

CJSC “Masterlek”

Interim Condensed Financial Statements

For the six month period ended 30 June 2006

CJSC «Masterlek»

Interim Condensed Financial Statements

For the six month period ended 30 June 2006

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Report on Review of Interim Financial Information

To the Board of Directors of CJSC “Masterlek”

Introduction

We have reviewed the accompanying condensed balance sheet of Closed Joint Stock Company “Masterlek” (“the Company”) as of 30 June 2006 and the related condensed statements of operations, changes in equity and cash flows for the six month period then ended and explanatory notes. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 “Interim Financial Reporting” (“IAS 34”). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

15 September 2006

CJSC “Masterlek”

Interim Condensed Balance Sheet at 30 June 2006

(in thousands of Russian Roubles)

	Notes	30 June 2006 (unaudited)	31 December 2005 (audited)
ASSETS			
Non-current assets			
Deferred tax asset	19	–	2,621
Property, plant and equipment	4	4,893	3,588
Intangible assets	5	4,314	3,159
		<u>9,207</u>	<u>9,368</u>
Current assets			
Inventories	6	251,764	283,621
Trade and other receivables	7	443,849	487,044
VAT recoverable		4,197	6,146
Other current assets	8	3,155	7,678
Cash and cash equivalents	9	29,370	12,721
		<u>732,335</u>	<u>797,210</u>
Total assets		<u><u>741,542</u></u>	<u><u>806,578</u></u>
EQUITY AND LIABILITIES			
Share capital	13	500	500
Retained earnings		458,935	368,939
		<u>459,435</u>	<u>369,439</u>
Non-current liabilities			
Deferred tax liability	19	586	–
		<u>586</u>	<u>–</u>
Current liabilities			
Trade and other payables	12	278,721	396,623
Short-term borrowings	10	–	13,326
Income tax payable		–	358
Other taxes payable	11	2,800	26,832
		<u>281,521</u>	<u>437,139</u>
Total equity and liabilities		<u><u>741,542</u></u>	<u><u>806,578</u></u>

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

General Director

Nusratullin A.Z.

15 September, 2006

The accompanying notes on pages 6-15 are an integral part of these interim condensed financial statements.

CJSC “Masterlek”

Interim Condensed Statement of Operations

For the six months ended 30 June 2006

(in thousands of Russian Roubles)

	Notes	<u>6 months 2006</u>	<u>6 months 2005</u>
		----- (unaudited) -----	
Sale of goods	14	702,001	462,303
Cost of sales	15	(395,821)	(259,173)
Gross profit		306,180	203,130
Selling and distribution costs	16	(76,877)	(51,001)
General and administrative expenses	17	(44,558)	(24,251)
Other income / (expenses), net	18	17,199	(10,509)
Interest expense, net		(1,826)	(1,899)
Profit before income tax		200,118	115,470
Income tax expense	19	(52,622)	(29,346)
Profit for the period		147,496	86,124
Basic and diluted earnings per share, thousand Roubles	13	295	172

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General Director

Nusratullin A.Z.

15 September, 2006

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CJSC “Masterlek”

Interim Condensed Statement of Cash Flows

For the six months ended 30 June 2006

(in thousands of Russian Roubles)

	Notes	6 months 2006 -----(unaudited)-----	6 months 2005
Cash flows from operating activities:			
Profit before income tax		200,118	115,470
Adjustments for:			
Depreciation of property, plant and equipment and amortization of intangible assets		868	1,368
Reversal of reserve for obsolete inventories	6	(1,961)	(2,029)
Interest expense, net		1,826	1,899
Operating cash flows before working capital changes		200,851	116,708
Decrease in trade and other receivables	7	37,898	22,320
Decrease in inventories	6	33,818	27,330
Decrease (increase) in VAT recoverable and other current assets	8	9,628	(1,526)
Decrease in trade payables, other payables and advances received	12	(117,901)	(65,851)
Decrease in taxes payable other than income tax	11	(24,032)	(2,145)
Cash generated from operations		140,262	96,836
Income tax paid	19	(52,929)	(55,960)
Interest paid, net		(1,826)	(1,900)
Net cash from operating activities		85,507	38,976
Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets	4, 5	(3,329)	(950)
Cash received from sale of intangible assets		5,297	–
Net cash from (used in) investing activities		1,968	(950)
Cash flows from financing activities:			
Proceeds from borrowings	10	3,300	6,000
Repayment of borrowings	10	(16,626)	–
Dividends paid	13	(57,500)	(57,500)
Net cash used in financing activities		(70,826)	(51,500)
Net increase (decrease) in cash and cash equivalents		16,649	(13,474)
Cash and cash equivalents at the beginning of the period	9	12,721	17,007
Cash and cash equivalents at the end of the period	9	29,370	3,533

The accompanying notes on pages 6-15 are an integral part of these interim condensed financial statements.

