CJSC “Masterlek”

Preliminary IFRS Financial Statements

For the Year Ended 31 December 2005

CJSC «Masterlek»

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Contents

Special Purpose Auditors' Report
on Preliminary IFRS Financial Statements

To the Board of Directors of CJSC "Masterlek"

We have audited the accompanying preliminary IFRS balance sheet of CJSC "Masterlek" (hereinafter referred to as "the Company") as of 31 December 2005 and the related statements of operations, cash flows and changes in equity for the year then ended (thereon referred to as "preliminary financial statements"). These preliminary financial statements are the responsibility of the Company's management. They have been prepared as part of the Company's conversion to International Financial Reporting Standards (IFRSs). Our responsibility is to express an opinion on these preliminary financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the preliminary financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the preliminary financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the preliminary financial statements. We believe that our audit provides a reasonable basis for our opinion.

We did not observe the counting of the finished goods stated at RR 179,235 thousand at 1 January 2005, since that date was prior to our appointment as auditors. We were unable to satisfy ourselves as to the finished goods quantities at that date by other audit procedures. Opening inventories enter into the determination of the results of operations for the year ended 31 December 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the counting of the finished goods, these preliminary financial statements as of 31 December 2005 and for the year then ended have been prepared, in all material respects, in accordance with the basis set out in Note 2, which describes how IFRS have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as of 31 December 2006.

Without qualifying our opinion, we draw attention to the fact that Note 2 explains why there is a possibility that the preliminary financial statements may require adjustment before constituting the final IFRS financial statements. Moreover, we draw attention to the fact that, under IFRSs only a complete set of financial statements with comparative financial information and explanatory notes can provide a fair presentation of the Company's financial position, results of operations and cash flows in accordance with IFRSs.

1 September 2006

CJSC “Masterlek”

Balance Sheet at 31 December 2005

(in thousands of Russian Roubles)

	Notes	2005
ASSETS		
Non-current assets		
Deferred tax asset	**21**	2,621
Property, plant and equipment	**6**	3,588
Intangible assets	**7**	3,159
		9,368
Current assets		
Inventories	**8**	283,621
Trade and other receivables	**9**	487,044
VAT recoverable		6,146
Other current assets	**10**	7,678
Cash and cash equivalents	**11**	12,721
		797,210
Total assets		**806,578**
EQUITY AND LIABILITIES		
Share capital	**15**	500
Retained earnings		368,939
		369,439
Non-current liabilities		
Deferred tax liability	**21**	–
		–
Current liabilities		
Trade and other payables	**14**	396,623
Short-term borrowings	**12**	13,326
Income tax payable		358
Other taxes payable	**13**	26,832
		437,139
Total equity and liabilities		**806,578**

Signed and authorized for release on behalf of the Board of Directors of CJSC “Masterlek”

General Director Nusratullin A.Z.

1 September, 2006

The accompanying notes on pages 8-22 are an integral part of these financial statements.

CJSC “Masterlek”

Statement of Operations

For the Year Ended 31 December 2005

(in thousands of Russian Roubles)

	Notes	2005
Sale of goods	**16**	1,361,697
Cost of sales	**17**	(797,886)
Gross profit		**563,811**
Selling and distribution costs	**18**	(169,308)
General and administrative expenses	**19**	(54,897)
Other expenses, net	**20**	(21,320)
Interest expense		(6,805)
Profit before income tax		**311,481**
Income tax expense	**21**	(82,238)
Profit for the year		**229,243**
Basic and diluted earnings per share, thousand Roubles	15	**458**

Signed and authorized for release on behalf of the Board of Directors of CJSC “Masterlek”

General Director Nusratullin A.Z.

1 September, 2006

The accompanying notes on pages 8-22 are an integral part of these financial statements.

