OJSC “Pharmstandard”

Unaudited interim condensed consolidated financial statements

For the six months ended 30 June 2012

OJSC “Pharmstandard”

Unaudited interim condensed consolidated financial statements

For the six months ended 30 June 2012

Contents

OJSC “Pharmstandard”

Interim condensed consolidated statement of financial position as at 30 June 2012

(in thousands of Russian Roubles)

	Notes	30 June 2012 (unaudited)	31 December 2011 (audited)
Assets			
Non-current assets			
Property, plant and equipment	10	**5,826,507**	5,543,692
Intangible assets	11	**6,548,283**	6,717,624
Prepayment for subsidiaries acquisition	3	**1,056,454**	–
		13,431,244	12,261,316
Current assets			
Inventories	12	**9,013,161**	7,145,291
Trade and other receivables	13	**12,114,587**	14,247,421
VAT recoverable		**296,365**	369,712
Prepayments	14	**366,262**	745,734
Short-term financial assets	16	**2,947,788**	3,446,041
Cash and short term deposits	15	**4,768,864**	5,383,072
		29,507,027	31,337,271
Non-current assets classified as held for sale	7	**-**	18,030
Total assets		**42,938,271**	43,616,617
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	20	**37,793**	37,793
Treasury shares	6	**(2,590)**	(1,825)
Foreign currency translation reserve		**34,675**	24,923
Retained earnings		**31,699,231**	29,718,088
		31,769,109	29,778,979
Non-controlling interests		**530,792**	514,968
Total equity		**32,299,901**	30,293,947
Non-current liabilities			
Deferred tax liability	27	**526,929**	581,790
Other non-current liabilities		**9,396**	9,265
		536,325	591,055
Current liabilities			
Trade and other payables	19	**9,615,517**	11,234,988
Short-term borrowings and loans	17	**33,550**	733,550
Income tax payable		**83,982**	163,792
Taxes payable other than income tax	18	**368,996**	599,285
		10,102,045	12,731,615
Total liabilities		**10,638,370**	13,322,670
Total equity and liabilities		**42,938,271**	43,616,617

Chief Executive Officer I.K. Krylov

Chief Financial Officer E.V. Arkhangelskaya

29 August 2012

OJSC “Pharmstandard”

Interim condensed consolidated statement of comprehensive income

For the six months ended 30 June 2012

(in thousands of Russian Roubles)

	Notes	6 months 2012	6 months 2011
		-----------(unaudited)--------	
Revenue	21	**16,167,044**	18,653,509
Cost of sales	22	**(9,939,015)**	(11,452,627)
Gross profit		**6,228,029**	7,200,882
Selling and distribution costs	23	**(1,989,384)**	(1,588,089)
General and administrative expenses	24	**(639,342)**	(526,489)
Other income	25	**304,082**	232,442
Other expenses	25	**(77,910)**	(167,717)
Financial income	26	**54,934**	115,470
Financial expense	26	**(1,021)**	(18,558)
Profit before income tax		**3,879,388**	5,247,941
Income tax expense	27	**(804,761)**	(1,050,661)
Profit for the period		**3,074,627**	4,197,280
Other comprehensive income			
Exchange differences on translation of foreign operations		**11,095**	(30,338)
Other comprehensive income for the period		**11,095**	(30,338)
Total comprehensive income for the period		**3,085,722**	4,166,942
Profit for the period			
Attributable to:			
Equity holders of the Parent		**3,059,793**	4,179,320
Non-controlling interests		**14,834**	17,960
		3,074,627	4,197,280
Total comprehensive income for the period			
Attributable to:			
Equity holders of the Parent		**3,069,545**	4,151,442
Non-controlling interests		**16,177**	15,500
		3,085,722	4,166,942
Earnings per share (in Russian roubles)			
- basic and diluted, based on profit for the period attributable to equity holders of the Parent	20	**85.07**	114.26

Chief Executive Officer I.K. Krylov

Chief Financial Officer E.V. Arkhangelskaya

29 August 2012

The accompanying notes on pages 7-26 are an integral part of these interim condensed consolidated financial statements.

