarter 2009 and especially in the 4th quarter 2009 the commercial segment demonstrated growth in packages +2% and + 15%, respectively and in monetary terms +22% and +29%, respectively. The slowdown in growth during this

* according to preliminary data of CMR

period in monetary terms can be associated with the regulation of wholesale and retail margins of antiflu drugs during the flu epidemic and fixing the prices by certain producers to facilitate sales growth through increasing volume supply to the market. For example in 2009, average retail price for the products of Pharmstandard increased only by +8% as compared with 2008, whilst average retail price in the commercial segment of Russian pharmaceutical market increased by 25% in 2009 compared with 2008 and amounted to 94 RUR.

Dynamics of average price in the segment of local and foreign manufacturers in 2009 as compared with 2008 was similar, i. e. local producers have increased the average price by 24% and foreign manufacturers by 25%.

If we consider the dynamics of the average price per package in 2009 in the segment of the foreign manufacturers, it increased by 39 RUR from 159 RUR in 2008 to 198 RUR in 2009. In the segment of local producers the increase amounted only to 7 RUR, from 30 RUR in 2008 to 37 RUR in 2009.

The share of imported and domestic products in the commercial segment has not changed significantly as compared to the previous periods, i.e. there was domination of imported drugs in monetary terms and domestic products in volumetric terms.

Table #2. The share of imported and local products in the commercial segment of Russian pharmaceutical market in monetary terms,*%*

% to total segment sales in RUR (retail)	Year							
	2002	2003	2004	2005	2006	2007	2008	2009
Imported	74.7%	74.2%	75.1%	74.5%	75.5%	75.0%	74.8%	74.3%
Local	25.3%	25.8%	24.9%	25.5%	24.5%	25.0%	25.2%	25.7%

Table #3. The share of imported and local products in the commercial segment of Russian pharmaceutical market in volumetric terms*,%*

% to total segment sales in packages	Year							
	2002	2003	2004	2005	2006	2007	2008	2009
Imported	31.2%	30.7%	32.1%	32.5%	32.4%	34.1%	36.0%	35.3%
Local	68.8%	69.3%	67.9%	67.5%	67.6%	65.9%	64.0%	64.7%

The share of prescription (Rx) and nonprescription (OTC) medications in the commercial segment did not significantly changed during the year. In 2009 as in the previous years the share of Rx medications slightly exceeds the share of OTC medications in monetary terms and the share of OTC medications significantly exceeds the share of Rx medications in packages.

Table #4. The share of Rx and OTC medications in the commercial segment of Russian pharmaceutical market in monetary terms, *%*

% to total segment sales in RUR (retail)	Year							
	2002	2003	2004	2005	2006	2007	2008	2009
OTC	50.5%	51.0%	49.6%	51.1%	49.5%	48.9%	50.2%	51.2%
RX	49.5%	49.0%	50.4%	48.9%	50.5%	51.1%	49.8%	48.8%

Table #5. Proportion of Rx and OTC medications in the commercial segment of Russian pharmaceutical market in volumetric terms, %

% to total segment sales in packages	Year							
	2002	2003	2004	2005	2006	2007	2008	2009
OTC	73.5%	74.3%	74.0%	76.1%	75.2%	74.1%	73.5%	73.6%
RX	26.5%	25.7%	26.0%	23.9%	24.8%	25.9%	26.5%	26.4%

Thus despite the crisis and price growth, the share of the commercial segment in Russian pharmaceutical market and structure of the commercial segment did not changed significantly. This confirms that the structure of drugs consumption in the commercial segment continues to be stable.

State funding of citizens' drug supply Federal Reimbursement Program (FRP)

The FRP for citizens of Russia has been successfully operating for over 5 years. The program has undergone during this period a number of changes both in terms of funding, and for a list of drugs procured under the program. Russian Government has raised a task to increase the share of domestic producers in the public (budget) procurement of medicines. Nevertheless, the share of domestic companies in FRP procurement program in monetary terms has not changed considerably*. In 2008, the share of domestic producers in monetary terms amounted to 5.6%, in 2009 it increased to 6%. We must stress the fact that domestic products have a more affordable price compared to foreign counterparts, so their share in monetary terms could not be changed significantly.

The share of domestic producers in packages in 2009 as compared to 2008, also remained unchanged being about 30%.

In 2009, there was an overall decline in packages of the procured drugs for the FRP by 13.5%. This is apparently due to the further optimization of the volume of drugs purchased for the regional needs and transition of the part of the program (FRP) to the regional level.

It should be noted that in several categories of drugs there was significant increase in the share of domestically produced drugs. Thus, in the category of drugs for treatment of growth hormone deficiency (INN – somatotropin), the share of domestic product Rastan® (somatotropin) increased from 2.7% in 2008 to 14.7% in 2009. The total cost of supplies under FRP for the eligible citizens in 2009 amounted to 80.0 billion RUR. In 2010, for supplies under FRP is planned to spend 88.4 billion RUR, i. e. by 10% more than they actually spent budget in 2009. Of the budget approved in 2010, 45.9 billion RUR will be spent under the program «Seven nosologies», which is 10% more than in 2009.

* according to preliminary data of CMR

Pharmaceuticals

The list of pharmaceuticals produced in different therapeutic groups and forms of production includes more than 200 items. In the second half 2008, the portfolio of Pharmstandard original products, including antiviral Arbidol® and medication for the treatment of liver diseases Phosphogliv® was added with the anxiolytic drug Afobazol® and actively promoted in 2008–2009.

The portfolio of Pharmstandard medicines represent the most significant market segments which in volume terms cover 48.7% of the total pharmaceutical market in monetary terms and 51.5% of the commercial segment in monetary terms.

The Company's portfolio five market leading brands keep the leadership in their segments during the past five years. They are Arbidol® (antiviral), Terpincod® (anticough), Pentalgin® (analgesic), Complivit® (vitamins + minerals), Flucostat® (antifungal). Brands Arbidol®, Pentalgin®, Complivit®, Flucostat® show steady growth and continue to make major contribution to the growth of the Company's revenues. The portfolio of five market leading brands was supplemented with the sixth brand Afobazol®, which became a leader in its segment in 2009.

One of the main strategic segments of the Company is the segment of antiviral drugs for systemic use (J05B – antivirals, excluding anti-HIV products) including Arbidol®. During the last four years Arbidol® continues to be the leader in the commercial segment of the pharmaceutical market in sales in monetary terms. At the stage of Arbidol® brand integration in marketing and promotion program of Pharmstandard immediately after the acquisition in 2006 we faced challenge associated primarily with the increased use of antiviral therapy, in particular Arbidol® during the epidemic period of ARVI and influenza. According to Comcon-Pharma survey, Arbidol® customer base in recent years shows a steady growth and increased from 2007 to 2008 by 59.6% (from 3,261 thousand to 5,205 thousand people), and from 2008 to 2009 by 45.8% (from 5,205 thousand to 7,591 thousand people)*. One of the important factors that influenced the growth of consumption of Arbidol® in 2009 was an epidemic of influenza and ARVI including influenza A/H1N1.

In addition to the active work with the medical community and consumers to promote Arbidol®, we paid serious attention to work on further developing the scientific and clinical evidence base. In February 2009 an international team of famous Russian and British scientists published in the Antiviral Research journal an article with the results of research on the peculiarities of the mechanism of antiviral action of Arbidol®. For a detailed study of the mechanism of action of Arbidol® researchers used the approach that had been used to examine all known at the moment flu drugs with proven antiviral activity. The authors of the article stressed that the probability of formation of influenza viruses resistant to Arbidol® was significantly lower as compared with the traditionally used antiviral drugs.source (4) on page 59

Since identification in Russia of the first cases of influenza A/H1N1, three independent research centers studied the biological properties of the new virus and determination of its susceptibility to antiviral drugs, including Arbidol®. The studies have shown that Arbidol® effectively suppresses the reproduction of the virus A/H1N1 in vitro. The results of these and numerous previous preclinical and clinical studies have allowed including Arbidol® in the guidelines of the Ministry of Health and Social Development for the prevention and treatment of influenza caused by virus A/H1N1. sources (1), (2), (3) on page 59

* COMCON-Pharma, TGI-Russia «Russian index of target groups, November 2007–2009

As a result of 2009, two brands of the Company i. e., Arbidol® and Pentalgin® were included in the list of 15 most sold drugs throughout the Russian pharmaceutical market and the list of 10 best-selling brands in the commercial segment of the Russian pharmaceutical market.

Seven brands of the Company entered the list of 15 best-selling brands in the segment of domestic producers in 2009. They are: Arbidol® (antiviral), Pentalgin® (analgesic), Complivit® (vitamins + minerals), Amixin® (immunostimulatory agent), Terpincod® (anticough), Codelac® (anticough), Flucostat® (antifungal).

As a result of 2009, the Company strengthened its position in the segment of products for the treatment of endocrine diseases with increase of Rastan® share from 3.1% to 11% in monetary terms (segment of drugs for treatment of growth hormone deficiency), Biosulin® – from 1.6% to 2.4% in monetary terms (segment of drugs for the treatment of diabetes mellitus), in segment of products for the treatment of neurological diseases with increase of Afobazol® share from 26.3% to 31.5% in monetary terms (segment of tranquilizers).

Sales of pharmaceuticals in 2009

According to the data of 2009, five therapeutic segments, among which are brand leaders (Arbidol®, Pentalgin®, Terpincod®, Complivit®, Flucostat®) comprise 60.5% in the structure of sales of pharmaceuticals of Pharmstandard (excluding Velcade®). As in the past year, five leaders are supplemented in the segment of cardiological drugs with Mildronate® (JSC «Grindeks»), incorporated in 2008 in the exclusive distribution and promotion in the territory of Russia by Pharmstandard. In comparison with 2008, the share of antiviral drugs has increased significantly due to the growth of sales of Arbidol®. This increase has affected the shares of the other groups. In the ranking of pharmaceutical sales for the anatomic and therapeutic group (ATC), despite a slight decline in the share compared with last year, a group of analgesics rose to second place, but cough and cold medications moved into third place. It is noted the positive dynamics of the share of vitamins, primarily related to sales growth of the main brand Complivit® and its sub brands. Positive changes in the structure of sales by ATC groups are noted in the group of tranquilizers, associated primarily with the successful result of sales of Afobazol® throughout 2009.

Table #6. Structure of sales of the Company's pharmaceuticals per anatomic-therapeutic group (ATC)

			Sales, mln RUR		% of Sales		Change	
ATC4 code	ATC2	ATC4	2009	2008	2009	2008	mln RUR	%
J05B4	J05 ANTIVIRALS FOR SYSTEMIC USE	J05B4 INFLUENZA ANTIVIRALS	5,502.6	2,730.6	28.0%	20.7%	2,772.1	101.5%
N02B0	N02 ANALGESICS	N02B0 NON-NARCOTICS AND ANTI-PYRETICS	2,731.8	1,958.4	13.9%	14.8%	773.4	-
R05D2	R05 COUGH AND COLD PREPARATIONS	R05D2 ANTITUSSIVES IN COMBINATIONS	1,641.2	2,275.3	8.3%	17.3%	-634.1	-27.9%
A11A4	A11 VITAMINS	A11A4 OTHER MULTIVITAMINS WITH MINERALS	1,323.2	783.1	6.7%	5.9%	540.1	69.0%
C01D0	C01 CARDIAC THERAPY	C01D0 CORONARY THERAPY EXCLUDING CALCIUM ANTAGONISTS AND NITRITES	1,194.3	1,149.4	6.1%	8.7%	44.9	3.9%
J02A0	J02 SYSTEMIC AGENTS FOR FUNGAL INFECTIONS	J02A0 SYSTEMIC AGENTS FOR FUNGAL INFECTIONS	694.5	579.7	3.5%	4.4%	114.9	19.8%
A05B0	A05 CHOLAGOGUES AND HEPATIC PROTECTORS	A05B0 HEPATIC PROTECTORS, LIPOTROPICS	638.5	428.3	3.2%	3.2%	210.2	49.1%
J05B9	J05 ANTIVIRALS FOR SYSTEMIC USE	J05B9 ANTIVIRALS, OTHERS	558.1	337.2	2.8%	2.6%	220.9	65.5%
N05C0	N05 PSYCHOLEPTICS	N05C0 TRANQUILLISERS	534.2	235.8	2.7%	1.8%	298.4	126.6%
R02A0	R02 THROAT PREPARATIONS	R02A0 THROAT PREPARATIONS	379.5	261.7	1.9%	2.0%	117.8	45.0%
		OTHER GROUPS	4,475.0	2,449.6	22.7%	18.6%	2,025.4	82.7%
		TOTAL	**19,673.0**	**13,189.0**	**100.0%**	**100.0%**	**6,484.0**	**49.2%**

According to the strategy of development of drugs portfolio in 2009, 7 new products have been launched in the market, 4 of which were carried out in accordance with Company strategy to expand presence in five key therapeutic segments through the development of sub-brands of umbrella brands – leaders. There were introduced three drugs in the line of umbrella brand Complivit® – Complivit® Siyanie, Complivit® Anti-stress and Complivit® Diabetes, and one drug in the line of umbrella brand Codelac® – combined drug Codelac® Broncho.

One drug is introduced in the market in 2009 in line with the strategy of the Company to launch new products in new therapeutic segments. It is Magnelis B6®, containing magnesium and used in increased irritability, fatigue, sleep disturbance due to a deficiency of magnesium. Magnelis B6® is the first in Russian generic of the original product.

One element of the strategy to develop the existing brands is launching new forms of production and dosages. For patient convenience and compliance to the treatment regime new package of Arbidol®, containing 20 capsules was launched in 2009 additionally to the traditional packaging with 10 capsules.

For the conformity of Pharmstandard with the needs of physicians and patients in the treatment of growth hormone deficiency, it has been developed a new dosage of Rastan® – 20 IU (6.67 mg). The presence of 2 doses of the drug Rastan® – 4 IU and 20 IU gives the possibility to most precisely select the drug and daily dosage of growth hormone for each patient to maximize the effectiveness of therapy.

New products including new release forms of Rastan® and Arbidol® in the structure of sales of pharmaceuticals without third parties products (TPP) in 2009 comprised 4.5% and amounted to 1,046 million RUR.

In 2009 there were joint projects with other pharmaceutical companies. In 2009, Pharmstandard continued work on a joint project started in 2008, with the Latvian company Grindeks on the exclusive distribution and promotion in Russia of Mildronate®. Sales volume of Mildronate® in 2009 amounted to 1,194.3 million RUR. Mildronate® sales are presented as TPP sales.

In the first quarter of 2009, the Company also signed an agency agreement with Russian company LLC Pharmpark on marketing and exclusive sales of Altevir® (interferon alfa-2b). The product belongs to the group of drugs used for treatment of viral hepatitis. The inclusion of Altevir® in marketing activities of the Company corresponds to the promotion strategy because the Company was already successfully operating in the segment of products for treatment of liver diseases with Phosphogliv®. Sales of Altevir® in 2009 amounted to 32.2 million RUR. Altevir® sales are presented as TPP sales.

One important aspect in the promotion of prescription drugs is to use opportunities of FRP for the products mainly purchased in this market segment, such as Endocrinology products. In 2009, the total purchases of Rastan® (somatotropin) under the program «Seven nosologies» among products for the treatment of growth hormone deficiency amounted to 92.4 million RUR. The share of the product in the structure of procurement under this program has increased to 14.7% in 2009 from 2.7% in 2008. In December 2009, the Company also won the public tender for delivery of Rastan® under the FRP in the amount of 412.4 million RUR in 2010. Thus the share of Rastan® in the procurement program «Seven nosologies» among products for the treatment of growth hormone deficiency will increase from 14.7% in 2009 to 100% in 2010.

Given the experience in the FRP segment, in 2009, Pharmstandard acted as the distributor, participating in public tenders for the supply of drugs from other companies under the FRP.

Among those products were Velcade® (bortezomib), Pulmozim (dornaza alpha), Coagil VII (coagulation factor VII). In 2009, the Company won the public tender under the program of «Seven nosologies» (part of the FRP) in the category of anticancer drugs for supplies of the Velcade®, the production of Janssen-Cilag and sold that drug in the amount of 3,661.9 million RUR. Sales of Velcade® are presented as TPP sales.

In December 2009, the Company also won the public tender for the supply of drugs in 2010 under the FRP in the amount of 2,214.8 million RUR, including Pulmozim (dornaza alpha) and Coagil VII (coagulation factor VII).

According to the registration status and drugs distribution in pharmacies, the portfolio of products is divided into OTC and Rx groups. The Company's portfolio includes products that are sold under the trade names and INN (international not patented name). In 2009, there was separately reported group Third Parties Products (TPP)

As a result, in 2009, revenue growth for pharmaceutical products (including TPP) amounted to 76.5%. TPP in the structure of pharmaceutical sales amounted to 26%.