CJSC "Masterlek"

Statement of Cash Flows

For the Year Ended 31 December 2005

(in thousands of Russian Roubles)

	Notes	2005
Cash flows from operating activities:		
Profit before income tax		311,481
Adjustments for:		
Depreciation of property, plant and equipment and amortization of intangible assets	**6, 7**	2,330
Allowances for impairment of receivables and inventories	**8, 9**	987
Interest expense, net		6,805
Operating cash flows before working capital changes		**321,603**
Increase in trade and other receivables	**9**	(250,986)
Decrease in inventories	**8**	26,125
Increase in VAT recoverable and other current assets	**10**	(12,316)
Increase in trade payables and other payables	**14**	54,665
Increase in taxes payable other than income tax	**13**	9,988
Cash generated from operations		**149,079**
Income tax paid	**21**	(97,598)
Interest paid, net		(6,805)
Net cash from operating activities		**44,676**
Cash flows from investing activities:		
Purchase of property, plant and equipment and intangible assets	**6, 7**	(5,418)
Cash received from sale of investments in associate		630
Net cash used in investing activities		**(4,788)**
Cash flows from financing activities:		
Proceeds from borrowings	**12**	113,100
Repayment of the borrowings	**12**	(99,774)
Dividends paid	**15**	(57,500)
Net cash used in financing activities		**(44,174)**
Net decrease in cash and cash equivalents		**(4,286)**
Cash and cash equivalents at the beginning of the year	**11**	**17,007**
Cash and cash equivalents at the end of the year	**11**	**12,721**

The accompanying notes on pages 8-22 are an integral part of these financial statements.

CJSC “Masterlek”

Statement of Changes in Equity

For the Year Ended 31 December 2005

(in thousands of Russian Roubles)

	Notes	Share capital	Retained earnings	Total
Balance at 1 January 2005		500	208,638	209,138
Profit for the year		–	229,243	229,243
Disposal of investments in associate	**5**	–	(11,442)	(11,442)
Dividends	**15**	–	(57,500)	(57,500)
Balance at 31 December 2005		**500**	**368,939**	**369,439**

The accompanying notes on pages 8-22 are an integral part of these financial statements.

1. Corporate Information

CJSC "Masterlek" ("the Company") principal activities include marketing and wholesale distribution of pharmaceutical products. The Company contracts with third parties for production of these goods. The Company has no subsidiaries.

The Company's corporate office is located in Moscow, 1st Volkonsky per, 11, bld. 2, Russia.

These financial statements were authorized for issue by the Board of Directors of the CJSC "Masterlek" on 1 September 2006.

2. Basis of Preparation of the Financial Statements

These preliminary financial statements are prepared as part of the Company's conversion to International Financial Reporting Standards ("IFRS"). The preliminary financial statements for the year ended 31 December 2005 will be used by management of the Company in preparation of its first complete set of IFRS financial statements for the year ended 31 December 2006.

The preliminary financial statements as at 31 December 2005 and for the year then ended are prepared by the Company using IFRS in accordance with the guidance prescribed by IFRS 1 "First-Time Adoption of International Financial Reporting Standards". In accordance with this guidance, the Company prepared an opening balance sheet at the date of transition to IFRS (1 January 2005) based on the Company's Russian statutory books and records (as described below), as adjusted and reclassified in order to comply with IFRS, using assumptions about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 31 December 2006. In accordance with IFRS 1, these accounting policies shall comply with each IFRS effective at the reporting date of the Company's first IFRS financial statements (31 December 2006), with certain exceptions and exemptions as specified by IFRS 1.

As the standards and interpretations expected to be effective at 31 December 2006 are subject to introduction of possible changes by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee, management does not rule out a possibility that the preliminary financial statements may require adjustment due to such changes before constituting the final IFRS financial statements.

Management draws attention to the fact that these preliminary financial statements do not constitute a complete set of financial statements in accordance with IFRS, as they do not contain comparative financial information and accordingly they do not provide a fair presentation of the Company's financial position, results of operations and cash flows in accordance with IFRS, which can be achieved only by a complete set of financial statements with comparative financial information.

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

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

The functional and presentation currency of the Company is the Russian Rouble.