OJSC "Pharmstandard"

Interim condensed consolidated cash flow statement

For the six months ended 30 June 2012

(in thousands of Russian Roubles)

	Notes	6 months 2012	6 months 2011
		----------(unaudited)---------	
Cash flows from operating activities:			
Profit before income tax		**3,879,388**	5,247,941
Adjustments for:			
Depreciation and amortisation	10,11	**450,464**	437,591
Change in allowance for impairment of financial assets	13	**132,635**	37,395
Write-down of inventories to net realizable value	12	**49,361**	36,173
(Reversal of impairment) / impairment charge – property, plant and equipment, net	10,25	**(16,785)**	34,393
Loss from disposal of property, plant and equipment	25	**3,032**	9,793
Foreign exchange gain, unrealized		**(99,848)**	(4,585)
Expense related to the joint venture	5.1,25	**-**	53,142
Financial income	26	**(54,934)**	(115,470)
Financial expense	26	**1,021**	18,558
Operating cash flows before working capital changes		**4,344,334**	5,754,931
Decrease in trade and other receivables	13	**1,902,524**	1,850,576
(Increase) / decrease in inventories	12	**(1,916,333)**	417,789
Decrease in VAT recoverable		**73,440**	209,198
Decrease in trade prepayments	14	**379,243**	31,249
Decrease in trade and other payables	19	**(1,592,727)**	(3,700,978)
Decrease in taxes payable other than income tax		**(230,364)**	(132,404)
Cash generated from operations		**2,960,117**	4,430,361
Income tax paid	27	**(940,065)**	(1,597,550)
Interest paid		**(1,678)**	(13,673)
Interest received		**151,498**	125,840
Net cash from operating activities		**2,169,872**	2,944,978
Cash flows from investing activities:			
Purchase of property, plant and equipment	10	**(566,258)**	(925,450)
Cash paid for subsidiary acquisition	4	**(10,625)**	(181,800)
Cash paid as prepayment for subsidiaries acquisition	3	**(1,056,454)**	-
Cash in acquired subsidiary	4	**-**	5,702
Cash received from sale of non-current assets held for sale	7	**17,850**	-
Cash received from sale property, plant and equipment		**14,494**	9,551
Cash received from sale of short-term financial assets (except for loans to related parties)	16	**2,686,820**	1,833,554
Cash paid for short-term financial assets (except for loans to related parties)	16	**(623,220)**	(735,532)
Loans provided to related parties	16	**(1,465,945)**	-
Net cash (used in)/from investing activities		**(1,003,338)**	6,025
Cash flows from financing activities:			
Proceeds from loans and borrowings	17	**-**	6,331
Repayment of loans and borrowings	17	**(700,000)**	(184,136)
Cash paid for treasury shares	6	**(1,079,415)**	(5,474,250)
Net cash used in financing activities		**(1,779,415)**	(5,652,055)
Net decrease in cash and cash equivalents		**(612,881)**	(2,701,052)
Net foreign exchange differences		**(1,327)**	(101)
Cash and cash equivalents at the beginning of the year	15	**5,383,072**	4,156,258
Cash and cash equivalents at the end of the period	15	**4,768,864**	1,455,105

OJSC "Pharmstandard"

Interim condensed consolidated statement of changes in equity for the six months ended 30 June 2011

(in thousands of Russian Roubles)

	Equity attributable to equity holders of the parent						
	Share capital	**Treasury shares**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 31 December 2010 (audited)	**37,793**	**-**	**(245)**	**26,409,993**	**26,447,541**	**428,214**	**26,875,755**
Profit for the period	-	-	-	4,179,320	4,179,320	17,960	4,197,280
Other comprehensive income for the period	-	-	(27,878)	-	(27,878)	(2,460)	(30,338)
Total comprehensive income for the period	**-**	**-**	**(27,878)**	**4,179,320**	**4,151,442**	**15,500**	**4,166,942**
Acquisition of subsidiary (Note 4)	-	-	-	-	-	30,669	30,669
Acquisition of treasury shares (Note 6)	-	(1,825)	-	(5,472,425)	(5,474,250)	-	(5,474,250)
Balance at 30 June 2011 (unaudited)	**37,793**	**(1,825)**	**(28,123)**	**25,116,888**	**25,124,733**	**474,383**	**25,599,116**

Interim condensed consolidated statement of changes in equity for the six months ended 30 June 2012

(in thousands of Russian Roubles)

	Equity attributable to equity holders of the parent						
	Share capital	**Treasury shares**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 31 December 2011 (audited)	**37,793**	**(1,825)**	**24,923**	**29,718,088**	**29,778,979**	**514,968**	**30,293,947**
Profit for the period	-	-	-	3,059,793	3,059,793	14,834	3,074,627
Other comprehensive income for the period	-	-	9,752	-	9,752	1,343	11,095
Total comprehensive income for the period	**-**	**-**	**9,752**	**3,059,793**	**3,069,545**	**16,177**	**3,085,722**
Disposal of subsidiary (Note 7)	-	-	-	-	-	(353)	(353)
Acquisition of treasury shares (Note 6)	-	(765)	-	(1,078,650)	(1,079,415)	-	(1,079,415)
Balance at 30 June 2012 (unaudited)	**37,793**	**(2,590)**	**34,675**	**31,699,231**	**31,769,109**	**530,792**	**32,299,901**

The accompanying notes on pages 7-26 are an integral part of these interim condensed consolidated financial statements.