CJSC “Masterlek”

Interim Condensed Statement of Changes in Equity

For the six months ended 30 June 2006

(in thousands of Russian Roubles)

	Notes	Share capital	Retained earnings	Total
Balance at 1 January 2005		500	208,638	209,138
Profit for the period		–	86,124	86,124
Dividends	13	–	(57,500)	(57,500)
Balance at 30 June 2005 (unaudited)		500	237,262	237,762

	Notes	Share capital	Retained earnings	Total
Balance at 31 December 2005		500	368,939	369,439
Profit for the period		–	147,496	147,496
Dividends	13	–	(57,500)	(57,500)
Balance at 30 June 2006 (unaudited)		500	458,935	459,435

The accompanying notes on pages 6-15 are an integral part of these interim condensed financial statements.

CJSC “Masterlek”

Notes to the Interim Condensed Financial Statements

For the six months ended 30 June 2006

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

1. Corporate Information

CJSC “Masterlek” (“the Company’s”) 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 interim condensed financial statements were authorized for issue by the Board of Directors of CJSC “Masterlek” on 15 September 2006.

2. Basis of Preparation of the Financial Statements

These interim condensed financial statements have been prepared in accordance with International Financial Reporting Standard 34 “Interim Financial Reporting”. Accordingly, they do not include all of the information required by International Financial Reporting Standards (“IFRS”) for complete financial statements.

The Company maintains its accounting records in accordance with regulations applicable in the Russian Federation. These interim condensed financial statements are based on those accounting books and records, as adjusted and reclassified to comply with International Accounting Standard 34 “Interim Financial Reporting”.

The financial statements have been prepared under the historical cost convention.

These interim condensed financial statements should be read in conjunction with the Company’s Preliminary IFRS Financial Statements as of 31 December 2005 and for the year then ended.

Those preliminary financial statements were prepared as part of the Company’s conversion to 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 of 31 December 2005 and for the year then ended were 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 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.

CJSC “Masterlek”

Notes to the Interim Condensed Financial Statements (continued)

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

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

The Company followed the same accounting policies and methods of computation as compared with those applied in the Preliminary IFRS Financial Statements as of 31 December 2005 and for the year then ended.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Actual results can differ significantly from such estimates.

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 rate ruling at the date of the 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.

Seasonality of operations

Due to the seasonal nature of the Company’s operations, higher revenues in the pharmaceuticals industry are usually expected in the first and fourth quarters of each year when flu and cold epidemics are most prevalent resulting in higher demand for the Company’s products.

Given the seasonality of operations, the Company’s operating results for the six month period ended 30 June 2006 are not necessarily indicative of the results that may be expected for the year ending 31 December 2006.

Reconciliations of equity as at 1 January 2005 and 31 December 2005 and profit for the year ended 31 December 2005

The Company presented reconciliation of equity as at the date of transition to IFRS (1 January 2005) and as at 31 December 2005 and reconciliation of profit for the year ended 31 December 2005 in its Preliminary IFRS Financial Statements. These reconciliations should be read in conjunction with the reconciliation of profit for the 6 months 2005 presented below.

CJSC “Masterlek”

Notes to the Interim Condensed Financial Statements (continued)

(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 6 months 2005

	Notes to reconciliation	Russian GAAP	Effect of transition to IFRS	IFRS
Sale of goods	1	455,675	6,628	462,303
Cost of sales	2	(252,668)	(6,505)	(259,173)
Gross profit		203,007	123	203,130
Selling and distribution costs	2	(46,935)	(4,066)	(51,001)
General and administrative expenses	2	(37,043)	12,792	(24,251)
Other expenses	2	(14,016)	3,507	(10,509)
Interest income / (expense), net		126	(2,025)	(1,899)
Profit before income tax		105,139	10,331	115,470
Income tax expense	3	(26,867)	(2,479)	(29,346)
Profit for the period		78,272	7,852	86,124

Notes to reconciliation of profit:

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. 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 30 June 2006 and 31 December 2005 are detailed below.