The Company is required to maintain its records and prepare its financial statements for regulatory purposes in Russian Roubles in accordance with Russian accounting legislation and related instructions. These preliminary financial statements have been prepared on a historical cost basis and are based on the Company's Russian statutory books and records, as adjusted and reclassified in order to comply with IFRS, using assumptions about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 31 December 2006.

IFRSs and IFRIC Interpretations not yet Effective

IFRS 7 "Financial Instruments: Disclosures" replaces the disclosure regulations of IAS 32 and must be applied to reporting periods that commence on or after 1 January 2007. The adoption of IFRS 7 may significantly affect the presentation of disclosures of financial instruments. The Company expects that the adoption of IFRS 7 will have no significant impact on the Company's financial statements in the period of initial application.

Reconciliation of Equity at 1 January 2005

	Notes to reconciliation	Russian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Non-current assets				
Property, plant and equipment		2,405	–	2,405
Intangible assets		4,875	–	4,875
Investments in associates	**1**	315	15,055	15,370
		7,595	**15,055**	**22,650**
Current assets				
Inventories	**2**	312,039	(1,306)	310,733
Trade and other receivables	**3**	244,704	(11,951)	232,753
VAT recoverable		1,509	–	1,509
Other current assets	**2**	4,355	(4,355)	–
Cash and cash equivalents		17,007	–	17,007
		579,614	(17,612)	562,002
Total assets		**587,209**	**(2,557)**	**584,652**
EQUITY AND LIABILITIES				
Share capital		500	–	500
Retained earnings		212,439	(3,801)	208,638
		212,939	**(3,801)**	**209,138**
Non-current liabilities				
Deferred tax liability	**4**	6,273	(1,201)	5,072
		6,273	**(1,201)**	**5,072**
Current liabilities				
Trade payables, other payables and advances received	**3**	336,620	5,338	341,958
Income tax payable		11,640	–	11,640
Other taxes payable	**4**	19,737	(2,893)	16,844
		367,997	2,445	370,442
Total equity and liabilities		**587,209**	**(2,557)**	**584,652**

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

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

Reconciliation of Equity at 31 December 2005:

	Notes to reconciliation	Russian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Non-current assets				
Deferred tax asset	**4**	–	2,621	2,621
Property, plant and equipment		3,588	–	3,588
Intangible assets	**5**	620	2,539	3,159
Other non-current assets	**5**	6,400	(6,400)	–
		10,608	**(1,240)**	**9,368**
Current assets				
Inventories	**2, 5**	282,281	1,340	283,621
Trade and other receivables	**3**	516,235	(29,191)	487,044
VAT recoverable		6,146	–	6,146
Other current assets	**2**	11,518	(3,840)	7,678
Cash and cash equivalents		12,721	–	12,721
		828,901	**(31,691)**	**797,210**
Total assets		**839,509**	**(32,931)**	**806,578**
EQUITY AND LIABILITIES				
Share capital		500	–	500
Retained earnings		395,071	(26,132)	368,939
		395,571	(26,132)	369,439
Non-current liabilities				
Deferred tax liability	**4**	5,632	(5,632)	–
		5,632	**(5,632)**	**–**
Current liabilities				
Trade payables, other payables and advances received	**3**	386,134	10,489	396,623
Short-term borrowings		13,326		13,326
Income tax payable		358	–	358
Other taxes payable	**4**	38,488	(11,656)	26,832
		438,306	**(1,167)**	**437,139**
Total equity and liabilities		**839,509**	**(32,931)**	**806,578**

Notes to Reconciliation of Equity:

Note 1: Application of equity method of accounting for investments in associate (Note 5).

Note 2: Recognition of valuation reserves for inventories and other non-recoverable assets.

Note 3: Differences between statutory and IFRS accounting policies with respect to timing of recognition of revenues and expenses.

Note 4: Additional deferred taxes recorded upon transition to IFRS.

Note 5: Balance sheet reclassifications.