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

1. Corporate information

OJSC “Pharmstandard” (“the Company”) and its subsidiaries (“the Group”) principal activities are production and wholesale distribution of pharmaceutical and medical products. The Company is incorporated in the Russian Federation. Since May 2007, the Company's shares are publicly traded (Note 20). 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, Tyumen (all Russian Federation) and Kharkov (Ukraine). The Company holds the shares in joint ventures and controlled the following subsidiaries consolidated within the Group as at 30 June 2012 and 31 December 2011:

Entity	Country of incorporation	Activity	2012 % share	2011 % share
Subsidiaries:				
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-Biolik” PJSC	Ukraine	Manufacturing of pharmaceutical products	**55**	55
6. “TZMOI” OJSC	Russian Federation	Manufacturing of medical equipment	**100**	100
7. Donelle Company Limited	Cyprus	Finance and holding Company	**89**	89
8. Aphopharm CJSC	Russian Federation	Assets holder	**89**	89
9. MDR Pharmaceuticals	Cyprus	Assets holder	**50.05**	50.05
10. Vindexpharm CJSC	Russian Federation	Assets holder	**100**	100
11. “Pharmstandard-Phitofarm-NN” LLC*	Russian Federation	Manufacturing of pharmaceutical products	**-**	99
Joint ventures:				
12. “NauchTechStroy Plus” LLC**	Russian Federation	Research and development Company	**37.5**	37.5
13. Moldildo Trading Limited***	Cyprus	Intermediary holding company	**75**	75
14. “Pharmstandard-Medtechnika” LLC ***	Russian Federation	Distributing of medical equipment	**75**	75

* As of 31 December 2011 this entity is classified as non-current asset held for sale (see Note 7).

** This joint venture was formed in February 2010 and it is in start up phase now (see Note 5.1).

*** This joint venture was formed in June 2011 and since 3rd Quarter 2011 started its activity (see Note 5.2).

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors of OJSC “Pharmstandard” on 29 August 2012.

2. Basis of preparation of the financial statements

These interim condensed consolidated 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.

These interim condensed consolidated financial statements should be read in conjunction with the complete consolidated financial statements as of 31 December 2011 and for the year then ended, considering the effect of adoption of new IFRS and revision of existing IAS, which is described below.

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 interim condensed 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.

Seasonality of operations

Due to the seasonal nature of the Group’s operations, higher revenues in the pharmaceuticals segment (Note 8) are usually expected in the first and fourth quarters of each year when (1) flu and cold epidemics are most prevalent resulting in higher demand on the Group’s cold and cough products and vitamins and (2) the Group usually supplies pharmaceutical products under state open auctions won by the Group.

Revenues in the medical equipment segment (Note 8) also usually tend to grow in the fourth quarter when the state hospitals make their orders to entirely utilize the budget resources provided to them for acquisition of new equipment in the current year.

Given the seasonality of operations, the Group’s operating results for the six-month period ended 30 June 2012 are not necessarily indicative of the results that may be expected for the year ending 31 December 2012.

Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011, except for the adoption of new standards and interpretations as of 1 January 2012, noted below.

The changes in accounting policies result from adoption of the following new or revised standards:

- Amendment to IFRS 7 *Financial Instruments: Disclosures – Transfer of Financial Assets.*
- Amendment to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets.*
- Amendment to IFRS 1 *First time adoption of IFRS - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters.*

There were no significant effects of these changes in accounting policies on the financial position or performance of the Group.