Table #7. Volume of sales of pharmaceuticals, including TPP for 2009

	2009, mln RUR	2009, % of total sales	2008, mln RUR	2008, % of total sales	Difference, mln RUR	Difference, %
Pharmaceutical products	**23,406.7**	**97.1%**	**13,260.2**	**92.5%**	**10,146.5**	**76.5%**
Pharmstandard	***17,178.8***	***71.3%***	***11,742.7***	***81.9%***	***5,436.1***	***46.3%***
OTC products	14,840.7	61.6%	10,380.8	72.4%	4,459.9	43.0%
Branded	12,709.9	52.7%	8,852.9	61.8%	3,857.0	43.6%
Non-branded	2,130.8	8.8%	1,527.9	10.7%	602.9	39.5%
Prescription products	2,338.1	9.7%	1,361.9	9.5%	976.2	71.7%
Branded	2,022.4	8.4%	1,190.6	8.3%	831.7	69.9%
Non-branded	315.7	1.3%	171.3	1.2%	144.5	84.4%
Third Parties Products (TPP)	6,156.4	25.5%	1,446.6	10.1%	4,709.7	325.6%
Velcade® (Janssen-Cilag)	3,661.9	15.2%	0.0	0.0%	3,661.9	-
Mildronate® (Grindeks)	1,194.3	5.0%	1,149.1	8.0%	45.2	3.9%
IRS® 19, Imudon® (Solvay)	645.6	2.7%	17.4	0.1%	628.2	3607.2%
Other products	654.5	2.7%	280.1	2.0%	374.4	133.7%
Other sales	71.5	0.3%	70.9	0.5%	0.7	0.9%
Medical equipment and disposables	**688.7**	**2.9%**	**1,075.7**	**7.5%**	**-386.9**	**-36.0%**
Total Sales	24,095.4	100.0%	14,335.9	100.0%	9,759.5	68.1%

Organic revenue growth for pharmaceuticals amounted to 46%. This growth rate exceeds the dynamic of the last year and the growth of the market in monetary terms. OTC drugs have demonstrated a growth of 43%, Rx drugs grew 71.7%. In the structure of sales of pharmaceuticals, Rx drugs have increased their share, compared with 2008 from 11.6% to 13.6%.

The achieved result is consistent with the strategy of the Company to increase the share of Rx drugs in the sales structure.

Table #8. Volume of sales of pharmaceuticals (excluding TPP) for 2009

	2009, mln RUR	2009, % of total sales	2008, mln RUR	2008, % of total sales	Difference, mln RUR	Difference, %
Pharmaceutical products	**17,178.8**	**96.2%**	**11,742.7**	**91.7%**	**5,436.1**	**46.3%**
Pharmstandard	17,178.8	95.8%	11,742.7	91.1%	5,436.1	46.3%
OTC products	14,840.7	82.7%	10,380.8	80.5%	4,459.9	43.0%
Branded	12,709.9	70.9%	8,852.9	68.7%	3,857.0	43.6%
Non-branded	2,130.8	11.9%	1,527.9	11.9%	602.9	39.5%
Prescription products	2,338.1	13.0%	1,361.9	10.6%	976.2	71.7%
Branded	2,022.4	11.3%	1,190.6	9.2%	831.7	69.9%
Non-branded	315.7	1.8%	171.3	1.3%	144.5	84.4%
Total Sales	**17,178.8**	**100.0%**	**11,742.7**	**100.0%**	**5,436.1**	**46.3%**

As a result of sales of pharmaceuticals without TPP in 2009, all market leading top brands, except for Terpincod® showed growth both in packages and in monetary terms. The largest contribution to sales growth was made by Arbidol®, which contributes the largest sales amount. Afobazol® entered the list of top 10 drugs based on sales in 2009 showing the highest growth rate of 144% and became the leader in its market segment in 2009 (segment tranquilizers).

Table #9. PRODUCTS TOPs 2009: TOP-10 TOTAL ALL

		2009			2008			Volume 09/08		Sales 09/08	
№	BRAND	Volume, mln packs	Sales, mln RUR	% of total sales	Volume, mln packs	Sales, mln RUR	% of total sales	Change	%	Change	%
1	Arbidol®	45,736	5 503	32.0%	26,349	2,731	23.3%	19,387	73.6%	2,772	101.5%
2	Pentalgin®	40,608	2 100	12.2%	31,964	1,582	13.5%	8,644	27.0%	518	32.7%
3	Complivit®	16,818	1 188	6.9%	10,321	673	5.7%	6,497	62.9%	516	76.6%
4	Terpincod®	6,442	889	5.2%	15,715	1,606	13.7%	-9,273	-59.0%	-716	-44.6%
5	Codelac®	8,386	752	4.4%	10,331	670	5.7%	-1,945	-18.8%	82	12.3%
6	Flucostat® *	5,534	661	3.8%	4,969	561	4.8%	0,565	11.4%	101	17.9%
7	Phosphogliv®	1,721	596	3.5%	1,318	424	3.6%	0,403	30.6%	171	40.4%
8	Amixin® **	1,322	558	3.2%	0,791	337	2.9%	0,531	67.2%	221	65.5%
9	Afobazol®	3,649	531	3.1%	1,503	218	1.9%	2,146	142.7%	313	144.1%
10	Corvalol	46,298	222	1.3%	53,821	236	2.0%	-7,523	-14.0%	-14	-6.0%
TOP 10 total		**176,514**	**13 000,**	**75.7%**	**157,081**	**9,036**	**77.0%**	**19,433**	**12.4%**	**3,964**	**43.9%**
Other brands		531,526	4,179	24.3%	471,346	2,706	23.0%	60,180	12.8%	1,472	54.4%
Total Sales		**708,040**	**17,179**	**100.0%**	**628,426**	**11,743**	**100.0%**	**79,613**	**12.7%**	**5,436**	**46.3%**

* Flucostat® tablets and injections

** Amixin® tablets №125 and №60

OTC drugs have demonstrated growth in sales in 2009 by 43%

Abbasi Alexandra
National Sales Manager OTC

Non prescription drugs (OTC)

Portfolio of OTC drugs includes five market leading brands, so their share in sales of pharmaceutical products remains predominant. OTC drugs have demonstrated growth in sales in 2009 by 43%. In the list of top 10 OTC drugs, 7 are in the active promotion stage. They are: Arbidol®, Pentalgin®, Complivit®, Codelac®, Flucostat®, Afobazol® and Amixin®. These drugs except Codelac® have demonstrated significant growth as compared with last year, both in packages and in RUR. A key element of the Company's strategy is further promotion of these leading brands to ensure growth and profitability. OTC drugs will continue to be the priority in marketing and promotion, as they contribute significantly to the structure of the Company's revenues i. e., 75.7% and they relayed the most popular and perspective therapeutic categories of the commercial segment.

PRODUCTS from left to right: **Complivit®, Arbidol®, Pentalgin®, Codelac®, Phosphogliv®, Afobazol®, Flucostat®**

Rx portfolio showed growth by 71.7% in 2009

Bratkovsky Vadim
National Marketing Manager, Rx

PRODUCTS from left to right: **Afobazol®, Arbidol®, Codelac®, Pentalgin®, Phosphogliv®, Complivit®, Flucostat®**

Table #10. PRODUCTS TOPs 2009: TOP-10 OTC ALL

№	BRAND	2009 Volume (mln packs)	2009 Sales (mln RUR)	2009 % of total sales	2008 Volume (mln packs)	2008 Sales (mln RUR)	2008 % of total sales	Volume 09/08 Change	Volume 09/08 %	Sales 09/08 Change	Sales 09/08 %
1	Arbidol®	45,736	5,503	37.1%	26,349	2,731	26.3%	19,387	73.6%	2,772	101.5%
2	Pentalgin®	40,608	2,100	14.1%	31,964	1,582	15.2%	8,644	27.0%	518	32.7%
3	Complivit®	16,818	1,188	8.0%	10,321	673	6.5%	6,497	62.9%	516	76.6%
4	Terpincod®	6,442	889	6.0%	15,715	1,606	15.5%	-9,273	-59.0%	-716	-44.6%
5	Codelac®	8,386	752	5.1%	10,331	670	6.5%	-1,945	-18.8%	82	12.3%
6	Flucostat®*	5,458	649	4.4%	4,931	555	5.3%	0,527	10.7%	94	16.9%
7	Afobazol®	3,649	531	3.6%	1,503	218	2.1%	2,146	142.7%	313	144.1%
8	Amixin®**	1,162	507	3.4%	0,727	317	3.1%	0,435	59.8%	190	59.9%
9	Corvalol	46,298	222	1.5%	53,821	236	2.3%	-7,523	-14.0%	-14	-6.0%
10	Inhalipt	7,343	199	1.3%	5,446	128	1.2%	1,897	34.8%	71	55.1%
TOP 10 total		**181,900**	**12,540**	**84.5%**	**161,108**	**8,715**	**84.0%**	**20,792**	**12.9%**	**3,826**	**43.9%**
Other brands		482,618	2,300	15.5%	437,049	1,666	16.0%	45,569	10.4%	634	38.1%
Total Sales		**664,518**	**14,841**	**100.0%**	**598,157**	**10,381**	**100.0%**	**66,361**	**11.1%**	**4,460**	**43.0%**

Prescription drugs (Rx)

Rx portfolio showed growth by 71.7% in 2009. Rx drugs are sold both in the commercial segment of the pharmaceutical market, the FRP segment and in the hospital segment. Focus on work in each market segment is depending on the strategy for each product. The main focus for promotion of Rx products was on the commercial segment – market segment with a share of Rx drugs 51.2% in monetary terms. For example Phosphogliv® sales in the commercial segment exceeded its sales under FRP. The sales leader of the prescription drugs group is Phosphogliv®, the original Rx drug belonging to the group of hepatoprotectors. Phosphogliv® has a very high share in the structure of sales of Rx drugs and it has been actively promoted since 2006. The drug showed a higher growth rate in 2009 (40%) as compared with 2008 (19%). One of the priorities in the group of Rx drugs are biosimilar products, such as Biosulin® (insulin) and Rastan® (somatotropin). The main focus is on promotion of these products in the segment of budget procurement. Biosulin® demonstrated growth in sales in 2009 of 28.3%. The highest growth rate in 2009 was demonstrated by Rastan® (somatotropin) due to substantial increase of its share in the structure of procurement under the program «Seven nosologies» The share of the drug in the structure of procurement under this program has increased to 14.7% in 2009 from 2.7% in 2008. One of the successful launches of new prescription drug is Combilipen®, multivitamin medicine for the integrated treatment of neurological diseases including polyneuropathy of different etiologies launched on the market in 2008, which is in the active promotion stage. This drug sales volume in the second year (2009) reached 195 million RUR and demonstrated growth rate of 399% from the last year. Further sales growth of Azithrox® (azithromycin), Renipril® (enalapril) was equal to 90% and 19% respectively. Considering that the both drugs are in a highly competitive market segments that growth was achieved by means of efforts of our sales promotion staff.

* Flucostat® tablets only

** Amixin® tablets №125 only

Table #11. PRODUCTS TOPs 2009: TOP-10 RX ALL

№	BRAND	2009			2008			Volume 09/08		Sales 09/08	
		Volume (mln packs)	Sales (mln RUR)	% of total sales	Volume (mln packs)	Sales (mln RUR)	% of total sales	Change	%	Change	%
1	Phosphogliv®	1.721	596	25.5%	1.318	424	31.1%	0.403	30.6%	171	40.4%
2	Biosulin®	0.442	211	9.0%	0.373	164	12.1%	0.069	18.5%	47	28.3%
3	Combilipen®	1.811	195	8.4%	0.481	39	2.9%	1.330	276.4%	156	399.1%
4	Rastan®	0.153	186	8.0%	0.038	36	2.6%	0.115	301.9%	150	416.2%
5	Picamilon®	4.299	129	5.5%	3.189	61	4.5%	1.110	34.8%	68	110.8%
6	Cocarboxylase Hydrochloride	3.165	109	4.7%	2.107	39	2.8%	1.058	50.2%	70	182.3%
7	Azithrox®	0.655	108	4.6%	0.376	57	4.2%	0.278	73.9%	51	90.0%
8	Cyclodol®	2.506	107	4.6%	2.390	83	6.1%	0.116	4.8%	24	29.6%
9	Renipril®	1.961	72	3.1%	1.749	60	4.4%	0.213	12.2%	12	19.8%
10	Sulfocamphocaine	1.989	69	3.0%	1.627	42	3.1%	0.362	22.2%	28	66.3%
TOP 10 total		**18.702**	**1,781**	**76.2%**	**13.648**	**1 004**	**73.7%**	**5.054**	**37.0%**	**777**	**77.4%**
Other brands		24.820	557	23.8%	16.621	358	26.3%	8.199	49.3%	199	55.6%
Total Sales		**43.522**	**2,338**	**100.0%**	**30.269**	**1 362**	**100.0%**	**13.253**	**43.8%**	**976**	**71.7%**

Third Parties Products

The share of Third Parties Products (TPP) in the overall sales of pharmaceuticals amounted to 26%. In the sales structure of TPP the highest sales volume in 2009 was shown by Velcade® (bortezomid) with the share of 59.5% in the TPP sales structure and Mildronate® with the share of 19.4% in the TPP sales structure. Mildronate® has been sold since 2008 and its sales are accompanied with intensive marketing and promotional activities.

Brand	ths packs		mln RUR	
	2008	2009	2008	2009
Velcade® (Janssen-Cilag)	3,661.9	-	3,661.9	-
Mildronate® (Grindeks)	1,194.3	1,149.1	45.2	3.9%
IRS® 19 & Imudon®(Solvay)	645.6	17.4	628.2	3,607.2%
Others	654.5	280.1	374.4	133.7
Total	**6,156.4**	**1,446,6**	**4,709.7**	**325.6%**

In 2004–2009, we developed and introduced over 40 new pharmaceutical products in close collaboration with the leading scientific centers of Russia

Tolstova Elena
Head of regulatory department

Product Development & Research

In 2009, we have introduced 6 new pharmaceutical products (5 OTC products and 1 Rx product) including new dosage form of growth hormone, which comprised 0.6% of our pharmaceutical product sales in 2009.

PRODUCTS from left to right: **Afobazol®, Phosphogliv®, Complivit®, Arbidol®, Codelac®, Pentalgin®, Flucostat®**

We are going to launch 10 OTC and 2 prescription products in 2010

Barykin Sergey
Chief of Department
of new products registration

PRODUCTS from left to right: **Phosphogliv®, Complivit®, Rastan®**

The following table presents certain information concerning our registration applications for the therapeutic segment for both Rx and OTC products as of 31 December 2009.

Product		Date	Description (Therapeutic Segment)	Sales Value, RUR mln	AT C value, 2009, RUR mln
OTC	Complivit® Anti-stress	Jun 09	A11A – multivitamins with minerals	4.9	7,200
	Complivit® Siyanie	Sept 09	A11A – multivitamins with minerals	3.2	7,200
	Complivit® Diabetes	Jun 09	A11A – multivitamins with minerals	5.0	7,200
	Codelac® Broncho tablets	Mar 09	R05D – antitussives	37.3	3,300
	Magnelis B6®	Mar 09	A12C – other mineral supplement	23.9	1,629
	Arbidol® №20	Jan 09 (100mg) Jul 09 (50 mg)	J05B ANTIVIRALS, EXCLUDING ANTI-HIV PRODUCTS	918	7,427
RX	Rastan®, 16IU, 20IU	Nov 09	H04C0-Growth Hormones	54.6	814

In line with our strategy we are going to launch 10 OTC and 2 prescription products in 2010, including extension for our Complivit®, Phosphogliv®, Pentalgin®, Terpincod®, Rastan® and Codelac® umbrella brands and new topical antipsoriasis product Zinocap®.

Product Approvals and Launches 2010

Product		Date	Description (Therapeutic Segment)	AT C value, RUR mln
OTC	Complivit® Woman 45+	Feb 10	A11A – multivitamins with minerals	7,200
	Complivit® Active (Chewing), 3–10 years	Nov 10	A11A – multivitamins with minerals	
	Complivit® «Trimestrum»	Nov 10	A11A – multivitamins with minerals	7,200
	Complivit® Ca D3 forte	Nov 10	A12A- calcium products	1,923
	Complivit® Multivitamin (powder for oral liquid), up to 3 years	Sept 10	A11A – multivitamins with minerals	
	Codelac® Broncho syrup with thyme	Feb1 0	R05D – antitussives	7,200
	Zinocap® aerosol	Feb 10	D05A – topical antipsoriasis product	791
	Zinocap® liniment	Jun 10	D05A – topical antipsoriasis product	
	Pentalgin® (codeine free)		N02B – non-narcotics analgesics and antipyretics	12,113
	Terpincod®		R05D – antitussives	3,300
Rx	Rastan® solution, 5 IU/ml	Jul10	H04C0-Growth Hormones	814
	Phosphogliv® forte capsules		A05B – Hepatic protectors, lipotropics	596

Sales & Marketing

The more active promotion of Company's drugs is a strategic platform for success (expand our sales and marketing capabilities). Sales and Marketing department is responsible for the branded drugs which are promoted through our Sales Force and advertising activities directly to medical and pharmaceutical professional and consumers. The list of promoted products in 2009 included 30 brands. The contribution of the promoted products in total sales of pharmaceutical products without TPP was 73% in 2009 and in 2008 it was 62%. The basis of our strategy in view of the financial crisis is further specialization of sales force in promotion of product portfolio. The grouping of portfolios of promoted drugs was implemented on the principle of product portfolio synergy. Thus, the task of promoting the current portfolio and the promotion of new drugs have been solved with the help of a slight increase of staff number through a clear prioritization of product portfolios in each period of advancement, with focus on the established customer databases without the involvement of new target groups that need to increase the number of employees.

In 2009, the structure of promotion has been built in accordance with the specialization of business and included:

- Division promoting Rx products with 4 specialized teams move on (1) Cardiology, (2) Neurology, (3) Hepatology and Dermatology, (4) Hospital-directions
- Division promoting OTC products with 2 specialized groups advance (1) pharmacy, (2) pediatric and gynecological areas
- (3) Division promoting endocrine products

As at 31 December 2009, marketing and promotion staff headcount was 485 people, i. e. increased from 31 December 2008 by 35 people.

In the crisis, we decided not to revise upward the wages for major part of employees, and we created a motivating working environment to achieve the goals by increasing the variable portion of the bonus at 100% implementation of the plan up to 42% in 2009 from 33% in 2008. In 2009, 59% of staff has been awarded.

All staff is trained to promote on a regular basis, which in our opinion is an important factor ensuring the fulfillment of business objectives and an additional motivating factor for the success of the Company.