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

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

Reconciliation of Profit for the Year 2005

	Notes to reconciliation	Russian GAAP	Effect of transition to IFRS	IFRS
Sale of goods	1	1,371,251	(9,554)	1,361,697
Cost of sales	2	(765,919)	(31,967)	(797,886)
Gross profit		**605,332**	**(41,521)**	**563,811**
Selling and distribution costs	2	(161,076)	(8,232)	(169,308)
General and administrative expenses	2	(84,379)	29,482	(54,897)
Other expenses	2	(32,370)	11,050	(21,320)
Interest expense		(1,700)	(5,105)	(6,805)
Profit before income tax		**325,807**	**(14,326)**	**311,481**
Income tax expense	3	(85,675)	3,437	(82,238)
Profit for the year		**240,132**	**(10,889)**	**229,243**

Notes to Reconciliation of Profit for the Year 2005:

Note 1: Differences between statutory and IFRS policies with respect to timing of revenue recognition.

Note 2: Differences between statutory and IFRS policies with respect to timing of recognition and classification of operating expenses.

Note 3: Additional deferred taxes recorded upon transition to IFRS.

3. Summary of Significant Accounting Policies

3.1 Cash and Cash Equivalents

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

3.2 Trade and Other Receivables

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

3. Summary of Significant Accounting Policies (continued)

3.3 Value Added Tax

The tax authorities permit the settlement of sales and purchases value added tax (VAT) on a net basis.

Value Added Tax Payable

VAT is payable to tax authorities upon collection of receivables from customers. VAT on purchases, which have been settled at the balance sheet date, is deducted from the amount payable.

In addition, VAT related to sales which have not been collected at the balance sheet date (VAT deferred) is also included in the balance 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. The related VAT liability is maintained until the debtor is written off for tax purposes.

Value Added Tax Recoverable

VAT recoverable relates to purchases, which have not been settled at the balance sheet date. VAT recoverable is reclaimable against VAT related to sales upon payment for the purchases.

3.4 Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods comprises cost of raw material and production outsourcing fees but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

3.5 Property, Plant and Equipment

Property, plant and equipment are stated at historical cost at the date of transition to IFRS less accumulated depreciation and impairment losses.

The Group assets only include office equipment and motor vehicles.

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
Equipment and motor vehicles	3 to 7

3. Summary of Significant Accounting Policies (continued)

3.5 Property, Plant and Equipment (continued)

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

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

When each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

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.

3.6 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives of 7 to 20 years on a straight-line basis. Research costs are recognised as an expense as incurred.

3.7 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 redemption amount is recognised as an adjustment to interest expense over the period of the borrowings.

3.8 Deferred Income Taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet method. 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 balance sheet date.

3. Summary of Significant Accounting Policies (continued)

3.8 Deferred Income Taxes (continued)

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

3.9 Foreign Currency Transactions

The financial statements are presented in the national currency of the Russian Federation, Russian Rouble (RR), which is the functional currency of the Company. Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to the statement of operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

3.10 Provisions

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

3.11 Equity

Dividends

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

3.12 Revenue Recognition

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

3. Summary of Significant Accounting Policies (continued)

3.13 Employee Benefits

Pension Costs

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

4. Significant Accounting Estimates

4.1 Judgements

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

4.2 Estimation Uncertainty

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

Allowance for Doubtful Accounts

The Company 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 ageing 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.

Inventory Provision

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

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

5. Balances and Transactions with Related Parties

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

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

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

Balances with Related Parties:

Balance sheet caption	Relationship	2005
Trade and other receivables		
Receivables due from related parties (Note 9)	Entities controlled by the Company's shareholders	54,848

The amounts of receivables due from related parties mostly represent payments made by the Company to third parties on behalf of the entities controlled by the Company's shareholders. These amounts do not bear interest and are due on demand. The respective advances were repaid to the Company in 2006.

Transactions with Related Parties:

Statement of operations caption	Relationship	2005
Sales of goods	Entities controlled by the Company's shareholders	1,949
Cost of sales, selling and distribution costs	Entities controlled by the Company's shareholders	(4,437)

Disposal of Assets

(a) On 1 January 2005 the Company had 50% stake in the capital of the company engaged in production of pharmaceutical products, with a carrying amount of investment of RR 15,370. In 2005 the Company sold its 50% stake in the associate to its shareholders for RR 630. Sale of the stake below its carrying value represented a distribution to the respective shareholders, therefore, the loss on this transaction (RR 11,442 net of RR 3,613 income tax effect) was recorded through the Company's equity.