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

IFRSs and IFRIC interpretations not yet effective

The following Standards and Interpretations were in issue up to the date of issuance of consolidated financial statements which were relevant to the Group’s operations but not yet effective:

- IFRS 9 *Financial Instruments – Classification and Measurement* (effective for annual periods beginning on or after 1 January 2015).
- IFRS 10 *Consolidated Financial Statements (amended in July 2012)* replaces the consolidation guidance in IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 *Joint Arrangements (amended in July 2012)* – Introduces new accounting requirements for joint arrangements (effective for annual period beginning on or after 1 January 2013).
- IFRS 12 *Disclosure of Interests in Other Entities (amended in July 2012)* – Requires enhanced disclosures about both consolidated and unconsolidated entities (effective for annual period beginning on or after 1 January 2013).
- IFRS 13 *Fair Value Measurement* – Definition, guidance and disclosure requirements about fair value measurements (effective for annual periods beginning on or after 1 January 2013).
- IAS 27 *Separate Financial Statements* – The consolidation guidance in IAS 27 is replaced by IFRS 10. The requirements relating to separate financial statements are unchanged (effective for annual periods beginning on or after 1 January 2013).
- IAS 28 *Investments in Associates and Joint Ventures* – Amendments for conforming changes based on the issuance of IFRS10, IFRS11 and IFRS12 (effective for annual periods beginning on or after 1 January 2013).
- IAS 1 *Presentation of Financial Statements* – Amendments to revise the way other comprehensive income is presented (effective for annual periods beginning on or after 1 July 2012).
- IAS 19 *Employee Benefits* – Amended standard resulting from the Post-Employment Benefits and Termination Benefit projects (effective for annual periods beginning on or after 1 January 2013).
- Amendments to IFRS 7 *Disclosures* and IAS 32 *Financial Instruments: Presentation* – Amendments for converged disclosures and offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013 and on or after 1 January 2014, respectively).
- Amendment to IFRS 1 *First time adoption of IFRS – Government loans.* This amendment was issued in March 2012 to provide relief from the retrospective application of IFRSs in relation to government loans (effective for annual periods beginning on or after 1 January 2013).

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

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

- In May 2012, the final 2009-2011 annual improvements of IFRSs were issued (with effective dates of annual periods on or after 1 January 2013). The table below shows the list of IFRSs where these narrow amendments have been made:

IFRS (amended in 2012)	Subject of amendment
IFRS 1 *First time adoption of IFRS*	Clarifying that an entity may apply IFRS 1 more than once under certain circumstances
IFRS 1 *First time adoption of IFRS*	Clarifying that an entity can choose to adopt IAS 23 *Borrowing costs*, either from its date of transition or from an earlier date
IAS 1 *Presentation of financial statements*	The amendment to IAS 1 clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet either as required by IAS 8 *Accounting policies*, changes in accounting estimates and errors', or voluntarily
IFRS 1 *First time adoption of IFRS* as a result of the above amendment to IAS 1	The consequential amendment to IFRS 1 clarifies that a first-time adopter should provide the supporting notes for all statements presented
IAS 16 *Property, plant and equipment*	Clarifying that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment
Amendment to IAS 32 *Financial instruments: Presentation*	Clarifying the treatment of income tax relating to distributions and transaction costs
Amendment to IAS 34 *Interim financial reporting*	Clarifying the disclosure requirements for segment assets and liabilities in interim financial statements

Adoption of new and revised International Financial Reporting Standards

The Group has not early adopted any other standards, interpretations or amendments that has been issued but is not yet effective.

Management anticipates that the adoption of these Standards and Interpretations in future periods will have no impact on the results and financial position presented in these consolidated financial statements other than changes to the disclosures required in the consolidated financial statements except for IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010 and IFRS 11 *Joint Arrangements* issued in May 2011. The Group does not intend to adopt these standards before their effective date.

3. Prepayment for subsidiaries acquisition

On 25 June 2012, the Company signed contracts with shareholders of "Bigpearl Trading Limited" ("Bigpearl") a company registered under the law of Cyprus with the purpose of acquiring of 50.005% of the outstanding Bigpearl shares. As at 30 June 2012, Bigpearl is the major shareholder of the following pharmaceutical companies registered under the law of Russian Federation: "Biomed named after I.I.Mechnikov" OJSC, "Pharmapark" LLC, "Pharmatsevticheskiye innovatsii" OJSC. These companies jointly also known as "Bioprocess" group are involved in the production of various pharmaceutical products and APIs. In accordance with terms of the acquisition agreement, acquisition of Bigpearl should be completed by 9 August 2012 (see Note 29). In accordance with the agreement's terms, the total cash consideration for this acquisition is US$ 57 million, of which US$ 32 million (1,056,454 at the exchange rate as of the dates of payments) was paid in June 2012 in advance. In accordance with IFRS 3 and IAS 27, this acquisition will be accounted for as a business combination from the date of obtaining control over Bigpearl and financial results of Bioprocess will be included in the Group's consolidated financial statements for the year ended 31 December 2012.