In the Sales and Marketing department the system of regular reporting continues to successfully operate: monitoring retail sales, stock distributors, monitoring of retail prices, sales reports, P&L analysis of each brand. These approaches allow to assess on a regular basis key performance indicators and to make operational decisions for the future. Implementation of above strategy as whole enable us to meet our targets, including sales growth respects to most promoted brands as compared to previous period.

PRODUCTS from left to right: **Afobazol®, Phosphogliv®, Complivit®, Arbidol®, Pentalgin®, Codelac®, Flucostat®**

Flexible marketing strategy

Stanislav Reshetnikov
National Marketing Manager, OTC & Rx

Distribution

In general, the list of principal product distributors did not change in 2009 as compared to 2008. At the same time, in 2009 the Company significantly increased the product supply volumes under the state tenders, mostly related to Velcade®.

In 2009, the share of sales under the Ministry of Health and Social Development's contracts accounted for 16% of the Company's total sales.

During 2009, the Company supplied products under 40 main contracts. In 2009, 5 top distributors accounted for 69% of sales, except for the state supplies, while in 2008 they accounted for 62% (5 top distributors are shown herein, except for Genesis, which was declared bankrupt in the 2008). In 2009, due to the financial crisis, the Russian pharmaceutical consumption structure changed, as the consumers gave their preferences to traditional non-proprietary preparations. Therefore, the Company's sales growth owed not only to the Company's leading brands, but also bulk products.

In 2009, the Company continued implementing the policy of credit control strengthening. In particular, it involved changes in the marketing and credit policy in order to strengthen control over the pricing, collection of receivables, and establishment of credit limits. In 2009, as well as in 2008, decisions on opening of and changes to credits lines were made by the Credit Committee headed by the General Director. In 2009, in order to reduce its credit risks, the Company expanded the use of bank guarantees issued to counter parties by third party banks.

Payment terms under the main distribution contracts remained similar to those of 2008 i. e., 90–120 days in Russia and 180 days for export.

In 2009, the sales growth was 68%, while the accounts receivable increased by 95% (9,289.1 mln RUR in 2009 against 4,761.4 mln RUR in 2008). The accounts receivable rose due to a critical epidemic situation in Russia in the 4th quarter of 2009, which resulted in a considerable increase in shipment volumes of antiviral and cough and cold products.

The table below introduces the main distributors' sales. The data below do not include any state contracts.

Distributor	2009, % of sales	2008, % of sales
Katren	17%	20%
Protek	16%	14%
SIA International	14%	14%
ROSTA	12%	8%
Apteka – Holding	10%	6%
	69%	**62%**

The average stock is equal to 60 days product sales neglecting any out of stock situations.

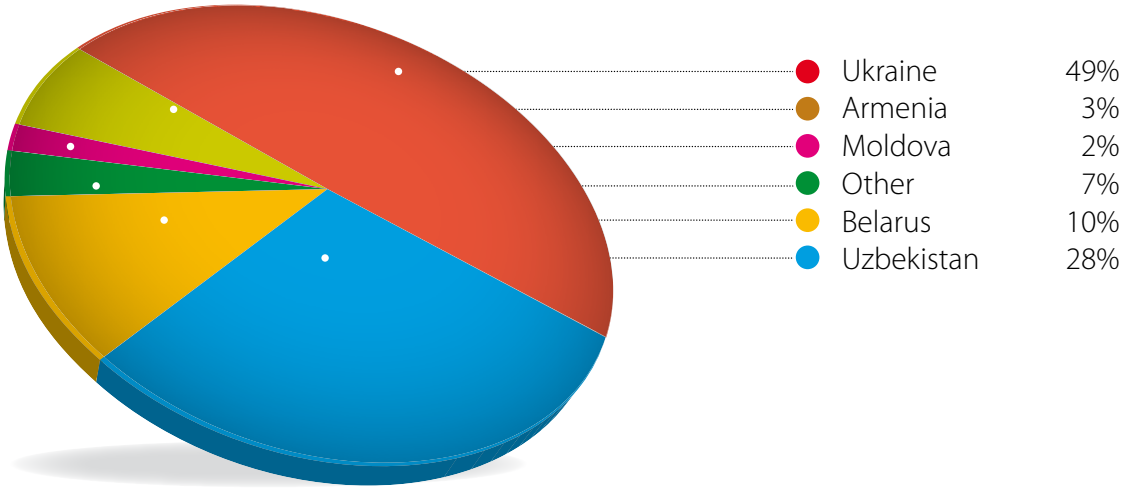
Export Results for 2009 Annual Statements

In 2009, Pharmstandard export shipments increased by 37% as compared to 2008, and amounted to 427.7 mln roubles. Export shipments were made to 13 countries. They are primarily CIS countries, including Ukraine (approximately 49% of total export), Uzbekistan (28%) and Belarus (10%) and other countries which were in the former Soviet Union.

In 2009, Pharmstandard made export shipments to 28 distributors. In total, about 88 different products are exported (in terms of brands), which is equal to about 160 Stock Keeping Unit (SKU).

The Company's export policy is to supply its products to export markets through the reputable intermediaries, often acting simultaneously as distributors and marketing partners. Such approach is cost-effective, and minimizes the risks in the market introduction stage and export sales development stage.

Chart #2. Export structure



Former Soviet Union territories, in particular the CIS countries markets, continue to be Pharmstandard principle export markets at present. The share of sales to the CIS countries comprises 97% of the total export turnover. The main operational difficulties in the CIS countries result from underdeveloped legislation with respect to intellectual property protection and its ineffective execution. Despite of sharp increase in market competition and deterioration in the CIS economies, Pharmstandard is planning to actively expand its presence in the markets of these countries, especially in Ukraine, Kazakhstan and Uzbekistan.

In 2009, the share of shipments to countries outside the CIS is only 3%. Those shipments were made to Latvia, Lithuania, Bulgaria, Cuba and Mongolia.

The Company's strategic plans include active development of export to the countries of Latin and South America (Venezuela, Argentine and Nicaragua), Africa (Nigeria and Egypt) and Middle East (Iran, Iraq, Afghanistan and UAE). Negotiations with business partners in these countries are in their active stage, and in several countries registration of some products has already started.

Medical equipment and disposables accounted for 2.9% of total sales and achieved RUR 689 mln

Alina Khalitova
Marketing manager (TZMOI)

In 2009, confirmation of the Kursk plant's compliance to GMP standards was one of the main Pharmstandard achievements. It is a good evidence supporting positive opinion formed among the CIS countries patients that Pharmstandard medicines are among those of the highest quality in the market.

Sterilizing machines

Medical Equipment

We develop, manufacture, market and sell medical equipment such as sterilizing and distilling machines, and disposables, such as syringes, produced by our Tyumen manufacturing facility. Medical equipment and disposables accounted for 2.9% of our sales in 2009.

The following table shows the results of the core medical equipment and disposables sales over the specified periods:

	2009, mln RUR	2008, mln RUR	Difference,%
Medical Equipment	445	746	-40%
Syringes & Disposables	207	267	-22%
Spare Parts	24	30	-21%
Other	13	33	-62%
	689	**1,076**	**-36%**

Also our medical equipment business significantly depends on government tenders, which absence was the reason largely of 36% decline in sales in 2009.

The following table shows the results of the medical equipment sales broken down by the sales channels:

	2009, mln RUR	2008, mln RUR	Difference, %
Retail Segment	591	859	-31%
Export	71	109	-35%
Other	18	21	-14%
Tenders	9	87	-90%
	689	**1,076**	**-36%**

Production Facilities

Pharmaceuticals

The following table provides information about the Company`s pharmaceutical manufacturing facilities:

Facility	Land own / lease	Approximate size, (sq. m)	Dosage form	Shifts	Capacity 000's 2009	Utilisation 2009	Month of new capacity launch
LEKSREDSTVA (Kursk)	lease	14,900	Syrups & liquid forms	3	71,898	81%	
			Tablets	3	631,575	60%	
			Sprays	3	13,893	99%	
			Powders	3	9,775	12%	
			Capsules	3	57,990	67%	December 2009
UFAVITA (Ufa)	lease	5,850	Ampoules	3	13,646	56%	July 2009
			Frozen-dried preparation	3	4,705	37%	
			Syrups & liquid forms	3	9,053	28%	
			Tablets	3	151,620	42%	
			Vitamin bars (ferrohematogen)	3	35,640	64%	
			Insulin	3	14,400	3%	
PHYTOPHARM (N. Novgorod)	lease	1,200	Ointments	3	744	26%	
			Powders	3	-	0%	
			Syrups & liquid forms	3	-	0%	
			Tablets	3	-	0%	
TOMSKHIMPHARM	own	29,000	Syrups & liquid forms	3	5,400	6%	April 2009
			Tablets	3	327,368	44%	
			Sprays	3	9,600	12%	

OJSC PHARMSTANDARD-LEKSREDSTVA The company produced 38.9 million packs of capsules, the capacity utilization of capsules production was equal to 67%. Our major products in capsules were Arbidol®, Phosphogliv®, and Flucostat®. Through modernization the capacity of capsules production was increased by 52% and totaled 58.0 million packs. In 2009, liquid form production capacity was increased by 11% as compared to the level of 2008 due to the process equipment modernization and the capacity utilization was equal to 81%. Due to the process technology change the coated tablets production capacity in 2009 was increased by 106% as compared to the level of 2008. The powders production capacity was increased by 72% as compared to the level of 2008. Starting from January 2009, the original product Afobazol® was manufactured in Leksredstva. During 2009 some low margin products were relocated for production in Tomsk in order to optimize the production utilization.

OJSC PHARMSTANDARD-UFAVITA The company produced 7.6 million packs of ampoules which is equal to 56% of the production capacity and this is 10% higher than in 2008. The major products were Combilipen® and Octolipen. A new production line was launched for production of a new dosage of Rastan® 20 IU (Growth Hormone).

Kreyman Vladimir
Chief Executive Officer
OJSC PHARMSTANDARD-UFAVITA

Prohoda Evgeniy
Chief Executive Officer
OJSC PHARMSTANDARD-LEKSREDSTVA

Smagkov Pavel
Chief Executive Officer
OJSC PHARMSTANDARD-TOMSKHIMPHARM

Nizovcev Alexanrd
Chief Executive Officer
OJSC TZMOI

OJSC PHARMSTANDARD-TOMSKHIMPHARM In April 2009, the company launched a new line for the production of tablet forms to produce the high-margin tablet forms of Amixin® and Arbidol® (for adults). The capacity utilization of tablet forms equaled to 44%.

Starting from Q4 2008, Tomsk produced IRS® 19 for Solvay Pharm and produced 9.6 mln packs in 2009. Starting from March,2009 Tomsk produced Imudon® for Solvay Pharm and produced 5.1 mln packs. During 2009, production of all margin products of LLC «Phitopharm» were transferred to Tomskhimpharm in order to lower cost of goods.

As a result of modernization of the production and optimization of the production process, the production capacity of pharmaceutical companies of Pharmstandard increased up to 1.357 billion packages per year, which is by 36.7 million packs more than in 2008. The average capacity utilization for all the plants of Pharmstandard group based on two shifts and 5 working days was equal 81%.

In 2009, the average capacity utilization for all the TZMOI product types was equal to 48%.

Production of medical equipment and disposables

Production Form	Capacity * As at 31 December 2009
Syringes	276 milion
Needles for syringes	0
Sterilising machines (up to 100 liters)	9,600
Sterilising machines (greater than 100 liters)	428
Distiling machines	7,200

* Based on one, two or three daily shifts (8 hours each) and 5 working days per week.

Procurement

Pharmstandard procures a lot of materials and supplies, including raw materials, auxiliary materials and packaging to carry out pharmaceutical production.

The following table shows our procurement structure.

	Share,%
Raw materials	86%
API	76%
Others	10%
Auxiliary materials	0.2%
Packaging	13.8%
Total materials & supplies	**100%**

The majority of the materials and supplies are procured from a variety of external vendors, primarily through brokers. As of 31 December 2009, we used about 360 materials and supplies, about 79% of which we procured from our top10 suppliers. We import the majority of raw materials used in pharmaceutical production since certain types of raw materials are either not produced in Russia or fail to meet quality standards or are in short supply. We import raw materials from several European countries, China and India.

The following table shows breakdown of procurement contracts by currency.

Currency	Share%
Euro	18%
US Dollar	62%
Russian rouble	20%
Total materials & supplies	**100%**

In 2009, the amount of procured API's under USD denominated contracts increased by 20%, because of signing direct contracts with producers or / and contracts with brokers in USD. We noted negative impact on the cost of goods denominated in USD and Euro in the first half of 2009. Currently, all 2010 contracts for API are signed and prices are mostly fixed in USD.

In 2009 we increase our staff by 5.5%.

Aleksey Fedotov
Head of Administration

Employees

As of 31 December 2009, we had 5,274 full-time employees, of whom 54% were trade union members. So far, we have not experienced any business interruption resulting from labour disputes and we believe our relationship with the employees to be good.

The following table shows our headcount as of 31 December 2009 and 31 December 2008:

	2009	2008	Difference, %
Production/Logistics	3689	3,503	5.3%
Research and Development	136	133	2.3%
Marketing and Promotion	760	667	13.9%
Management and Administrative	689	698	-1.3%
	5,274	**5,001**	**5.5%**

The following table shows the headcount at each of our manufacturing facilities and at the Company Head Office in Moscow as of 31 December 2009:

	Kursk	Ufa	Tomsk	N. Novgorod	Tyumen	HQ
Production/Logistics	1,309	1,181	471	14	714	0
Research and Development	42	31	15	0	0	48
Marketing and Promotion	0	0	0	0	0	760
Management and Administrative	96	142	108	14	116	213
	1,447	**1,354**	**594**	**28**	**830**	**1,021**

In 2009 we increase production staff by 5.3% and Research and Development by 2.3% due to increase of production plans and development of technologies for products. Increase in the Marketing and Promotion was caused by the expansion of the staff in promotion departments.

Social Policy

Pharmstandard JSC, the undisputed leader of the Russian pharmaceutical industry, guarantees the highest quality of all its products.

The underlying principles of Pharmstandard's social policy have been brought into line with Russian national policy in the sphere of medical supplies, which stipulates for the replacement of expensive imported medicines with affordable local products manufactured in compliance with the highest international standards. Pharmstandard is known for its commitment to product safety and consumer health. To meet these challenges, Pharmstandard has organized a rigorous internal system of pharmacovigilance focused on the collection and analysis of information about side effects and interaction of different pharmaceutical products. Another task solved by the system is to ensure efficient interaction with respective regulatory authorities.

Pharmstandard is a socially responsible company, which provides target support to the most vulnerable social groups and social welfare institutions on a regular basis. The Company highly appreciates on the doctors and patients' confidence in its products and keeps investing in the development of new formulations and improvement of production processes.

Regulatory Issues

Federal Law «On Circulation on Medicinal Products» regulates relations arising in connection with development, preclinical and clinical trials, state expertise and registration, standardization and quality control, production, formulation, storage, transportation, import to the Russian Federation, export from the Russian Federation, advertisement, dispensation, distribution, use and destruction of medicinal products.

The Law establishes priority of the state control over quality, efficacy and safety of medicinal products in the process of their circulation.

Natalia I. Podgorbunskikh
Vise President Regulatory Compliance

Zaytsev Dmitry
Deputy General director for intellectual property

The Law establishes priority of the state control over quality, efficacy and safety of medicinal products in the process of their circulation.

The Law details the medicinal product registration procedure, maximum duration of which will not exceed 210 days. The Law provides for establishment of an autonomous authorized body responsible for the expert examination performance at all the stages of registration of pharmaceuticals.

The provisions relating to arrangement and performance of clinical trials of medicinal preparations have been specified. Accreditation of medical institutions engaged in clinical trials of medicinal products is imposed. A procedure for performance of an international multicentre clinical trial of products for medicinal use has been prescribed.

The issues relating to state regulation of prices for medicinal products included in the List of Vital and Essential Drugs and mandatory registration of manufacturers' maximum ex-works prices have been covered. The manufacturer's maximum ex-works price will be determined when registering the preparation; the methodology of determining prices is developed by the federal authorities, i. e. the Ministry of Public Health and Social Development and the Federal Tariffs Service.

Direct application provision simplifies the procedure for importing a particular batch of non-registered VED required by individuals to Russia. In such cases approval documents for the import will be issued within 5 days. The Law's most important and socially significant innovation is the provision aimed to increase affordability of medicines for rural population. It proposes to allow sales of medicinal preparations to the population directly by medical institutions holding licenses for pharmaceutical activities and their autonomous subdivisions (general practice centers, outpatient units and first aid and obstetric stations), if no pharmacies are available in the relevant rural settlement.

Manufacturing Licenses

Pharmaceutical products, including substances and certain plasters, may not be manufactured without a respective production license issued by ROSZDRAVNADZOR. To obtain a manufacturing license, the applicant must have qualified specialists responsible for the manufacture, quality control and marking of pharmaceutical products under license requirements, whose qualifications can be proved by appropriate supporting documents.

Pharmstandard has all necessary manufacturing licenses.