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

5. Balances and Transactions with Related Parties (continued)

Disposal of Assets (continued)

(b) In 2005 the Company sold trademarks for its two major products to entities controlled by its shareholders for RR 6,691 resulting in a gain on sale in the amount of RR 3,071 which is included in other expenses, net. As a result, trademarks for the two major products distributed by the Company were held by the related parties at 31 December 2005.

In 2006, these trade marks were acquired by OJSC "Pharmstandard" in connection with acquisition of 100% of voting shares in the Company by OJSC "Pharmstandard" (Note 24).

Compensation to Key Management Personnel:

Key management personnel comprise five persons as of 31 December 2005. Total compensation to key management personnel included in general and administrative expenses in the statement of operations amounted to RR 5,503 for the year ended 31 December 2005.

6. Property, Plant and Equipment

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

	Equipment and motor vehicles
Cost	
Balance at 1 January 2005	**6,424**
Additions	3,500
Disposals	(1,359)
Balance at 31 December 2005	**8,565**
Accumulated Depreciation	
Balance at 1 January 2005	4,019
Depreciation charge	1,510
Disposals	(552)
Balance at 31 December 2005	**4,977**
Net Book Value	
Balance at 1 January 2005	**2,405**
Balance at 31 December 2005	**3,588**

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

7. Intangible Assets

Intangible assets consist of the following:

	Trade marks
Cost	
Balance at 1 January 2005	5,580
Additions	2,724
Disposals	(5,085)
Balance at 31 December 2005	**3,219**
Accumulated Amortisation	
Balance at 1 January 2005	705
Amortisation expense	821
Disposals	(1,466)
Balance at 31 December 2005	60
Net Book Value	
Balance at 1 January 2005	4,875
Balance at 31 December 2005	**3,159**

8. Inventories

Inventories consist of the following:

	2005
Raw materials (at cost)	118,025
Finished goods:	
- at cost	170,588
- at net realisable value	165,596
	283,621

The amount of write-down of inventories recognised as an expense in 2005 is RR 987. These expenses are included in the cost of sales.

Inventories of RR 128,286 have been pledged as security for borrowings. Refer to Note 12.

9. Trade and Other Receivables

	2005
Trade and other receivables	432,195
Receivables due from related parties (Note 5)	54,848
	487,044

RR 20,576 of trade receivables were denominated in currencies other than Russian Rouble (US$) at 31 December 2005.

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

10. Other Current Assets

Other current assets represent short-term promissory notes of RR 7,678.

11. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	2005
Cash in bank – Roubles	12,721
	12,721

Balances with banks generally carry no interest.

12. Short-Term Borrowings

	2005
Sberbank	13,326
	13,326

In 2005 the Company received a nonrevolving credit line for total amount of RR 120,000. The undrawn balance is equal to RR 6,900 at 31 December 2005. The respective loan bears a fixed interest rate of 14% and is rouble denominated. As at 31 December 2005, loans outstanding under the credit line are guaranteed by collateral of inventories. See Note 8.

13. Other Taxes Payable

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

	2005
Value-added tax	25,846
Property and other taxes	986
	26,832

14. Trade Payables and Other Payables

	2005
Trade accounts payable	387,995
Other accounts payable	8,628
	396,623

RR 353,490 of trade payables were denominated in currencies other than Russian Rouble (US$) at 31 December 2005.

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

15. Share Capital

Share capital of the Company in accordance with its charter documents is RR 500 as of 31 December 2005 and 2004. The authorised number of ordinary shares equated to 500 with a par value per share of one thousand Russian Roubles.

In the 2005 the Company declared and paid total dividends of RR 57,500 (RR 115 per share) in respect of 2004.