CJSC “Masterlek”

Notes to the Interim Condensed Financial Statements (continued)

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

3. Balances and Transactions with Related Parties (continued)

Balances with Related Parties:

Balance sheet caption	Relationship	30 June 2006 (unaudited)	31 December 2005
Receivables due from related parties (Note 7)	Entities controlled by the Company’s shareholders	62,083	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 subsequent to 30 June 2006.

Transactions with Related Parties:

Statement of operations caption	Relationship	6 months 2006 6 months 2005	
		----- (unaudited) -----	
Sales of goods	Entities controlled by the Company’s shareholders	1,543	362
Cost of sales, selling and distribution costs	Entities controlled by the Company’s shareholders	1,695	2,018

Compensation to Key Management Personnel:

Key management personnel comprise five persons as of 30 June 2006 and 2005. Total compensation to key management personnel included in general and administrative expenses in the statement of operations amounted to RR 4,169 for the six months period ended 30 June 2006 (2005: RR 2,622).

4. Property, Plant and Equipment

Acquisitions and disposals

During the six months ended 30 June 2006 the Company acquired property and equipment with a cost of RR 2,147 (2005: RR 1,138). Net book value of assets disposed by the Company during the six months ended 30 June 2006 was nil (2005: RR 304).

CJSC “Masterlek”

Notes to the Interim Condensed Financial Statements (continued)

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

5. Intangible Assets

Acquisitions and disposals

During the six months ended 30 June 2006 the Company acquired intangible assets with a cost of RR 1,182 (2005: RR 118).

6. Inventories

Inventories consist of the following:

	30 June 2006 (unaudited)	31 December 2005
Raw materials (at cost)	104,562	118,025
Finished goods:		
- at cost	124,097	166,966
- at net realisable value	121,066	161,974
Goods for resale	26,136	3,622
	251,764	283,621

The amount of reversal of reserve for obsolete inventories recognised as income in the six months ended 30 June 2006 is RR 1,961 (6 months 2005: RR 2,029). This reversal is included in cost of sales (Note 15).

No inventories have been pledged as security for borrowings at 30 June 2006 (RR 128,286 at 31 December 2005).

7. Trade and Other Receivables

	30 June 2006 (unaudited)	31 December 2005
Trade and other receivables	381,766	432,196
Receivables due from related parties (Note 3)	62,083	54,848
	443,849	487,044

RR 12,060 of trade receivables were denominated in currencies other than Russian Rouble (US\$) at 30 June 2006 (RR 20,576 at 31 December 2005).

CJSC “Masterlek”

Notes to the Interim Condensed Financial Statements (continued)

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

8. Other current assets

	30 June 2006 (unaudited)	31 December 2005
Taxes receivable	3,155	–
Short-term promissory notes	–	7,678
	3,155	7,678

9. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	30 June 2006 (unaudited)	31 December 2005
Cash in bank – Roubles	29,370	12,721
	29,370	12,721

Balances with banks carry no interest.

10. Short-term borrowings

	30 June 2006 (unaudited)	31 December 2005
Sberbank short-term credit line	–	13,326
	–	13,326

11. Other Taxes Payable

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

	30 June 2006 (unaudited)	31 December 2005
Value-added tax	1,211	25,846
Property and other taxes	1,589	986
	2,800	26,832

CJSC “Masterlek”

Notes to the Interim Condensed Financial Statements (continued)

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

12. Trade payables and other payables

	30 June 2006 (unaudited)	31 December 2005
Trade accounts payable	273,801	387,995
Other accounts payable	4,920	8,628
	278,721	396,623

RR 246,234 of trade payables were denominated in currencies other than Russian Rouble (US\$) at 30 June 2006 (RR 353,490 at 31 December 2005).