Risk Management

category	category specification	definition	possible risks for Pharmstandard Group	regulation methods	risk probability for Pharmstandard Group
FINANCIAL	**inflation risk**	a possibility that real value of assets (in the form of cash assets), expected income and profit may decrease	risk of increase in raw material and supplies prices; lack of balanced mechanisms for establishing correlation between prices of raw material and supplies and prices of marketed products	changeover to shorter-term contractual obligations (conclusion of spot-contracts) with regard to the purchase of raw materials and supplies; appropriate pricing policy; shortening of the time interval used for cost estimation	medium
			risk of marketed products overpricing (fixing non-competitive prices)	appropriate marketing policy and market monitoring	low
			potential impairment of assets, including major brands (non-material assets)	regular monitoring of primary current costs evaluation carried out for the purposes of taking preventive measures	medium
	foreign exchange risks	a risk of currency losses resulting from the change of the currency price rate with regard to the currency of payment in the period between the conclusion of a foreign trade, foreign economic or credit agreement and effecting of payments under such agreement	risks related to foreign currency loans and outstanding payments to raw materials suppliers	conclusion of contracts at a "budgeting rate ; additional assessment of the transaction	medium
	liquidity risk	a possibility of losses on securities conversion or other commodities disposal resulting from the revision of their quality rating and utilization value; scarcity of funds required for punctual settlement of liabilities	risk of scarcity of funds required for timely settlement of own liabilities (discharge of taxes, payment of wages and salaries, repayment and servicing of loans)	an organized system for the planning and management of the scarcity of funds; the company has introduced new credit control standards to reduce the risk of overdue receivables	low
			risk of losses on financial derivatives resulting from changes in their fair value	priority to the use of debt instruments issued by the government or by financial institutions with a substantial government interest (Savings Bank); reduction of portfolio diversification level; pessimistic forecasting	low
	credit risks	risk of failure to collect receivables due under settlements with buyers and customers	risk of losses related to creation of reserves and subsequent violation of payment discipline	the company has introduced daily monitoring of the correlation between shipment and payment; tightened the measures for the changeover to delayed payment delivery system; developed reconciliation database and introduced weekly monitoring of receivables cash flow	medium

category	category specification	definition	possible risks for Pharmstandard Group	regulation methods	risk probability for Pharmstandard Group
OPERATIONAL	**personnel risk**	risk of improper discharge of duties/rules/procedures	risk of material errors and malpractices	enhancement of internal control measures	medium
		risk of inefficient corporate structure	risk of inefficient delegation of authority; creation of additional bureaucratic barriers, loss of operational efficiency of information flows established between distant enterprises	use of appropriate evaluation instruments for the existing business processes evaluation; organization of training sessions for the company personnel	low
		risk of key managers and specialists loss	risk of key managers and specialists loss	adequate compensation package	low
		risk of qualified personnel shortage	risk of qualified personnel shortage	an increased offer of qualified personnel caused by the current economic recession enables the company "to pick and choose" specialists	medium
	processes risk	risk of incorrect organization of processes schedules and procedures	risk of incorrect organization of processes schedules and procedures	qualified personnel; a system of internal standards and procedures compliance control	low
		lack (inadequacy) of the information security system and/or information access procedure	information security system inadequacy	creation of information access control; implementation of regular measures for identification and elimination of risk factors	medium
	IT systems risk	technological risk of hardware or software failure	technological risk of hardware or software failure	creation of reserve database storage facilities/servers; qualified technical staff formation	low
	external factor risks	risk of unrecorded competitive expansion	risk of competition within the pharmaceutical industry	development of R&D capabilities; analysis of the new pharmaceutical products market; portfolio diversification; expansion into new market segments through participation in government-sponsored schemes; support of import substitution strategy	low
		risk of inefficient acquisition	risk of losses resulting from the integration of acquired assets combined with the risk of weakened financial performance	thorough preliminary analysis; development of new methods	medium
		risk of participation in government-sponsored schemes	risk of overdue receivables (reserve) resulting from the sales of products under the FRP	collection of information; control of compliance with contractual terms and conditions; control of receivables structure and adequate diversification	low
	risk of direct financial losses	stock exchange risk	non-compliance with capital requirements or other legal (stock exchange) requirements	timely updating of information; distribution of responsibility areas among the corporate internal services; regular monitoring	low
	legal risks	state regulatory risk	risks due to changes in law and taxation	the Company focuses its attention to timely response to changes in law related to all areas in the industry; the functional of each Company's division implies monitoring of the RF statutes; in everyday affairs the Company applies up-to-date legal infoware; responsible officers of the Company regularly circularize amendments to law.	medium

References to section

(1) Guidelines of the Ministry of Health and Social Development «Methods of treatment and prevention of influenza caused by virus type A H1N1 for adults» from June 17, 2009.

(2) Lvov DK, Burtseva EI, Prilipov AG, et. Isolation of 24.05.2009 and deposit in the State collection of viruses (STB N 2452 from 24.05.2009) pore strain A / IIY – Moscow/01/2009 (H1N1) swl, like swine virus A (H1N1) from the first identified 21.05.2009 patient in Moscow. / / Problems of Virology. – 2009.-N5.-C.10-14.

(3) Romanovskaya AA, Durymanov AM, Sharshov KA etc. The study of the sensitivity of influenza A viruses (H1N1), caused the disease in April-May 2009, the antiviral drugs in cell culture, MDCK. / / Antibiotics and chemotherapy. – 2009. – N54 – p.41-47

(4) Irina A. Leneva, Rupert J. Russell, Yury S Borishkin, Alan J. Hay. Characteristics of Arbidol®-resistant mutants of influenza virus: Implications for the mechanism of anti-influenza action of Arbidol®.//Antiviral Research. – 2009. – N 81- P.132-140

EMPLOYEE from left to right: **Elena Arkhangelskaya –** *Chief Financial Officer,* **Stanislav Sushko -** *Financial analyst of Internal Audit and Control,* **Sergey Dushelikhinsky –** *Chief Commercial Officer,* **Ekaterina Makarova –** *Head of Internal Audit and Control,* **Andrey Kuznetsov –** *Head of IFRS Department*

PRODUCTS from left to right: **Complivit®**

Management's Discussion and Analysis

of Financial Condition and Results of Operations development

Introduction

Our (Company's) financial position and performance should be further reviewed along with the consolidated financial statements, comments thereto and other information disclosed in this annual report.

2009 highlights

- Efficacy of Arbidol® for prevention and treatment influenza caused by A/H1N1 virus was confirmed by Russian leading virologic research centers.
- Pharmstandard OJSC (Pharmstandard) was the first Russian company to become a full-fledged member of the International Pharmaceutical Excipients Council Europe (IPEC Europe). Pharmstandard is the first Russian company that has been admitted to the organization.
- Pharmstandard announced the receipt of European Union Good Manufacturing Practice (EU GMP) certificates of conformity for 6 manufacturing lines after the State Agency of Medicines of Latvia audited Pharmstandard – Leksredstva JSC (Pharmstandard-Leksredstva). The Agency inspected drug product manufacturing and quality control management for compliance with the EU Good Manufacturing Practice. Pharmstandard – Leksredstva was the first Russian company to be registered in the European database EudraGMP (European Medicines Agency, EMEA).
- The syrup line of Pharmstandard – Leksredstva in Kursk also met the EU GMP standards and thus the number of lines certified to EU GMP standards reached 6 (2 tablet lines, 1 capsule line, 1 aerosol and spray line, 1 syrup line and 1 sachet powder line).
- In 2009, Pharmstandard continued implementing the joint project, launched in 2008, with Grindeks, Latvia, for exclusive sales and promotion of Mildronate® on the Russian pharmaceutical market. The 2009 sales of Mildronate® amounted to RUR 1,194.3 million.
- In the 1st quarter of 2009, Pharmstandard signed an agreement with Pharmapark, Russia, on marketing and exclusive sales of Altevir® (interferon alfa-2b). From April to December 2009, Altevir® sales reached RUR 32.2 million.
- Pharmstandard and Pharmacy Chain 36.6 CJSC, Russia, entered into a contract for direct delivery of the Company's products to Pharmacy Chain 36.6. Sales reached RUR 257.7 million from the 2nd quarter of 2009.
- In the 1st half of 2009, Pharmstandard won a state tender under «Seven nosologies» program (part of the FRP) in the anticancer drug category. As a distributor of Velcade® (INN: bortezomib), an original medication by Janssen-Cilag, Pharmstandard sold this drug in the amount of RUR 3,661.9 million.
- In December 2009, Pharmstandard won state tenders for supply of certain drugs in the amount of RUR 2,627.1 million in 2010 under the FRP (including Dornase alfa, Rastan® (Somatropin), Coagil VII (coagulation factor VII)).
- In November 2009, Pharmstandard JSC has legally absorbed two subsidiaries: Pharmstandard-Oktyabr OJSC and Masterlek CJSC. This merger was performed to optimize the legal structure of the Group (which comprised of Pharmstandard JSC and its subsidiaries) and had no significant impact on Pharmstandard business activities.

This section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under «Risk Factors» and «Cautionary Note Regarding Forward-Looking Statements».

Performance

The table below introduces an overview of the Company's performance, comparing the key figures as of December 31, 2009 and 2008, in absolute values and percentage to sales.

	Year ended 31 December 2009		Year ended 31 December 2008	
	in mln RUR	%	in mln RUR	%
Sales of products	**24,095.4**	**100.0**	**14,335.9**	**100.0**
Pharmaceutical products	23,406.7	97.1	13,260.2	92.5
OTC products	14,840.7	61.6	10,380.8	72.4
Branded	12,709.9	52.7	8,852.9	61.8
Non-branded	2,130.8	8.8	1,527.9	10.7
Prescription products	2,338.1	9.7	1,361.9	9.5
Branded	2,022.4	8.4	1,190.6	8.3
Non-branded	3,15.7	1.3	171.3	1.2
Third parties products*	6,156.4	25.5	1,446.6	10.1
Other sales	71.5	0.3	70.9	0.5
Medical equipment and disposables	688.7	2.9	1,075.7	7.5
Cost of sales	-12,367.9	51.3	-5,577.5	38.9
Gross profit	**11,727.5**	**48.7**	**8,758.4**	**61.1**
Selling and distribution costs	-2,463.1	10.2	-2,466.8	17.2
General and administrative expenses	-711.2	3.0	-656.2	4.6
Operating profit	**8,553.2**	**35.5**	**5,635.3**	**39.3**
Other income (expenses), net	105.1	0.4	-715.2	5.0
Financial income	132.9	0.6	22.6	0.2
Financial expense	-146.0	0.6	-255.2	1.8
Profit before income tax	8,645.2	35.9	4,687.5	32.7
Income tax expense	-1,792.8	7.4	-1,184.4	8.3
Profit for the year	**6,852.4**	**28.4**	**3,503.1**	**24.4**
Attributable to equity holders of the Parent of the Company	6,836.4		3,504.0	
Attributable to non-controlling interests	16.0		-0.9	

* Third parties products include sales of branded pharmaceutical products manufactured by other pharmaceutical companies such as Mildronate® (produced by Grindeks). Furthermore, this category includes RUR sales through government tenders under federal reimbursement programs such as the prescription drug Velcade® (produced by Janssen-Cilag). The purpose of such analytics is a more detailed reflection of specific business features. It should be noted that such a portfolio structuring principle has no effect whatsoever on the results of sales of pharmaceutical products. More details see in section "Sales of Products".

Sales of Products

The Company's core business is manufacture and sales of pharmaceutical products and medical equipment and disposables. Sales of pharmaceutical products and medical equipment and disposables account for 97.1% and 2.9% of the total sales, respectively. Pharmaceutical products and medical equipment and disposables are mainly sold under direct delivery contracts with wholesale distributors and/or medical institutions. In 2009, total sales amounted to RUR 24,095.4 million, which is 68.1% above the corresponding 2008 figure (RUR 14,335.9 million).

In 2009, total sales of pharmaceutical products increased by 76.5%. Of this increase 46% was attributable to sales excluding third parties products.

A number of drugs representing third parties products contributed substantially to the increase in total sales of pharmaceutical products. The list of these third party drugs is presented below:

			2009			2008		
BRAND	ATC	CATEGORY	Sales, mln RUR	% in Group	% of Pharmaceutical products sales	Sales, mln RUR	% in Group	% of Pharmaceutical products sales
Velcade®	L01XO	RX	3,661.9	59.5	15.6	-	-	-
Mildronate®	COD	RX	1,194.3	19.4	5.1	1,149.1	79.4	8.7
IRS® 19	R07X	OTC	332.1	5.4	1.4	17.4	1.2	0.1
Imudon®	L03A	OTC	313.6	5.1	1.3	-	-	-
Reduksin®	A08A	RX	193.7	3.1	0.8	113.3	7.8	0.9
Pulmozyme	R05C	RX	143.9	2.3	0.6	-	-	-
Tetralgin®	N02B	OTC	123.9	2.0	0.5	84.8	5.9	0.6
Rhynostop	R01A	OTC	123.9	2.0	0.5	72.0	5.0	0.5
Aimafix	B02D	RX	61.0	1.0	0.3	-	-	-
Valsaforce™	C09C	RX	7.6	0.1	0.0	-	-	-
Phyto Novo-Sed®	N05B	OTC	0.5	0.0	0.0	0.5	0.0	0.0
Cardionate®	CO1X	RX	-	-	-	9.5	0.7	0.1
TOTAL			**6,156.4**	**100.0**	**26.3**	**1,446.6**	**100.0**	**10.9**

In 2009, sales of third parties products amounted to RUR 6,156.4 million or 26.3% of the Company's total sales. Of all third parties products sales 89.4% related to Velcade®, Mildronate®, IRS® 19 and Imudon®.

Pharmaceutical Products

Sales of OTC medications increased by RUR 4,459.9 million (43.0%) from RUR 10,380.8 million in 2008 to RUR 14,840.7 million in 2009. This increase was largely due to our aggressive promotion strategy. The following drugs were the key contributors to the increase (92.4%): Arbidol®, Pentalgin®, Complivit®, and Afobazol®. Sales of Arbidol® grew by RUR 2,772.1 million (101.5%) in 2009 as compared to 2008, which was to a great extent related to A/H1N1 2009 flue pandemic. In 2009, certain pharmaceutical products showed a dramatic growth in sales: Pentalgin® (sales increased by RUR 517.8 million, i.e., 32.7% growth), Complivit® (sales increased by RUR 515.7 million, i.e., 76.6% growth) and Afobazol® (sales increased by RUR 313.5 million, i.e., 144.1% growth). Sales of Afobazol® started in August of 2008 when this trade mark was acquired. Total sales of this drug amounted to RUR 531.0 million in 2009 and it was rated among the OTC portfolio TOP-10. In August-December 2009 as compared with the same period in 2008, Afobazol® sales increased by RUR 98.8 million (45.4%) – from RUR 217.5 million to RUR 316.3 million, respectively.

Sales of prescription drugs (Rx) grew by RUR 976.2 million (71.7%) from RUR 1,361.9 million in 2008 to RUR 2,338.1 million in 2009. The following drugs were the key contributors to the increase of sales of Rx drugs in 2009: Phosphogliv® – increase by RUR 171.5 million (40.4%); Combilipen® – increase by RUR 156.2 million (399.1%); Rastan® – increase by RUR 150.0 million (416.2%); Cocarboxylase hydrochloride – increase by RUR 70.4 million (182.3%); and Picamilon® – increase by RUR 67.6 million (110.8%), (before November 2009, the Company manufactured and sold the products branded by Picamilon® trademark under license agreement and in November 2009, this trademark was acquired by the Company).

The management believes the structure of pharmaceutical consumption in Russia has shifted to bulk products (traditional non-branded products). In the reporting period Pharmstandard's sales were growing not only due to the Company's leading brands, but also because of increasing sales of cheaper bulk products due to re-direction of customer demand because of the crisis.

Medical Equipment and Disposables

Sales of medical equipment and disposables declined in 2009 by RUR 386.9 million (36%) to RUR 688.7 million from RUR 1,075.7 million in 2008. Such decline in sales was caused by cuts in budget financing of state medical institutions that are primary consumers of products manufactured by Tyumen Medical Equipment and Instruments Plant (TMEIP). Another cause of the decline is the reduced amounts of state tenders in the hospital industry as a whole resulting from the global financial crisis that started late 2008.

Cost of Sales

Cost of sales comprises API and other material costs («materials and components»), third parties products for resale costs, overhead production costs, direct labor costs and amortization and depreciation.

The cost of sales increased by RUR 6,790.4 million (121.7%) from RUR 5,577.5 million in 2008 to RUR 12,367.9 million in 2009.

The considerable rise in cost of sales was due to the increased costs for materials and components from RUR 2,833.1 million in 2008 to RUR 5,618.0 million in 2009 (98.3%). This resulted from increase in production in line with the customers demand and also from increase in API prices. Cost of third parties products for resale also grew – from RUR 1,269.1 million to RUR 4,973.1 million (291.8%), due to increase in third parties products sales. Materials and components and cost of third parties products for resale together represent 85.6% of the total cost of sales.

Amortization and depreciation amounted to RUR 684.8 million (5.5% of cost of sales), which is an increase of RUR 149.2 million (27.9%) compared to 2008. The primary reason for this increase was amortization of Afobazol® trade mark for the entire year in 2009 whilst in 2008 this trade mark amortization period was from August (when it was acquired) to December only. Certain increase in depreciation can be explained by the launch of new production facilities at Pharmstandard – Tomskhimfarm OJSC and Pharmstandard – UfaVITA OJSC during the first half of 2009.

Primarily due to the reasons described above, the share of cost of sales in relation to sales increased to 51.3% in 2009 as compared to 38.9% in 2008.

The 'organic' changes in sales and cost of sales, excluding third party products sales, can be summarized as follows:

	Year ended December 31, 2009		Year ended December 31. 2008	
	in mln RUR	%	in mln RUR	%
Sales	17,939.0	100.0	12,889.2	100.0
Cost of sales	-7,394.8	41.2	-4,308.3	33.4

In 2009, cost of sales exclusive of third party products in relation to the respective sales is 41.2% which is 7.8% higher than the corresponding 2008 figure primarily due to the increased costs of materials and components primarily due to increase in imported API costs resulted from the devaluation of the Russian Ruble against US dollar and Euro during 2009.