In accordance with Russian legislation, dividends may only be declared to the shareholders of the Company from accumulated undistributed and unreserved earnings as shown in the Company's Russian statutory financial statements. CJSC "Masterlek" had RR 395,071 of undistributed and unreserved earnings at 31 December 2005 (2004: RR 212,439).

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

	2005
Weighted average number of ordinary shares outstanding	500
Profit for the year	229,243
Basic and diluted earnings per share, thousand Roubles	**458**

16. Sale of Goods

The Company's products are divided into pharmaceuticals sold in the OTC ("Over-the-counter") market or with a prescription. Sales breakdown by product groups comprised the following:

Products group	**2005**
Pharmaceutical products	
OTC	
Branded products	1,152,815
	1,152,815
Prescription	
Branded products	195,142
Non-branded products	11,709
	206,851
Other sales	**2,031**
	1,361,697

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

17. Cost of Sales

The components of cost of sales were as follows:

	2005
Materials and components	656,996
Production outsourcing fees	110,660
License fees	30,230
	797,886

18. Selling and Distribution Costs

Selling and distribution costs comprised the following:

	2005
Marketing and advertising	152,182
Freight and communication	3,175
Rent	1,786
Materials and maintenance	47
Labour costs	10,823
Other expenses	1,295
	169,308

19. General and Administrative Expenses

General and administrative expenses comprised the following:

	2005
Labour costs	31,903
Property insurance	1,210
Freight and communication	2,816
Depreciation and amortization	3,103
Rent	2,377
Utilities and services	3,636
Materials and maintenance	5,445
Other	4,407
	54,897

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

20. Other Expenses

Other expenses comprised the following:

	2005
Foreign exchange loss	10,858
Bank fees	3,981
Other	6,481
	21,320

21. Income Tax

	2005
Income tax expense – current	86,318
Deferred tax expense – origination and reversal of temporary differences	(4,080)
Income tax expense	**82,238**

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

	2005
Income before taxation	311,481
Theoretical tax charge at statutory rate of 24%	74,755
Tax effect of items which are not deductible or assessable for taxation purposes:	
Non-deductible expenses	7,483
Income tax expense	**82,238**

Movements in deferred tax balances were as follows:

	1 January 2005	Differences reversal through income	Differences reversal through equity	31 December 2005
Tax effects of deductible temporary differences – asset (liability):				
Trade receivables	2,174	2,034	–	4,208
Inventories	(4,914)	809	–	(4,105)
Investment in associate (Note 5)	(3,613)	–	3,613	–
Trade and other payables	1,281	1,237	–	2,518
Total net deferred tax asset (liability)	**(5,072)**	**4,080**	**3,613**	**2,621**

22. Contingencies, Commitments and Operating Risks

Operating Environment of the Company

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

Taxation

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

The policy of the Company is to accrue for tax provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. 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 2005.

Management’s estimate of the amount of possible liabilities, including 20% fines, that could be incurred in the event that the tax authorities disagree with the Company’s position on certain tax matters and certain tax practices used by the Company is approximately RR 6,922 at 31 December 2005. Should the Russian tax authorities decide to issue a claim and prove successful in the court, they would be entitled to recover the amount claimed, together with fines amounting to 20% of such amount and interest at the rate of 1/300 of the Central Bank of Russia rate for each day of delay for late payment of such amount. Management believes that it is not probable that the ultimate outcome of such matters would result in a liability. Therefore, no provision for these contingencies was recorded in the accompanying financial statements.

23. Financial Risk Management

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

23. Financial Risk Management (continued)

Credit Risk

Financial assets, which potentially subject the Company to credit risk, consist principally of trade receivables. The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk. The Company has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the allowance already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

Interest Rate Risk

The Company’s income and operating cash flows are substantially independent of changes in market interest rates.

Fair values of Financial Instruments

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

24. Post Balance Sheet Events

In 2006 the Company declared and paid total dividends of RR 57,500 (RR 115 per share) in respect of 2005.

In August 2006 OJSC “Pharmstandard” acquired 100% of the voting shares of CJSC “Masterlek”.