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

4. Business combinations

PJSC “Biolik” acquisition

In 4th quarter 2010 the Company signed contracts with shareholders of Public Joint Stock Company “Kharkov Enterprise on Imunobiological and Medical Substances Production “Biolik” (“Biolik”) with the purpose to acquire 55% of the ordinary voting shares of “Biolik”, a company located in Ukraine involved in the production and distribution of various pharmaceutical products, for a total cash consideration of RR 397,017 (US$ 13,086 thousand).

Of the total consideration amount, guarantee payment of RR 39,670 (US$ 1,320 thousand) is contingent upon achievement by “Biolik” of certain operational and financial targets by 31 December 2011. In 2011 and 2012 that guarantee payment was fully paid. In January 2011, the Company finalized process of acquisition of 55% ordinary shares and on 18 January 2011, the acquired shares of “Biolik” were transferred to the Company. In June 2011, PJSC “Biolik” was renamed as PJSC “Pharmstandard-Biolik”.

In 2011, the Group completed (i) the reorganization of management and organizational structure of ”Biolik” and (ii) implemented changes in “Biolik” internal control procedures consistent with the Group’s corporate policies and procedures. In accordance with the IFRS the Biolik’s financial results were consolidated in these condensed consolidated financial statements for the six months period ended 30 June 2012 and 2011.

PJSC “Pharmstandard-Biolik” is an entity that is not listed on any public exchange. “Biolik” maintains their accounting records in Ukrainian Hryvnia.

The fair value of identifiable assets and liabilities of “Biolik” as at the date of acquisition was as follows:

	Fair value recognised on acquisition
Property, plant and equipment	288,136
Cash and cash equivalents	5,702
Trade and other receivables	97,320
Inventories	136,679
Prepayments	28,111
	555,948
Deferred tax liability	19,449
Other long-term liabilities	8,783
Trade and other payables	418,924
Short-term borrowings and loans	25,461
Income tax and other taxes	15,176
	487,793
Fair value of net assets	**68,155**
Group’s share of the fair value of net assets	37,486
Goodwill arising on acquisition	359,531
Consideration paid	**397,017**

The fair value and gross amount of the trade and other receivables at the date of acquisition is to RR 97,320. None of the trade and other receivables have been impaired and it is expected that the full contractual amounts can be collected.

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

4. Business combinations (continued)

The primary reason for the acquisition was the Group’s intent to extend its operations to the Ukrainian market. This extension can be achieved both through proceeds from sales of own Biolik’s products and by marketing and promotion of certain Pharmstandard’s pharmaceutical brands.

The goodwill of RR 359,531 comprises the value of expected synergies arising from the acquisition and opportunity for the Group to extend its operations.

The Biolik’s operations were consolidated with the Group’s results from 1 January 2011 which approximates the date of acquisition. Therefore, in accordance with the IAS 27 and IAS 1 the Biolik’s financial results were included to these condensed consolidated financial statements for the six months period ended 30 June 2012 and for the comparative six months period ended 30 June 2011.

From the date of acquisition Biolik has contributed RR 203,347 of revenue and RR 13,337 of profit before tax to the consolidated financial results of the Group for the 6 months ended 30 June 2011.

5. Joint ventures

5.1. Joint venture “NauchTechStroy Plus”

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

As at 31 December 2010 the Group held 50% interest in “NTS+” of RR 150,004, which was fully paid in cash. In May 2011, the Company and another participant of this joint venture approved the plan for a new participant to join “NTS+” by an increasing of share capital of “NTS+” by RR 366,200 which was fully paid in cash by all participants of that joint venture. In accordance with Russian legislation an increase in the share capital of the company must be done in proportion to ownership interests of its participants after this increase taking into account the amount of previously paid-up share capital. The Group paid RR 99,823 and in accordance with new charter documents the Group’s interest in the joint venture “NTS+” decreased from 50% to 37.5%. The charter documents of “NTS+” require unanimous agreement for financial and operating decisions among the all participants.

Because the Group’s share in net assets of NTS+ after the date of increase of share capital was less than the Group’s share in net assets before the date of increase of share capital the Group recognized a loss RR 53,142 presented as other expenses for the six months period ended 30 June 2011 (Note 25).