The following table presents changes in third party products sales and cost of third parties products sales.

	Year ended December 31, 2009		Year ended December 31, 2008	
	in mln RUR	%	in mln RUR	%
Third parties products sales	6,156.4	100.0	1,446.6	100.0
Cost of third parties products sales	-4,973.1	80.8	-1,269.1	87.7

Gross Profit

The above factors resulted in an increase in the Company's gross profit of RUR 2,969.1 million (33.9%) from RUR 8,758.4 million in 2008 to RUR 11,727.5 million in 2009. In relation to sales total gross profit decreased from 61.1% in 2008 to 48.7% in 2009. This decrease is primarily due to a higher share of third parties products sales in the sales structure and their lower margin as compared to the Company's own products as well as the increase in purchase prices for materials and components.

A review of the Company's sales of own products (i.e. excluding third parties products sales) shows that 2009 gross profit is RUR 10,544.2 million, which is higher than the previous year RUR 8,580.9 million by RUR 1,963.3 million, or 22.9%. Gross profit from the Company's sales of own products decreased from 66.6% in 2008 to 58.8% in 2009 due to the increase in purchase prices for API as explained above in conjunction with the limited potential to offset this cost increase with price increases of own products because of the crisis.

In 2009, gross profit of the Company's pharmaceutical products segment was RUR 11,533.3 million, or 49.3% of pharmaceutical sales. In medical equipment and disposables segment gross profit amounted to RUR 194.2 million, or 28.2% of this segment sales.

Operating Expenses

Operating expenses (S&D and G&A) slightly increased by RUR 51.3 million (1.6%) from RUR 3,123.1 million in 2008 to RUR 3,174.4 million in 2009. In relation to sales the operating expenses decreased from 21.8% in 2008 to 13.2% in 2009. This indicator suggests high efficiency of operating expense management in the context of financial crisis.

Selling and distribution costs (S&D) decreased by RUR 3.7 million (0.15%) from RUR 2,466.8 million in 2008 to RUR 2,463.1 million in 2009. This is 17.2% and 10.2% of sales in the respective years. Organic S&D (excluding third parties products expenses) in relation to sales decreased from 18.3% in 2008 to 13% in 2009.

In 2008, RUR 476.1 million provision was recorded against trade receivables from Genesis, a distributor. In 2009, RUR 447.7 million of that provision was reversed as the receivable was partially collected in during 2009 and, after renegotiation, partially collected in the 1st quarter 2010. The reversal was credited to other income (see below).

Marketing, advertising and promotion expenses accounted for 55.4% of the total S&D expenses, amounting to RUR 1,365.5 million, which exceeded the prior year amount (RUR 1,061.8 million) by RUR 303.7 million (28.6%). In line with our marketing strategy, most advertising costs were incurred in respect of the newly acquired original product Afobazol® (2008), as well as continued promotion of other top brands such as Arbidol®, Complivit®, Flucostat®, Pentalgin®.

Labor costs totaled RUR 585.9 million, or 23.8% of S&D, i. e., an increase of RUR 109.0 million (22.9%) from RUR 476.9 million in 2008. This was mainly due to an increase in head count of medical representatives and an overall increase in payroll rates and bonuses to sales forces and other personnel for meeting their KPI (sales targets).

Other S&D expenses amounted to RUR 511.7 million (20.8% of S&D), i.e., an increase of RUR 59.7 million, or 13.2%. This increase was primarily due to the overall increase in the operational volume resulting in increase in transportation, insurance and products certification costs and patent royalties.

General and administrative expenses (G&A) increased by RUR 55.0 million (8.4%) from RUR 656.2 million in 2008 to RUR 711.2 million in 2009, which is 4.6% and 3.0% of sales in the respective years. Organic G&A (excluding third parties products expenses) in relation to sales decreased from 4.8% in 2008 to 3.5% in 2009. Labor costs represented the greatest share in general and administrative expenses (61.3% of G&A) and they increased by RUR 33.0 million (8.2%) from RUR 403.1 million in 2008 to RUR 436.1 million in 2009. The increase was primarily due to increase in headcount and payroll rates. Utilities and services represented 11.0% of G&A. The cost increase from RUR 63 million in 2008 to RUR 78.6 million in 2009 mainly resulted from increase in the utility rates.

Other expenses (27.6% of G&A) grew by RUR 6.4 million, amounting to RUR 196.5 million (2008: 27.7% of G&A).

Operating Profit

The above factors resulted in operating profit growth of RUR 2,917.9 million (51.8%) from RUR 5,635.3 million in 2008 to RUR 8,553.2 million in 2009. In relation to sales our operating profit accounted for 35.5% of sales in 2009 as compared to 39.3% in 2008. We attribute this decrease in profitability mainly to the increase of the share of lower margin third parties products in the Company's portfolio, and to the increase of material and components costs caused by the increase in API purchase price and the Ruble devaluation.

Other Income (Expenses)

In 2009, other income amounted RUR 105.1 million compared to other expenses amounting to RUR 715.2 million in 2008. This change is primarily explained by (i) the RUR 447.7 million reversal of the provision recorded in 2008 against Genesis (refer also to Operating Expenses section above) and (ii) the reduction in exchange loss by RUR 298.5 due to stabilization of the Ruble to US$ exchange rate.

Financial income and financial expense

Our financial expense decreased by RUR 109.2 million (42.8%) from RUR 255.2 million in 2008 to RUR 146.0 million in 2009. This decrease results primarily from decrease in the balance of the Citibank loan in accordance with its repayment schedule. Financial income growth in 2009 by RUR 110.3 million. This increase was due to the increase in interest income from cash deposits and also due to 2009 gain from change in fair value of interest rate swap.

Corporate Income Tax

In 2009 and 2008, corporate tax rate in Russia was equal to 20% and 24%, respectively.

The Company's tax expenses in 2009 were equal to RUR 1,792.8 million and effective tax rate was 20.7% as compared to RUR 1,184.4 million and 25.3%, respectively, in 2008. This decrease in the effective tax rate followed the commencement on January 1, 2009, of the Russian law on reducing the profit rate from 24% to 20%.

Profit for the Year and non-Controlling Interests

The Company's profit for the year grew by RUR 3,349.3 million (95.6%) from RUR 3,503.1 million in 2008 to RUR 6,852.4 million in 2009. In relation to sales these figures were 24.4% and 28.4% for the respective years. In 2009, profit for the year attributable to the equity holders of the Parent of the Company was RUR 6,836.4 million. Profit for the year in the amount of RUR 16.0 million attributable to non-controlling interests represented the amount attributable to the minority shareholders of Pharmstandard-Tomskhimpharm OJSC-holders of 9% voting shares.

Liquidity and Capital Resources

Overview

Our liquidity requirements arise primarily from the need to increase the Company's working capital, finance its capital investment programmes and expand its product portfolio through selective acquisitions of subsidiaries and intangible assets. During the periods covered by the Group's Consolidated Financial Statements, we financed our operations and investments through free cash flow. In future, we also intend to fund acquisitions, if any, through free cash flow and borrowings.

The following table summarizes our cash flows in 2009 and 2008:

Cash flows	Year ended 31 December 2009, RUR, mln	Year ended 31 December 2008, RUR, mln
Net cash flow from operating activities	6,071.2	3,836.9
Net cash used in investing activities	(1,561.1)	(2,709.8)
Net cash used in financing activities	(1,698.7)	(1,332.8)
Cash and cash equivalents at the end of the period, net of bank overdraft	2,798.1	(13.2)

Net cash from operating activities

Substantially, all our cash flows from operating activities for the periods covered by the Group's Consolidated Financial Statements were generated from sales of pharmaceutical products and medical devices.

Standard commercial contracts that we sign with distributors provide for 90–120 day credit period from the date of shipment, and we offer individual credit conditions to each distributor. In 2008 and 2009, net cash from operating activities was RUR 3,836.9 million and RUR 6,071.2 million, respectively. The increase in net cash from the Group's operating activities in 2009 mainly resulted from increase in sales of high-margin pharmaceutical products Arbidol®, Amixin®, Pentalgin®, Complivit® and Afobazol® and also from increase in sales of third parties products, primarily Velcade® and Mildronate®. The increase in net cash from operating activities in 2009 resulted also from to the fact that the growth of the Company's operating expenses was lower than the growth of Company's sales and gross margin. In addition, the Group collected RUR 447.7 million of Genesis distributor receivables originated in 2008. Further, since January 01, 2009 income tax rate decreased from 24% in 2008 to 20% in 2009, resulting in additional positive effect on cash flows from operating activities.

Increase in receivables and, consequently, increase in payables in 2009 compared to 2008 owed to the epidemic situation with flue and cold-related diseases observed in the 4th quarter of 2009. During that period the Company increased the production and sales of anti-flu and cold preparations to its main distributors.

Net cash used in investing activities

In 2008 and 2009, net cash used in investing activities amounted to RUR 2,709.8 million and RUR 1,561.1 million, respectively. Within the above periods, the most significant investment activities included construction and modernization of manufacturing facilities, acquisition of equipment and intangible assets, sale of non-current assets classified as held for sale, purchase and sale of financial assets and acquisition of non-controlling interests. In 2008 and 2009, we paid RUR 661.1 million and RUR 361.3 million, respectively, for acquisition and construction of manufacturing facilities and equipment. These acquisitions were primarily made for development of the Company's production capacities, including modernization of the existing and launch into operation of new equipment for production of infusional and lyophilic preparations in Ufa, reconstruction of the manufacturing and storage facilities and acquisition of new equipment for the production of Amixin®, Arbidol® and other tablet pharmaceuticals in Tomsk, acquisition of new equipment for the production of Phosphogliv® forte and replacement of certain exhausted equipment in Kursk.

Further, in 2009, the Company paid RUR 167.8 million for acquisition of certain intangible assets, i. e. trademarks and know-how (in 2008, the Company paid RUR 1,993.6 million for acquisition of intangible assets, mainly for Afobazol® trademark). In 2009, the Company paid RUR 25.1 million for acquisition of minority interests in the Company subsidiaries (in 2008, acquisition of minority interests amounted to RUR 501.7 million). In 2009, net cash used for purchase of financial assets, primarily promissory notes and short-term bank deposits, amounted to RUR 1,073.6 million as compared to RUR 104.3 million in 2008.

Net cash used in financing activities

In 2008 and 2009, net cash used in financing activities amounted to RUR 1,332.8 million and RUR 1,698.7 million, respectively. These amounts were related to repayment of Citibank syndicated loan denominated in US dollars received in 2006. The increase in 2009 as compared to 2008 resulted from devaluation of the Russian rouble against US dollar.

Contractual obligations and other commitments

As of 31 December 2009, the most significant contractual obligation of the Group related to the supplies of Velcade® original preparation distributed by the Group in 2009, amounting to RUR 1,502.8 million, which was paid in January, 2010.

As of 31 December 2009, we had no other significant contractual obligations, except for capital expenditure and certain liabilities incurred in the ordinary course of business, such as trade payables, wages and tax payables.

Qualitative and Quantitative Disclosures about Market Risks

Operating environment

Russian economic reforms and development of the legal, tax and regulatory framework in compliance with the market economy are in process. Future stability of the Russian economy to a large extent depends on these reforms and changes, as well as on the efficacy of economic, financial and monetary measures being undertaken by the government.The Russian economy is vulnerable to the global market downturns and economic slowdowns. In Russia, the global financial crisis has resulted in reduction of gross domestic product, capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions. While the Russian government has developed and introduced a range of stabilization measures to provide liquidity to Russian banks and companies, there is still no certainty regarding access to capital and the cost of capital for the Group and its counterparties, which can affect the financial position, performance and business prospects of the Group.

Currently the Russian government has undertaken a range of measures which can improve the situation at the pharmaceutical market. Among these measures are: the enacted Law on Circulation of Medicinal Products effective from the 1 September 2009, introduction of mandatory registration of prices for Vital and Essential Medicinal Products, tightening of control over manufacturers' and importers' pricing policy and distributors' mark-up policy with respect to medicinal products. However, currently we do not expect these measures to greatly influence the sales structure and profitability of the Company, as the Company timely responds to such changes and undertakes adequate measures.

Credit risk

Our principal credit risk arises from the customers possible failure to fulfil their payment obligations under sales contracts. In compliance with the Group's general principles for doing business, substantially all of our sales are made on credit terms. The credit terms depend on our credit and marketing practices with respect to a particular customer. We manage credit risk by relying on the policy which ensures that the products are only sold to customers with appropriate credit history. Moreover, we carry out daily monitoring of sales and receivables by means of effective internal control procedures. Our credit committee including General Director, Financial Director and Director of Commercial Operations approves the Company's Credit Policy, which is revised in response to particular circumstances. According to the Company's Credit Policy, customers are generally divided into three categories: (i) the most reliable and reputable customers with maximum credit limit; (ii) customers with individual credit limit to be approved by the credit committee and (iii) customers with no credit limit, which have to make prepayments. The majority of our sales contracts are concluded with the customers who fall under the first category (in 2009, approximately 60% of the sales were made to our five major distributors). The carrying amount of the accounts receivable, net of provisions, represents the maximum amount of exposure to the credit risk. We believe that, other than the concentration with the five major customers, we have no significant concentrations of credit risk. Although collection of receivables can be influenced by various economic factors, the management believes that there is no significant risk of loss beyond the provisions stipulated by respective contracts.

Currency Risk

Certain amount of our purchases is denominated in currencies other than the Russian rouble (the functional and reporting currency used in our Consolidated Financial Statements). We incur currency risk whenever we enter into transac-

tions denominated in a currency other than our functional currency. Generally, our foreign currency transactions, which account for a substantial proportion of the Company's purchases of raw materials, as well as to borrowings and related interest payments thereon, are settled in US dollars and Euro. Therefore, our cost of sales, operating expenses as well as payables and borrowings presented in our Consolidated Financial Statements, can be influenced by the foreign exchange rate fluctuations. We monitor the foreign exchange risk by following changes in exchange rates in the currencies in which its cash, payables and borrowings are denominated. In particular, for reduce of this risk we use up-to-date prediction methods, individual approach to each deal in our contractual activity. Our well-designed budgeting system enables one to timely make management decision related to all subsidiaries of the Company. However, the Company does not have formal arrangements to mitigate this foreign exchange risk. At the beginning of 2009, the Russian rouble was devalued against certain currencies (primarily US dollar and Euro). However, by the end of 2009, the Russian rouble had strengthened against those currencies essentially due to the positive changes in the Russian economy. We believe that in 2010 the Russian rouble-US dollar and Russian rouble-Euro exchange rates will not change significantly as compared with the rates as of the date of the Company's Consolidated Financial Statements issuance.

Interest rate risk

We are exposed to interest rate risk due to interest rate market fluctuations, since the majority of interest rates on our long-term borrowings are based on LIBOR. In September 2007, when LIBOR rate was approximately 5.7%, we entered into an Interest Rate Swap Agreement covering all interest payments on the Citibank loan, basically swapping the LIBOR rate interest obligations into a fixed rate of 4.932% per annum. In this manner, the Company protects itself against LIBOR rate fluctuations.

Liquidity risk

Our policy with respect to reducing the liquidity risk is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet our operating and financial commitments. We perform continuous monitoring of cash deficit risks, as well as of the scheduled liability repayments accuracy. Moreover, we perform daily planning and control of the cash flow.

Capital Risk Management

The Company's principle objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for our shareholders and maintain an optimal capital structure, which ensures the reduction of the cost of capital. The Company manages and adjusts its capital structure depending on external economic conditions. To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt (strictly observing the terms and conditions set by the Loan Agreement with the Citibank).

Commodity price risk

We do not think that the Company is subject to any significant material risk resulting from fluctuations in the prices of raw materials and supplies used in our production processes because our business does not depend on any specific commodity to a significant extent and because there is no significant correlation between the rise and fall of the prices of different raw materials and supplies, as well as commodities for resale procured by the Company.

Consolidated Financial Statements

for the year ended 31 December 2009

EMPLOYEE from left to right: Andrey Kuznetsov – *Head of IFRS Department,* **Ekaterina Makarova** – *Head of Internal Audit and Control,* **Stanislav Sushko** – *Financial analyst of Internal Audit and Control,* **Elena Arkhangelskaya** – *Chief Financial Officer*

PRODUCTS from left to right: **Rastan®, Cyclodol®, Combilipen®, Renipril®, Azithrox®, Biosulin® R**


Биосу
Инсулин рас
(человеческий генно-и
Раствор для
100
Ренип
1 таблетка содержит эналапр
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Эналаприл
ВЕРХ
Фармстандарт-УфаВИТА"
077, Уфа, ул. Худайбердина, 28
эл./факс (3472) 72 92 85
Индия
нном от света месте при
енять по назначению врача.
естах, недоступных для детей.