13. Share capital

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

Earnings per share are calculated by dividing the profit 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:

	6 months 2006	6 months 2005
	----- (unaudited) -----	----- (unaudited) -----
Weighted average number of ordinary shares outstanding	500	500
Profit for the period	147,496	86,124
Basic and diluted earnings per share, thousand Roubles	295	172

14. 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	6 months 2006	6 months 2005
	----- (unaudited) -----	----- (unaudited) -----
Pharmaceutical products		
OTC		
Branded products	594,489	383,277
	594,489	383,277
Prescription		
Branded products	99,717	72,286
Non-branded products	6,098	6,208
	105,815	78,494
Other sales	1,697	532
	702,001	462,303

CJSC “Masterlek”

Notes to the Interim Condensed Financial Statements (continued)

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

15. Cost of Sales

The components of cost of sales were as follows:

	6 months 2006	6 months 2005
	----- (unaudited) -----	
Materials and components	322,340	220,856
Production outsourcing fees	56,277	30,453
License fees	17,204	7,864
	395,821	259,173
	395,821	259,173

16. Selling and Distribution Costs

Selling and distribution costs comprised the following:

	6 months 2006	6 months 2005
	----- (unaudited) -----	
Marketing and advertising	63,511	44,903
Freight and communication	2,359	1,081
Rent	1,014	655
Materials and maintenance	705	41
Labour costs	8,282	3,986
Other expenses	1,006	335
	76,877	51,001
	76,877	51,001

17. General and Administrative Expenses

General and administrative expenses comprised the following:

	6 months 2006	6 months 2005
	----- (unaudited) -----	
Labour costs	26,038	15,456
Property insurance	702	551
Freight and communication	1,316	1,017
Depreciation and amortization	868	1,368
Rent	1,900	1,066
Utilities and services	7,834	1,740
Materials and maintenance	3,209	2,185
Other	2,691	868
	44,558	24,251
	44,558	24,251

CJSC “Masterlek”

Notes to the Interim Condensed Financial Statements (continued)

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

18. Other (income) / expenses

Other (income) / expenses comprised the following:

	<u>6 months 2006</u>	<u>6 months 2005</u>
	<u>----- (unaudited) -----</u>	
Foreign exchange (gain) / loss	(19,473)	8,163
Bank fees	1,747	1,906
Other	527	440
	<u>(17,199)</u>	<u>10,509</u>

19. Income Tax

The major components of income tax expense comprised the following:

	<u>6 months 2006</u>	<u>6 months 2005</u>
	<u>----- (unaudited) -----</u>	
Income tax expense – current	49,415	25,475
Deferred tax expense – origination and reversal of temporary differences	3,207	3,871
Income tax expense	<u>52,622</u>	<u>29,346</u>

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

	<u>6 months 2006</u>	<u>6 months 2005</u>
	<u>----- (unaudited) -----</u>	
Profit before taxation	200,118	115,470
Theoretical tax charge at statutory rate of 24%	48,028	27,713
Non-deductible expenses	4,594	1,633
Income tax expense	<u>52,622</u>	<u>29,346</u>

Movements in deferred tax balances were as follows:

	<u>31 December 2005</u>	<u>Differences recognition</u>	<u>30 June 2006</u>
	<u>(audited)</u>	<u>and reversal</u>	<u>(unaudited)</u>
Tax effects of deductible temporary differences – asset (liability):			
Trade receivables	4,208	(4,208)	–
Inventories	(4,105)	1,658	(2,447)
Trade and other payables	2,518	(657)	1,861
Total net deferred tax asset / (liability)	<u>2,621</u>	<u>(3,207)</u>	<u>(586)</u>

CJSC “Masterlek”

Notes to the Interim Condensed Financial Statements (continued)

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

20. 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 preceeding 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 30 June 2006.

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 30 June 2006. Should the Russian tax authorities decide to issue a claim and prove successful in the court, they would be entitled to recover the amount claimed, together with fines amounting to 20% of such amount and interest at the rate of 1/300 of the Central Bank of Russia rate for each day of delay for late payment of such amount. Management believes that it is not probable that the ultimate outcome of such matters would result in a liability. Therefore, no provision for these contingencies was recorded in the accompanying financial statements.

21. Post Balance Sheet Events

In August 2006 OJSC “Pharmstandard” acquired 100% of the Company's voting shares.