Ernst & Young LLC Sadovnicheskaya Nab., 77, bid. 1 Moscow, 115035, Russia. Tel: +7 (495) 705 9700. Fax: +7 (495) 755 9701. www.ey.com/russia

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 2009, 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 notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

12 April 2010

Consolidated statement of financial position as at 31 December 2009

(in thousands of Russian Roubles)

	Notes	2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	9	3,685,845	3,917,109
Intangible assets	10	6,162,135	6,347,141
		9,847,980	**10,264,250**
Current assets			
Inventories	11	2,758,691	2,484,910
Trade and other receivables	12	9,289,082	4,761,359
VAT recoverable		258,932	326,208
Prepayments		136,729	73,544
Short-term financial assets	14	1,133,287	113,995
Cash and short term deposits	13	2,798,160	186,066
		16,374,881	**7,946,082**
Total assets		**26,222,861**	**18,210,332**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	18	37,793	37,793
Treasury shares		(6)	–
Retained earnings		19,243,766	12,413,396
		19,281,553	**12,451,189**
Non-controlling interest	5	413,961	163,203
Total equity		**19,695,514**	**12,614,392**
Non-current liabilities			
Long-term borrowings and loans	15	391,511	760,512
Deferred tax liability	25	807,062	739,186
Derivative financial instruments	15,27	34,751	89,087
Other non-current liabilities		24,197	34,048
		1,257,521	**1,622,833**

(in thousands of Russian Roubles)

	Notes	2009	2008
Current liabilities			
Trade and other payables and accruals	17	3,905,979	1,707,544
Current portion of long-term borrowings	15	391,360	1,582,722
Income tax payable		403,961	144,292
Other taxes payable	16	568,526	339,307
Bank overdraft		–	199,242
		5,269,826	**3,973,107**
Total liabilities		**6,527,347**	**5,595,940**
Total equity and liabilities		**26,222,861**	**18,210,332**

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

General Director **I. K. Krylov**

Chief Financial Officer **E. V. Arkhangelskaya**

12 April 2010

The accompanying notes on pages 85–125 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended 31 December 2009

(in thousands of Russian Roubles)

	Notes	2009	2008
Revenue	19	24,095,393	14,335,867
Cost of sales	20	(12,367,935)	(5,577,468)
Gross profit		**11,727,458**	**8,758,399**
Selling and distribution costs	21	(2,463,128)	(2,466,841)
General and administrative expenses	22	(711,245)	(656,248)
Other income	23	505,860	149,762
Other expenses	23	(400,603)	(864,963)
Financial income	24	132,878	22,569
Financial expense	24	(145,969)	(255,189)
Profit before income tax		**8,645,251**	**4,687,489**
Income tax expense	25	(1,792,810)	(1,184,381)
Profit for the year		**6,852,441**	**3,503,108**
Other comprehensive income			
Effect from change in profit tax rate	25	–	34,937
Other comprehensive income for the year, net of tax		–	**34,937**
Total comprehensive income for the year, net of tax		**6,852,441**	**3,538,045**
Profit for the year Attributable to:			
Equity holders of the Parent		6,836,430	3,504,046
Non-controlling interest		16,011	(938)
		6,852,441	**3,503,108**

(in thousands of Russian Roubles)

	Notes	2009	2008
Total comprehensive income for the year, net of tax			
Attributable to:			
Equity holders of the Parent		6,836,430	3,538,983
Non-controlling interest		16,011	(938)
		6,852,441	**3,538,045**
Earnings per share (in Russian roubles)			
- basic and diluted, for profit of the period attributable to equity holders of the parent	18	180.89	92.72

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

General Director **I. K. Krylov**

Chief Financial Officer **E. V. Arkhangelskaya**

12 April 2010

The accompanying notes on pages 85–125 are an integral part of these consolidated financial statements.

Consolidated cash flow statement
For the year ended 31 December 2009

(in thousands of Russian Roubles)

	Notes	2009	2008
Cash flows from operating activities:			
Profit before income tax		8,645,251	4,687,489
Adjustments for:			
Depreciation and amortisation	9,10	752,058	604,204
Change in allowance for impairment of financial assets	12,23	(472,301)	427,259
Write-down of inventories to net realizable value	11	6,447	–
(Gain) loss recognised on sale of non-current assets classified as held for sale		(13,627)	13,891
Impairment charge – intangible assets	10, 23	62,696	140,563
(Reversal of impairment) impairment charge – property, plant and equipment	23	(13,374)	59,186
Loss (gain) from disposal of property, plant and equipment	23	7,578	(18,996)
Foreign exchange loss	23	138,589	524,842
Gain from disposal of financial assets	14	–	(23,546)
Financial income	24	(132,878)	(22,569)
Financial expense	24	170,563	255,189
Operating cash flows before working capital changes		9,151,002	6,647,512
Increase in trade receivables	12	(4,062,775)	(1,047,408)
Increase in inventories	11	(280,229)	(718,039)
Decrease in VAT recoverable		67,276	32,559
(Increase) decrease in prepayments		(63,185)	56,936
Increase in trade payables, other payables and accruals	17	2,586,467	273,368
Increase in taxes payable other than income tax		229,219	126,501
Cash generated from operations		7,627,775	5,371,429
Income tax paid	25	(1,465,261)	(1,351,703)
Interest paid		(146,256)	(195,680)
Interest received		54,959	12,815
Net cash from operating activities		6,071,217	3,836,861

(in thousands of Russian Roubles)

	Notes	2009	2008
Cash flows from investing activities:			
Purchase of property, plant and equipment	9	(361,270)	(661,068)
Purchase of intangible assets	10	(167,801)	(1,993,637)
Cash received from sale of long-term financial assets		–	268,944
Cash paid for acquisition of non-controlling interests		(25,103)	(501,740)
Cash received from sale property, plant and equipment	9	10,487	51,573
Cash received from sale of short-term financial assets	14	106,105	84,220
Cash paid for short-term financial assets	14	(1,073,562)	(104,300)
Cash received from sale of non-current assets classified as held for sale		–	141,086
Loans provided	14	(50,000)	–
Loans repaid by related parties	8	–	5,121
Net cash used in investing activities		**(1,561,144)**	**(2,709,801)**
Cash flows from financing activities:			
Proceeds from loans and borrowings	15	–	4,407
Cash paid for treasury shares	6	(5,916)	–
Repayment of loans and borrowings	15	(1,692,821)	(1,337,232)
Net cash used in financing activities		**(1,698,737)**	**(1,332,825)**
Net increase (decrease) in cash and cash equivalents, net of bank overdraft		**2,811,336**	**(205,765)**
Cash and cash equivalents at the beginning of the year, net of bank overdraft	**13**	**(13,176)**	**192,589**
Cash and cash equivalents at the end of the year, net of bank overdraft	**13**	**2,798,160**	**(13,176)**

The accompanying notes on pages 85–125 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2009

(in thousands of Russian Roubles)

	Equity attributable to equity holders of the parent				Non-controlling interest	Total equity
	Share capital	Treasury shares	Retained earnings	Total		
Balance at 31 December 2007	**37,793**	**–**	**9,004,021**	**9,041,814**	**560,879**	**9,602,693**
Profit for the year	–	–	3,504,046	3,504,046	(938)	3,503,108
Other comprehensive income for the year	–	–	34,937	34,937	–	34,937
Total comprehensive income for the year	**–**	**–**	**3,538,983**	**3,538,983**	**(938)**	**3,538,045**
Effect of de-recognition of non-controlling interests (Note 5)	–	–	(493)	(493)	(24,113)	(24,606)
Effect of acquisition of non-controlling interests (Note 5)	–	–	(129,115)	(129,115)	(372,625)	(501,740)
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 6)	–	(6)	(5,910)	(5,916)	–	(5,916)
Effect of sale of non-controlling interests in subsidiary interests (Note 5)	–	–	(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**

The accompanying notes on pages 85–125 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements For the year ended 31 December 2009

(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 18). The Group's corporate office is in Dolgoprudny, Likhachevsky proezd, 5B, Moscow region, Russian Federation and its manufacturing facilities are based in Kursk, Tomsk, Ufa, Nizhny Novgorod and Tyumen. The Company held shares of voting interests in the following major subsidiaries consolidated within the Group as at 31 December 2009 and 2008, respectively:

Entity		Country of incorporation	Activity	2009 % share	2008 % share
1.	«Pharmstandard» LLC	Russian Federation	Central procurement	100	100
2.	«Pharmstandard-Leksredstva» OJSC	Russian Federation	Manufacturing of pharmaceutical products	100	100
3.	«Pharmstandard-Tomskhimpharm» OJSC	Russian Federation	Manufacturing of pharmaceutical products	91	91
4.	«Pharmstandard-Ufavita» OJSC	Russian Federation	Manufacturing of pharmaceutical products	100	100
5.	«Pharmstandard-Octyabr» OJSC	Russian Federation	Manufacturing of pharmaceutical products	–	100
6.	«Pharmstandard-Phitofarm-NN» LLC	Russian Federation	Manufacturing of pharmaceutical products	99	99
7.	«TZMOI» OJSC	Russian Federation	Manufacturing of medical equipment	100	100
8.	«Masterlek» CJSC	Russian Federation	Manufacturing pharmaceutical products	–	100
9.	«Black Bird Investment Enterprises Corp»	British Virgin Islands	Finance and holding Company*	–	100
10.	Donelle Company Limited	Cyprus	Finance and holding Company*	89	100
11.	Aphopharm CJSC	Russian Federation	Finance and holding Company*	89	100
12.	MDR Pharmaceuticals	Cyprus	Finance and holding company*	50.05	–

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

For changes in the shareholding of subsidiaries, please refer to Note 5 and 6.

These consolidated financial statements were authorised for issue by the Board of Directors of OJSC «Pharmstandard» on 12 April 2010.

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.

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 2009.

Amendments to IFRS 2 Share-based Payments – Vesting Conditions and Cancellations;

- IFRS 7 *Financial Instruments: Disclosures* – Fair Value Measurement and Liquidity Risk;
- IFRS 8 *Operating segments;*
- IAS 1 *Revised Presentation of Financial Statements;*
- IAS 23 (amended 2007) *Borrowing costs;*
- Amendments to IAS 32 and IAS 1 *Puttable Financial Instruments and Obligations Arising on Liquidation;*
- IFRIC 9 *Reassessment of Embedded derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement;*
- IFRIC 13 *Customer Loyalty Programmes;*
- IFRIC 15 *Agreements for the Construction of Real Estate;*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation;*
- IFRIC 18 *Transfers of Assets from Customers effective 1 July 2009;*
- «Improvements to IFRSs-2008» – a first collection of amendments to IFRSs that will not be included as part of another major project. The following table shows the list of IFRSs where amendments have been made that can result in accounting changes for presentation, recognition or measurement purposes and the topics addressed by these amendments:

IFRS *(amended in 2008)*	Subject of amendment
IFRS 5 *Non–current Assets Held for Sale and Discontinued Operations*	Plan to sell the controlling interest in a subsidiary
IFRS 7 *Financial Instruments: Disclosures*	Removal of the reference to «total interest income» as a component of finance costs
IAS 1 *Presentation of Financial Statements*	Current/non–current classification of derivatives

Notes to the consolidated financial statements for the year ended 31 December 2009 (All amounts are in thousands of Russian Roubles, if not otherwise indicated)

IFRS *(amended in 2008)*	Subject of amendment
IAS 8 *Accounting Policies, Change in Accounting Estimates and Errors*	Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies
IAS 10 *Events after the Reporting Period*	Clarification that dividends declared after the end of the reporting period are not obligations
IAS 16 *Property, Plant and Equipment*	Recoverable amount
	Sale of assets held for rental
IAS 18 *Revenue*	Replacement of the term «direct costs» with «transaction costs» as defined in IAS 39
IAS 19 *Employee Benefits*	Curtailments and negative past service cost
	Plan administration costs
	Replacement of term 'fall due'
	Guidance on contingent liabilities
IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*	Government loans with a below–market rate of interest
IAS 23 *Borrowing Costs*	Components of borrowing costs
IAS 27 *Consolidated and Separate Financial Statements*	When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale
IAS 28 I*nvestments in Associates*	Required disclosures when investments in associates are accounted for at fair value through profit or loss
	Impairment of investment in associate
IAS 34 *Interim Financial Reporting*	Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33
IAS 31 *Interests in Joint Ventures*	Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss
IAS 29 *Financial Reporting in Hyperinflationary Economies*	Description of measurement basis in financial statements
IAS 36 *Impairment of Assets*	Disclosure of estimates used to determine recoverable amount
IAS 38 Intangible Assets	Advertising and promotional activities
	Units of production method of amortisation
IAS 39 *Financial Instruments: Recognition and Measurement*	Reclassification of derivatives into or out of the classification of at fair value through profit or loss
	Designating and documenting hedges at the segment level
	Applicable effective interest rate on cessation of fair value hedge accounting
IAS 40 *Investment Property*	Property under construction or development for future use as investment property
IAS 41 *Agriculture*	Discount rate for fair value calculations
	Additional biological transformation

Amendment to IFRS 2 *Share-based Payments* clarifies the definition of vesting conditions and prescribed the treatment for an award that is cancelled.

The amended standard IFRS 7 *Financial Instruments: Disclosures* requires additional disclosures about fair value measurements and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as

significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

IFRS 8 *Operating Segments* replaced IAS 14 *Segment Reporting* upon its effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14.

The revised IAS 1 *Presentation of Financial Statements* separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present single statement.

The revised IAS 23 *Borrowing costs* requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

IAS 32 *Financial Instruments: Presentation* and IAS 1 *Puttable Financial Instruments and Obligations Arising on Liquidation* have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria.

Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement* require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.

IFRIC 13 *Customer Loyalty Programmes* requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed.

IFRIC 15 *Agreements for the Construction of Real Estate* standardises accounting practice across jurisdictions for the recognition of revenue among real estate developers for sales of units, such as apartments or houses, 'off plan', i.e. before construction is complete.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

There were no significant effects of these changes in accounting policies on these consolidated financial statements excepting to IFRS 8 and revised IAS 1. The adoption of IFRS 8 *Operating segments* affects the disclosures relating to business segments as presented in the notes to these consolidated financial statements. IAS 1 *Revised Presentation of Financial Statements* separates owner and non-owner changes in equity.

Notes to the consolidated financial statements for the year ended 31 December 2009 (All amounts are in thousands of Russian Roubles, if not otherwise indicated)

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:

- Amendments to IFRS 2 *Share-based Payments* – Group Cash-settled Share-based Payment Transactions;
- IFRIC 17 *Distributions of Non-cash Assets to Owners*;
- IFRIC 18 *Transfers of Assets from Customers;*
- IAS 39 *Financial Instruments: Recognition and Measurement* – Eligible Hedged Items;
- IFRS 3R *Business Combinations* and IAS 27R *Consolidated and Separate Financial Statements;*
- Amendments to IFRS 1 and IAS 27 *Determining the cost of an investment in the separate financial statements;*
- Amendments to IAS 24 *Related Party Disclosures;*
- Amendment to IAS 32 *Financial Instruments: Presentation* – Classification of rights issues denominated in a foreign currency;
- IFRS 9 *Financial Instruments;*
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments;*
- 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;
- «Improvements to IFRSs-2009» — a 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 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 Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's results of operations and financial position 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 interest in subsidiaries with equity not held by 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. Non-controlling interest is presented as an equity item.

Business combinations

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

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

Losses allocated to non-controlling interest do not exceed the non-controlling interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. The excess, and any further losses applicable to the minority, are allocated against the Group interest.

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 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.

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 Non-current assets held for sale

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

3.6 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.

3.7 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.

3.8 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.

3.9 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.

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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognised in profit or loss.

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 three 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.

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 ex-

tent 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.

3.10 Borrowings

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

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.

3.11 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.

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. In particular, this policy is applicable to deferred taxes recorded to other comprehensive income at the date of transition to IFRS for deemed cost of property, plant and equipment.

3.12 Leases

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

3.13 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.

3.14 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.

3.15 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.

3.16 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.

3.17 Employee benefits

Under provision of the Russian legislation, social contributions are made through a unified social tax («UST») calculated by the Group by the application of a regressive rate (from 26% to 2%) to the annual gross remuneration of each employee. The Group allocates the UST to three social funds (state pension fund, social and medical insurance funds), where the rate of contributions to the pension fund varies from 20% to 2% depending on the annual gross salary of each employee. The Group's contributions relating to UST are expensed in the year to which they relate. Total contributions for UST amounted to RR 265,015 during the year ended 31 December 2009 (2008: RR 270,277) and they were classified as labour costs in these consolidated financial statements.

3.18 Foreign currency transactions

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

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 2009 and 2008, 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.

3.19 Impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. The assets subject to such assessment are primarily property, plant and equipment and trade marks. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

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 2009 and 2008 was RR 1,180,469. More details are provided in Note 10.

Allowance for doubtful accounts

The Group maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As at 31 December 2009, allowances for doubtful accounts amounted to RR 94,910 (2008: RR 568,676). More details are provided in Note 12.

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 2009 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Note 26.

Leases

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

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

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

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

5. Transactions with non-controlling interests

Disposal of Donelle shares

In August 2008, the Company signed contracts with shareholders of Donelle Company Limited (Cyprus) – «Donelle» with the purpose of acquiring the Afobazol® trade mark through the purchase of all outstanding Donelle shares. On 10 October 2008 all shares of Donelle were transferred to the Company.

Donelle is the sole shareholder of CJSC Aphopharm – «Aphopharm». Aphopharm is a holder of the Afobazol® trade mark being its only asset. Therefore acquisition of Donelle was accounted for as an acquisition of a single-asset entity.

As at 31 December 2008 a total of RR 235 million was still payable to the former shareholders of Donelle. On 12 March 2009 the Company signed an addendum to the contract with the sellers of Donelle Company Limited in relation to the Afobazol® trade mark. Parties agreed that the Company will return back 10.93% of the shares in Donelle Company Limited to the sellers in lieu of paying the remaining balance of RR 235 million (Note 17). This transaction was recorded in 2009 as an increase in non-controlling interest with the corresponding decrease in other accounts payable.

Acquisition of non-controlling interests in the Group production entities

In the 1st quarter of 2008, the Company's management approved a plan to acquire non-controlling interest in several subsidiaries. As a result, the Company acquired a further 6% interest in OJSC «Pharmstandard-Ufavita», 4% interest in OJSC «Pharmstandard-Octyabr», 1% interest in OJSC «Pharmstandard-Leksredstva» and 11% interest in OJSC «TZMOI», resulting in an increase in the Company's interests in OJSC «Pharmstandard-Ufavita», OJSC «Pharmstandard-Octyabr», OJSC «Pharmstandard-Leksredstva» and OJSC «TZMOI» to 100%, 97%, 100% and 100%, respectively. Total consideration paid in cash for the acquired non-controlling interest was RR 501,740. The difference of RR 129,115 between the total consideration and the carrying amount of the non-controlling interest acquired of RR 372,625 was debited directly to equity.

De-recognition of non-controlling interest in OJSC «Pharmstandard-Octyabr»

In accordance with Russian regulations in respect of joint stock companies with a controlling shareholder interest of more than 95% and in accordance with the approved plan on acquisition of non-controlling interest, the Group derecognised the remaining non-controlling interest of 3% in OJSC «Pharmstandard-Octyabr». At the time of derecognition, the carrying value of the non-controlling interest amounted to RR 24,113 and the liability to minority shareholders amounted to RR 24,606 (Note 17). This liability was measured based on the unconditional shares purchase value offered by the Company to the minority shareholders in accordance with the regulations. The difference of RR 493 between the total unconditional shares purchase value offered to the minority shareholders and the carrying amount of the non-controlling interest derecognised was debited directly to equity.

6. 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 will improve the structure of Group's assets and liabilities and will improve the Group business efficiency.

Reorganization of Group's structure

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.

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 8). This arrangement resulted in a gain amounting to RR 13,627 that was recognised in other income (Note 23).

7. 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.

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

Management monitors the sales, cost of sales, operating expenses and other operating results and budgets 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.

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 2009 and 2008. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate liabilities. Capital expenditure comprises additions to property, plant and equipment.

No significant intercompany transactions have been existed between these operating segments.

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

Notes to the consolidated financial statements for the year ended 31 December 2009 (All amounts are in thousands of Russian Roubles, if not otherwise indicated)

Year ended 31 December 2009	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Eliminations	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 9)	224,294	11,079	–	235,373
Intangible assets acquisition (Note 10)	167,801	–	–	167,801
Depreciation and amortisation	695,683	56,375	–	752,058
Impairment charge	62,696	–	–	62,696

Year ended 31 December 2008	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Eliminations and reconciliations	Group
Sales to external customers	13,260,214	1,075,653	–	14,335,867
Total revenue	**13,260,214**	**1,075,653**	–	**14,335,867**
Gross profit	8,405,364	353,035	–	8,758,399
Segment result	**4,694,120**	**225,989**	–	**4,920,109**
Financial expense, net				(232,620)
Profit before income tax				**4,687,489**
Income tax expense				(1,184,381)
Profit for the year				**3,503,108**
Segment assets	17,018,798	1,191,534	–	18,210,332
Total assets	**17,018,798**	**1,191,534**	–	**18,210,332**
Segment liabilities	**1,983,319**	**87,224**	–	**2,070,543**

Year ended 31 December 2008	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Eliminations and reconciliations	Group
Unallocated liabilities				3,525,397
Total liabilities				**5,595,940**
Acquisition of property, plant and equipment (Note 9)	672,172	40,248	–	712,420
Intangible assets acquisition (Note 10)	2,228,620	–	–	2,228,620
Depreciation and amortisation	553,693	50,511	–	604,204
Impairment charge	174,022	25,727		199,749

Revenues from some customers in pharmaceutical products segment exceeded 10% of total Group revenue for each of them.

The table below shows the revenue from these customers:

Customer	2009	2008
The Ministry of health and social department (state tenders)	3,905,778	23,562
Customer 1	3,289,494	2,433,550
Customer 2	3,169,648	1,796,009
Customer 3	2,663,604	1,814,600

Notes to the consolidated financial statements for the year ended 31 December 2009 (All amounts are in thousands of Russian Roubles, if not otherwise indicated)

8. 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.

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 2009 and 2008 are detailed below.

Balances with related parties:

2009	Short-term financial assets (a)	Cash and cash equivalents Note 13 (a)	Trade payables, other payables and accruals – (b) Note 17
Other related parties	440,000	2,475,900	12,004
Total	**440,000**	**2,475,900**	**12,004**

2008	Short-term financial assets (a)	Cash and cash equivalents Note 13 (a)	Trade payables, other payables and accruals – (b) Note 17
Other related parties[1]	–	92,930	6,495
Total	**–**	**92,930**	**6,495**

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

(b) This balance represented obligation for the license fee, described in section «Transactions with related parties» below.

Cash balances with the related bank carry no interest. Short-term financial assets at 31 December 2009 include cash deposits in the related bank and carry 12.5% interest p.a. (for more details see Notes 13 and 14).

Significant transactions with related parties included in the profit or loss:

Statement of comprehensive income caption	Relationship	2009	2008
License fee (included in distribution costs) (A)	Other related parties[1]	(30,401)	(23,231)
Warehouse rental expenses (included in distribution costs) (B)	Other related parties[1]	(53,801)	(32,108)
Office rental expenses (included in general and administrative expenses) (B)	Other related parties[1]	(15,654)	(19,188)
Agency fee income (included in other income (C)	Other related parties[1]	4,779	–
Gain from disposal of subsidiary (D)	Other related parties[1]	13,627	–

(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) Agency fee income

In 2009 the Company signed an agency contract with the related party for purchasing of certain equipment on behalf of that party.

(D) Gain from disposal of subsidiary

This line includes a gain received from disposal of subsidiary sold to a related party (for more information see Note 6).

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 2009 and 2008. Total compensation to key management personnel, amounted to RR 39,310 for the year ended 31 December 2009 (2008: RR 35,224). Such compensation represented the following short-term employee benefits: payroll and bonuses included in general and administrative expenses.

Notes to the consolidated financial statements for the year ended 31 December 2009 (All amounts are in thousands of Russian Roubles, if not otherwise indicated)

9. Property, plant and equipment

Property, plant and equipment consist of the following:

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 (a)	–	–	(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**

31 December 2008	Land	Buildings	Plant and machinery	Equipment and motor vehicles	Assets under construction	Total
Cost						
Balance at 31 December 2007	32,982	1,810,835	1,939,827	206,696	430,861	**4,421,201**
Additions	4	147	107,641	89,701	514,927	**712,420**
Transfers	–	157,210	305,242	3323	(465,775)	–
Disposals	–	(8,855)	(29,800)	(17,352)	(15,424)	**(71,431)**
Balance at 31 December 2008	**32,986**	**1,959,337**	**2,322,910**	**282,368**	**464,589**	**5,062,190**
Accumulated Depreciation and Impairment						
Balance at 31 December 2007	–	158,579	515,168	56,188	–	**729,935**
Depreciation charge	–	56,423	279,846	58,542	–	**394,811**
Disposals	–	(3,250)	(24,513)	(11,088)	–	**(38,851)**
Impairment charge (b)	–	1,497	24,201	29	33,459	**59,186**
Balance at 31 December 2008	–	**213,249**	**794,702**	**103,671**	**33,459**	**1,145,081**
Net Book Value						
Balance at 31 December 2007	**32,982**	**1,652,256**	**1,424,659**	**150,508**	**430,861**	**3,691,266**
Balance at 31 December 2008	**32,986**	**1,746,088**	**1,528,208**	**178,697**	**431,130**	**3,917,109**

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

(b) Impaired assets represented (i) a workshop building which construction was started several years ago but then management decided to continue with the existing premises and (ii) equipment for production of medical devices, including syringes, removed from active use due to decline in customer demand. The impairment charge equals to the carrying value of those building and equipment.

The Group did not use borrowings to finance capital expenditures, thus no interest expense was capitalized in 2009 and 2008.

The Group assets include only a minor portion of the land on which the Group's factories and buildings, comprising the Group's principal manufacturing facilities, are located, whilst the major portion of the land is held under operating lease agreements with the state municipal bodies. The lease agreements specify lease terms between 10 and 50 years with an option to prolong the lease term for another 10 years. In addition, the lease agreements include a purchase option after termination of the lease. Purchase price will be determined based on fair value of the land as determined by the municipal authorities. The total amount of rental payments for the use of the land during 2009 was RR 8,187 (2008: RR 8,397). Such payments are reassessed by the state authorities on an annual basis. No such reassessment has been completed for 2010 and beyond.

Notes to the consolidated financial statements for the year ended 31 December 2009 (All amounts are in thousands of Russian Roubles, if not otherwise indicated)

10. Intangible assets

	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			
Balance at 31 December 2008	–	589,636	**589,636**
Impairment (b)	–	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**

	Goodwill	Trademarks and patents	Total
Cost			
Balance at 31 December 2007	1,180,469	3,527,688	**4,708,157**
Additions (a)	–	2,228,620	**2,228,620**
Balance at 31 December 2008	**1,180,469**	**5,756,308**	**6,936,777**
Accumulated Amortisation			
Balance at 31 December 2007	–	239,680	**239,680**
Impairment (c)	–	140,563	**140,563**
Amortisation expense	–	209,393	**209,393**
Balance at 31 December 2008	**–**	**589,636**	**589,636**
Net Book Value			
Balance at 31 December 2007	**1,180,469**	**3,288,008**	**4,468,477**
Balance at 31 December 2008	**1,180,469**	**5,166,672**	**6,347,141**

(a) Additions during 2009 represented acquisition of some trade mark (see Note 8) and some patents (know-how). Additions during 2008 represented acquisition of the Afobazol® trade mark (see Note 5).

(b) 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 (2008: 15%) that is the mid-term average growth rate for pharmaceuticals market. The discount rate applied to cash flow projections is 16.4% (2008: 18.1%).

(c) The impairment mainly relates to the effect of higher discount rates used in the value in use calculations of trademarks that were tested for impairment in 2008.

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

	Carrying amount		Remaining amortization period (years)	
Name	2009	2008	2009	2008
Afobazol®	1,955,884	2,060,199	19	20
Arbidol®	1,715,258	1,818,691	16	17
Flucostat®	667,259	707,496	16	17

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	
	2009	2008	2009	2008	2009	2008
Carrying amount of goodwill	961,615	961,615	218,854	218,854	1,180,469	1,180,469

The recoverable amount of the cash-generating units has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a five-year period and cash flows beyond the five-year period are extrapolated using a 5% growth rate that is the same as the mid-term average growth rate for pharmaceuticals and medical equipment market (2008: 24% for pharmaceuticals and 5% for medical equipment market). The discount rate applied to cash flow projections is 16.4% (2008: 18.1%).

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 Ruble for US dollar denominated raw materials, have been used as an indicator of future price movements.

Currency exchange rates changes – estimated values based on current market values.

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

Notes to the consolidated financial statements for the year ended 31 December 2009 (All amounts are in thousands of Russian Roubles, if not otherwise indicated)

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.

11. Inventories

Inventories consist of the following:

	2009	2008
Raw materials – at cost	1,448,918	1,113,174
Work in progress – at cost	330,508	179,319
Finished goods (cost or net realizable value):		
– at cost	999,267	1,216,896
– at net realisable value	979,265	1,192,417
	2,758,691	**2,484,910**

Movements in allowance for write-down of inventories to net realizable value consist of the following:

	2009	2008
Balance at 1 January	24,479	67,114
Additional allowance	7,434	–
Unused amounts reversed	(987)	(6,674)
Utilised during the year	(10,924)	(35,961)
Balance at 31 December	**20,002**	**24,479**

12. Trade and other receivables

	2009	2008
Trade receivables (net of allowance for impairment of receivables of RR 94,910 (2008: RR 568,676)) (a)	9,012,168	4,761,359
Other receivables (b)	276,914	–
	9,289,082	**4,761,359**

In the 4th quarter of 2009 in the Russian Federation the epidemiological situation on a flu was critical. This fact has demanded to increase in volumes of antiviral and anti-cold pharmaceutical products on the Russian market. As a result, the Group has considerably increased production and sales of these products, such as Arbidol®, Amixin® and other.

Other receivables represented cash rebates on procurement.

At 31 December 2009 RR 52,584 of trade receivables were denominated in currencies other than Russian Roubles, primarily in US$ (2008: RR 172,870).

Movements in allowance for impairment of trade receivables consist of the following:

	2009	2008
Balance at 1 January	568,676	167,933
Additional allowance	4,979	484,194
Unused amounts reversed	(477,279)	(53,977)
Utilised during the year	(1,466)	(29,474)
Balance at 31 December	**94,910**	**568,676**

The additional allowance for impairment in 2008 includes RR 476,131 in relation to the bankruptcy of one of the Group's distributor, CJSC «Genesis» (Note 21). In 2009, 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 447,671 and recognised in profit or loss (Note 23).

13. Cash and short-term deposits

Cash and short-term deposits consist of the following:

	2009	2008
Cash in bank – Russian Roubles	1,604,760	183,688
Cash in bank – US$ and Euro	617,176	2,378
Cash deposits on tenders (a):		
– transferred to the Ministry of Health	156,224	–
– placed in the related bank	420,000	–
	2,798,160	**186,066**

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.

Cash deposits placed in the related bank carried an interest rate of 12.5% per annum.

Notes to the consolidated financial statements for the year ended 31 December 2009 (All amounts are in thousands of Russian Roubles, if not otherwise indicated)

14. Short-term financial assets

	2009	2008
Accounted for as loans and receivables:		
Promissory notes	331,120	104,300
Short-term bank deposits – Russian Roubles (Note 8)	440,000	–
Short-term bank deposits – US$	302,442	–
Short-term loans	45,500	–
Accounted for as available for sale:		
Securities and other	14,225	9,695
	1,133,287	**113,995**

15. Borrowings and loans

	2009	2008
Long-term borrowings and loans		
(a) Syndicated borrowing organised by Citibank («Citibank loan»)	782,871	2,328,985
(b) Other loans	–	14,249
Less: Current portion of long-term borrowings and loans	(391,360)	(1,582,722)
	391,511	**760,512**

Long-term debt is repayable as follows:

	2009	2008
1 to 2 years	391,511	380,182
2 to 3 years	–	380,330
	391,511	**760,512**

As at 31 December 2009 and 2008 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 payments due in respect to the Citibank loan swapping the LIBOR rate interest obli-

gations 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 27.

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.

In 2009, the Group repaid US$ 53,385 thousand (RR 1,688,150) of the Citibank loan (2008: US$ 53,384 thousand (RR 1,337,232)).

16. Other taxes payable

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

	2009	2008
Value-added tax	520,305	292,064
Property and other taxes	48,221	47,243
	568,526	**339,307**

17. Trade and other payables and accruals

	2009	2008
Trade payables	2,043,178	1,193,029
Payables for Velcade® procurement (Notes 19 and 20)	1,502,796	–
Payable for Afobazol® trade mark acquisition (Note 5)	–	235,000
Payable for non-controlling interest acquisitions	–	24,606
Other payables – related party (Note 8)	12,004	6,495
Other payables and accruals	348,001	248,414
	3,905,979	**1,707,544**

At 31 December 2009 RR 1,253,586 of trade payables were denominated in currencies other than Russian Rouble, primarily in US$ (2008: RR 527,018).

Notes to the consolidated financial statements for the year ended 31 December 2009 (All amounts are in thousands of Russian Roubles, if not otherwise indicated)

18. 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 2009 except the redemption of a minor part of own shares as described in Note 6.

As at 31 December 2009 and 2008 more than half of voting shares of OJSC «Pharmstandard» were held by «Augment Investments Limited» («Augment»), a company registered under the laws of Cyprus and 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 addition, in 2008 and 2009, 969,815 ordinary shares representing 2.56% of share capital of the Company were sold by Augment and were offered at LSE. Also, in 2009 Augment reacquired 55,000 ordinary shares representing a minor part of share capital. After these transactions, 45.7% of share capital was publicly listed of which 27.6% 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 8,911,487 (unaudited) of undistributed and unreserved earnings as at 31 December 2009 (2008: RR 6,152,441- unaudited). In addition, the Company's share in the undistributed and unreserved earnings of the subsidiaries was approximately RR 9,307,037 (unaudited) as at 31 December 2009 (2008: RR 9,826,453- unaudited). For more details see Note 6.

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

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

Earnings per share

Earnings per share are as follows:

	2009	2008
Weighted average number of ordinary shares outstanding	37,792,603	37,792,603
Profit for the year attributable to the shareholders	6,836,430	3,504,046
Basic and diluted earnings per share, Russian Roubles	180.89	92.72

19. Revenue

Sales breakdown by product groups comprised the following:

Product group	2009	2008 (b)
PHARMACEUTICAL PRODUCTS		
OTC		
Branded	12,709,906	8,852,923
Non-branded	2,130,766	1,527,884
	14,840,672	**10,380,807**
Prescription		
Branded	2,022,368	1,190,629
Non-branded	315,741	171,271
	2,338,109	**1,361,900**
Third parties products (a)	6,156,359	1,446,635
Other	71,545	70,872
Total pharmaceutical products (c)	**23,406,685**	**13,260,214**
Medical equipment and disposables	**688,708**	**1,075,653**
	24,095,393	**14,335,867**

(a) Third parties products include sales of branded pharmaceutical products manufactured by other pharmaceutical companies such as Midronat (produced by Grindeks). Furthermore, this category includes RR 3,661,922 sales through government tenders under federal reimbursement programs such as the prescription drug Velcade® (produced by Janssen-Cilag).

(b) In Russia, classification of pharmaceuticals as prescription products (Rx) or non-prescription over-the-counter products (OTC) is regulated by the government and is periodically re-visited. The recent re-visiting of OTC and Rx products classification introduced in 2008 and 2009 had a significant influence of the Group's product portfolio structure. For the purpose of comparative analysis, the prior year figures were restated accordingly. The above changes in the Group portfolio structure do not affect the sales results.

(c) In the 4th quarter of 2009 in the Russian Federation the epidemiological situation on a flu was critical. This fact has demanded to increase in volumes of antiviral and anti-cold pharmaceutical products on the Russian market. As a result, the Group has considerably increased production and sales of its products, such as Arbidol®, Amixin® and other (Note 12).

Notes to the consolidated financial statements for the year ended 31 December 2009 (All amounts are in thousands of Russian Roubles, if not otherwise indicated)

20. Cost of sales

The components of cost of sales were as follows:

	2009	2008
Materials and components	5,618,032	2,833,105
Third parties products (see 19b)	4,973,093	1,269,143
Production overheads	817,656	734,949
Depreciation and amortisation	684,802	535,583
Direct labour costs	274,352	204,688
	12,367,935	**5,577,468**

21. Selling and distribution costs

Selling and distribution costs were as follows:

	2009	2008
Advertising	1,365,491	1,061,815
Labour costs	585,997	476,985
Freight, communication and insurance of goods in transit	150,738	122,246
Trainings and other services	29,436	47,009
Certification expenses	38,763	29,996
Rent	53,920	35,873
Commission and license fee	51,495	36,886
Materials, maintenance and utilities	54,211	42,834
Travel and entertainment	58,976	56,148
Depreciation	50,066	45,201
Allowances for impairment of receivables (see Note 12)	–	476,131
Other expenses	24,035	35,717
	2,463,128	**2,466,841**

The Group entered into a number of operating lease agreements for warehouses. Rental agreements are revised on an annual basis. Future minimum operating lease payments classified as selling and distribution costs will not substantially change in 2010 compared to 2009.

22. General and administrative expenses

General and administrative expenses were as follows:

	2009	2008
Labour costs	436,082	403,121
Utilities and services	78,585	63,002
Travel and entertainment	16,315	15,494
Taxes other than income tax	15,347	15,213
Property insurance	13,981	14,756
Freight and communication	25,134	26,171
Depreciation	17,190	23,420
Rent	27,359	26,520
Materials and maintenance	38,227	24,777
Other	43,025	43,774
	711,245	**656,248**

The Group entered into a number of operating lease agreements for office premises. Rental agreements are revised on an annual basis. Future minimum operating lease payments classified as are general and administrative expense will not substantially change in 2010 compared to 2009.

23. Other Income and other expenses

Other income comprised the following:

	2009	2008
Income from non-core operations (a)	31,188	107,220
Reversal of impairment – property, plant and equipment (Note 9)	13,374	–
Reversal of impairment of receivables (Note 12)	447,671	–
Gain from disposal of property, plant and equipment	–	18,996
Gain from disposal of long-term financial assets	–	23,546
Gain from sale of subsidiary (Note 6)	13,627	–
	505,860	**149,762**

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

Notes to the consolidated financial statements for the year ended 31 December 2009 (All amounts are in thousands of Russian Roubles, if not otherwise indicated)

Other expenses comprised the following:

	2009	2008
Foreign exchange loss, net	226,329	524,842
Impairment of property, plant and equipment (Note 9)	–	59,186
Loss from disposal of property, plant and equipment	7,578	–
Impairment of intangible assets (Note 10)	62,696	140,563
Charity	13,992	1,959
Other taxes	53,959	93,784
Fees for factoring	24,594	–
Impairment of other short-term financial assets	–	3,715
Loss recognised on non-current assets classified as held for sale	–	13,891
Other	11,455	27,023
	400,603	**864,963**

24. Financial Income and expense

Financial income and expense comprised the following:

	2009	2008
Interest income:		
Income from changes of fair value of financial assets recognised in profit or loss	6,336	–
Income from changes in fair value of Interest Rate Swap (Notes 15 and 27)	54,337	–
Interest income from loans and deposits	72,205	22,569
	132,878	**22,569**
Interest expense:		
Loss from changes of fair value of financial assets recognised in profit or loss	–	8,457
Loss from Interest Rate Swap (Notes 15 and 27)	74,074	43,608
Expense from changes in fair value of the Interest Rate Swap (Notes 15 and 27)	–	44,490
Interest expense on borrowings and loans	71,895	158,634
	145,969	**255,189**

25. Income tax

	2009	2008
Income tax expense – current	1,724,934	1,458,057
Deferred tax credit – effect from change in profit tax rate (a)	–	(116,374)
Deferred tax expense (benefit) – origination and reversal of temporary differences	67,876	(157,302)
Income tax expense	**1,792,810**	**1,184,381**

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

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

	2009	2008
Profit before income tax	**8,645,251**	**4,687,489**
Theoretical tax charge at statutory rate of 20% (24% in 2008)	1,729,050	1,124,997
Effect from change in profit tax rate	–	(116,374)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	63,760	87,199
Other items	–	88,559
Income tax expense	**1,792,810**	**1,184,381**

Notes to the consolidated financial statements for the year ended 31 December 2009 (All amounts are in thousands of Russian Roubles, if not otherwise indicated)

Movements in deferred tax balances were as follows:

31 December 2007		Effect from change in profit tax rate recognised in other comprehen-sive income	Effect from change in profit tax rate recognised in profit or loss	Temporary differences recognition and reversal	31 December 2008	Temporary differences recognition and reversal	31 December 2009
Tax effects of deductible temporary differences – asset (liability):							
Property, plant and equipment (Note 9)	(360,359)	34,937	23,286	11,020	(291,116)	(16,746)	(307,862)
Intangible assets (Note 10)	(697,026)	–	110,792	31,801	(554,433)	40,110	(514,323)
Trade and other receivables	4,399	–	(24,248)	141,090	121,241	(153,617)	(32,376)
Inventories	(18,278)	–	(4,222)	43,613	21,113	(8,782)	12,331
Trade and other payables and other taxes	19,656	–	11,025	(85,805)	(55,124)	71,482	16,358
Financial instruments	–	–	–	17,817	17,817	(10,867)	6,950
Other	3,809	–	(259)	(2,234)	1,316	10,544	11,860
Total net deferred tax liability	**(1,047,799)**	**34,937**	**116,374**	**157,302**	**(739,186)**	**(67,876)**	**(807,062)**

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 for which deferred tax liabilities have not been recognised was approximately RR 5,839,675 as at 31 December 2009 (2008: RR 8,679,758).

26. 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. The global financial crisis has resulted in a decline in the gross domestic product, capital markets instability, significant deterioration

of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity to Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

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.

As at 31 December 2009 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Because of the uncertainties associated with the Russian tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as of 31 December 2009. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Should the Russian tax authorities decide to issue a claim and prove successful in the court, they would be entitled to recover the amount claimed, together with fines amounting to 20% of such amount and interest at the rate of 1/300 of the Central Bank of 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.

Notes to the consolidated financial statements for the year ended 31 December 2009 (All amounts are in thousands of Russian Roubles, if not otherwise indicated)

27. Financial Instruments and financial risk management objectives and policies

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments except trade receivables and trade and other payables. Management believes that fair value of trade receivables and trade and other payables equal their carrying value.

	2009		2008	
	Fair value	Net carrying value	Fair value	Net carrying value
Financial assets				
Cash and cash equivalents (Note 13)	2,798,160	2,798,160	186,066	186,066
Short-term loans (Note 14)	45,500	45,500	–	–
Promissory notes (Note 14)	331,120	331,120	104,300	104,300
Short-term deposits (Note 14)	742,442	742,442	–	–
Other short-term investments (Note 14)	14,225	14,225	9,695	9,695
Financial liabilities				
Overdraft	–	–	199,242	199,242
Borrowings and loans (Note 15)	782,871	782,871	2,343,234	2,343,234
Derivative financial instruments	34,751	34,751	89,087	89,087
Other non-current liabilities	24,197	24,197	34,048	34,048

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 other non-current liabilities and derivative financial instruments (see below) has been calculated by discounting the expected future cash flows at prevailing interest rates. Fair values of promissory notes, short-term deposits and other items above approximate their carrying amounts due to their short maturity.

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.

The table below shows the assets measured at fair value as at 31 December 2009:

	Total	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets				
Securities (Note 14)	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 15.

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 2009			
	100	(7,829)	6,429
	(25)	1,957	(1,711)
As at 31 December 2008			
	200	(46,567)	36,842
	(100)	23,298	(20,918)

Foreign exchange risk

The Group has US dollar denominated long-term borrowings (see Note 15) and also certain US dollar denominated trade payables (Note 17) and trade receivables (Note 12). 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.

Notes to the consolidated financial statements for the year ended 31 December 2009 (All amounts are in thousands of Russian Roubles, if not otherwise indicated)

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 2009		
US$/Roubles exchange rate	+10%	(104,057)
US$/Roubles exchange rate	–10%	104,057
As at 31 December 2008		
US$/Roubles exchange rate	+25%	(688,074)
US$/Roubles exchange rate	+10%	(275,230)

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.

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 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**

As at 31 December 2008	Total	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years
Borrowings (a)	**2,489,338**	418,926	418,926	852,102	799,384
Payable for trade mark	**235,000**	235,000	–	–	–
Other non-current liabilities	**80,810**	–	–		80,810
Total	**2,805,148**	**653,926**	**418,926**	**852,102**	**880,194**

(a) The Citibank loan received in 2006 (see Note 15 for details) is including contractual principal amount of a debt and interest rate calculated in accordance with corresponding terms of the loan agreement at 31 December 2009 and 2008.

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 8), which is considered to have minimal risk of default.

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

	Total	Neither impaired nor past due	Not impaired but past due				
			less 1 month	1-2 months	2-3 months	3 to 6 months	> 6 months (a)
31 December 2009	**9,289,082**	8,455,737	612,742	19,995	10,657	14,175	175,776
31 December 2008	**4,761,359**	3,890,073	793,465	54,283	6,013	14,734	2,791

(a) At 31 December 2009 these receivables primarily represent the amount of restructured receivable of CJSC «Genesis». In 2009, 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 12).

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 2009 and 2008. Given the Russian market structure limited number of large distributors is not unusual. The Group has no other significant concentrations of credit risk but is exposed to general risk of the global credit crisis and its effects on the Group's distributors.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt (while taking into consideration terms and conditions set by the Citibank Loan Agreement, Note 15).

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.

	2009	2008
Borrowings and loans	782,871	2,343,234
Trade and other payables	3,905,979	1,707,544
Bank overdraft	–	199,242
Less: cash and cash equivalents	(2,798,160)	(186,066)
Net debt	1,890,690	4,063,954
Equity	19,281,553	12,451,189
Capital and net debt	21,172,243	16,515,143
Gearing ratio	9%	25%

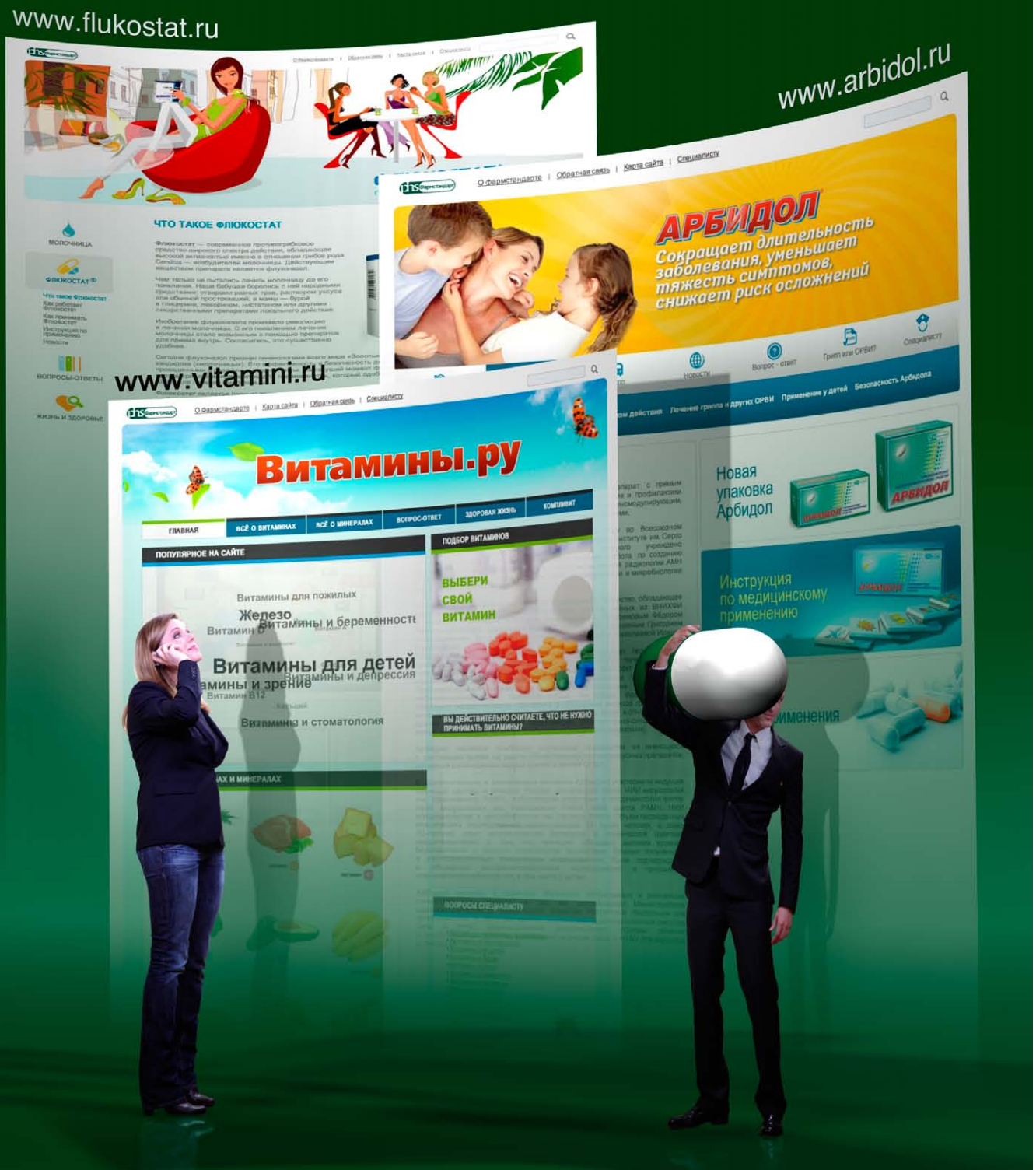
28. Post balance sheet events

Foundation of the joint venture organization

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 the «NauchTechStroy+» LLC («NTS+») was registered in the Russian Federation. The joint venture was formed by two participants. The Group's equity participation in the share capital of this company is 50% and amounted to RR 150,004. There were no transactions with the «NTS+» before the date of approval of these consolidated financial statements for issue.

Contacts


www.pharmstd.ru
О компании
Кадровый центр
ENG
Компания «Фармстандарт» - лидер отечественной фармацевтической промышленности.
Согласно предварительным данным ЦМИ «Фармэксперт» по итогам 2009 года, «Фармстандарт» занял первую позицию среди всех фармацевтических компаний представленных в России, а так же в розничном сегменте рынка, являясь единственной отечественной компанией, входящей в десятку лидеров на фармрынке в России.
Вакансии
Медицинский представитель
Заместитель начальника отдела по работе с персоналом
Системный администратор
все вакансии



Company Management and Investor Relations Department are open to dialogue and always ready to help you with understanding of the Company's processes, plans, developments and financials

EMPLOYEE from left to right: **Ilya Krylov –** *IR manager,* **Ekaterina Makarova –** *Head of Internal Audit and Control,*

Investor Relations

Our company regards openness and business transparency as important competitive advantages. With these principles in mind, Pharmstandard has developed investment management philosophy aimed at facilitating stable growth in share capital and good returns on investment.

In dealing with investors, Pharmstandard is guided by following principles:

- Ensuring organizational structure transparency;
- Providing complete, accurate information to shareholders and potential investors;
- Working towards reduction of short-term and long-term investment risks;
- Providing investors with tools to monitor reliability and efficiency of their investments.

Company Management and Investor Relations Department are open to dialogue and always ready to help you with understanding of the Company's processes, plans, developments and financials.

Investor Relations department is always glad to answer you questions. Any feedback is highly appreciated.

IR department contacts

Ilya Klylov, IR manager
Tel. +7 (495) 970-00-30 ext. 2416
Fax +7 (495) 970-00-32
email ir@pharmstd.ru

Covering Analysts

A number of investment banks and companies provide analytical coverage of Pharmstandard's activities. In the following table you will find information about analysts who issue regular reports on Pharmstandard's operations and status. Please contact them for additional information about the Company.

	Company	Analyst
1	UBS	Svetlana Sukhanova
2	JP Morgan	Elena Jouronova
3	Jefferies International Ltd	James Vane-Tempest
4	Renaissance Capital	Natasha Zagvozdina
5	Citigroup	Marat Ibragimov
6	Goldman Sachs	Anton Farlenkov
7	Merill Lynch	Odile-Lange Broussy
8	Nomura	Mikhail Terentiev
9	Unicredit Aton	Ivan Nikolaev
10	Capital	Marina Samokhvalova
11	BKS	Tatiana Bobrovskaya
12	Rye, Man and Gor Securities	Ekaterina Andriyanova
13	Bank of Moscow	Sabina Mukhamedzhanova
14	VTB Capital	Ivan Kushch

Abbreviations

ARVI acute respiratory viral infection

FRP Federal Reimbursement Programme

WHO World Health Organization

VED Vital and essential drugs

GMP Good Manufacturing Practice

INN International Not patented Names

CMR Center of Marketing Researches «Pharmexpert»

Rx Prescription drugs

OTC Non prescription drugs

TPP Third parties products

P&L profit and losses

SKU Stock Keeping Unit

5 'B' Likhachevsky proezd, Dolgoprudny town,
Moscow region, Russia, 141700, OJSC «Pharmstandard»

phone: **+7 (495) 970 00 30**
fax: **+7 (495) 970 00 32**
e-mail: **ir@pharmstd.ru**
url: **www.pharmstd.ru**