NTS+ did not generate any revenues or income in 2011 and 2012. The Group’s share in aggregate amounts of “NTS+” assets, liabilities and expenses proportionately included in the Group’s consolidated financial statements are detailed below:

	30 June 2012 (unaudited)	**31 December 2011 (audited)**
Current assets	**56,064**	101,562
Long-term assets	**362,676**	332,745
Current liabilities	**(37,509)**	(42,332)

	6 months 2012 (unaudited)	**6 months 2011 (unaudited)**
Expenses	**6,605**	**8,740**

Neither NTS+, nor the Group have any commitments in respect of the operations of the joint venture.

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

5. Joint ventures (continued)

5.2. Foundation of joint venture “Pharmstandard-Medtechnika”

In 2nd quarter 2011, the management of the Group approved the plan for the foundation of a new joint venture with 75% of Company’s share in this joint venture. Hereinafter, the Company and another participant, the “DGM Trading Limited” (“DGM”), signed a shareholders’ agreement for the foundation of that joint venture. On 28 June 2011 in accordance with the terms of shareholders’ agreement “Pharmstandard-Medtechnika” LLC (“Pharmstandard-Medtechnika”) was registered in the Russian Federation as a joint venture of the Company and “DGM”.

“Pharmstandard-Medtechnika” was formed as a trading and distributing company for the purposes of distribution medical equipment as manufactured by the Group and by DGM. Since 3rd quarter 2011 “Pharmstandard-Medtechnika” started its activity. The management of the Company considers the formation of new joint venture “Pharmstandard-Medtechnika” as an additional source of revenue and profitability in medical equipment operating segment.

The aggregate amounts of “Pharmstandard-Medtechnika” assets, liabilities, revenue and expenses excluding intra-group transactions and proportionately included in the Group’s consolidated financial statements are detailed below:

	30 June 2012 (unaudited)	**31 December 2011 (audited)**
Current assets	**183,450**	198,048
Long-term assets	**2,215**	-
Current liabilities	**(19,969)**	(86,661)

	6 months 2012 (unaudited)	**6 months 2011 (unaudited)**
Revenue	**104,292**	**-**
Expenses	**(118,604)**	**-**

Neither “Pharmstandard-Medtechnika”, nor the Group have any commitments in respect of the operations of the joint venture.

6. Treasury shares

Purchase of 4.83% of the Company’s ordinary shares

On 18 January 2011, OJSC “Pharmstandard-Leksredstva” proposed voluntary offer to purchase up to 1,850,000 ordinary shares of the Company with par value 1 (one) Russian Rouble representing about 4.9% of the Company’s authorized share capital. Under the terms of the offer, all Company’s shareholders were invited to sell their ordinary shares of the Company at a price of 3,000 Russian Roubles per one share. On 18 February 2011, OJSC “Pharmstandard-Leksredstva” closed this offer and purchased 1,824,750 ordinary shares of the Company representing about 4.83% of the Company’s authorized share capital for a cash consideration of RR 5,474,250. The difference between the face value of these ordinary shares and consideration paid was debited directly to retained earnings.

6. Treasury shares (continued)

Purchase of 2.02% of the Company’s ordinary shares

On 9 June 2012, the management of the Group approved a purpose to purchase of Company’s ordinary shares at market price by the Company’s subsidiary OJSC “Pharmstandard-Leksredstva” for a total cash consideration not more of RR 1,100,000. In June 2012 OJSC “Pharmstandard-Leksredstva” purchased 765,000 ordinary shares of the Company representing about 2.02% of the Company’s authorized share capital for a total cash consideration of RR 1,079,415. The difference between the face value of these ordinary shares and consideration paid was debited directly to retained earnings.

After these transactions, “Pharmstandard-Leksredstva” holds 6.85% of issued shares of the Company as treasury shares.

7. Non-current assets classified as held for sale

Sale of non-current assets classified as held for sale

On 9 June 2011, the Company’s subsidiary “Pharmstandard-Phitofarm-NN” LLC was classified as non-current asset held for sale reflected in the consolidated statement of financial position as of 31 December 2011 of RR 18,030. This entity was sold in March 2012 for a cash consideration of RR 17,850.

8. Segment information

For the management purposes, the Group is organised into two reportable operating segments: (1) production and wholesale of pharmaceutical products and (2) production and wholesale of medical equipment. Before 30 June 2011, the medical equipment segment was primarily represented by OJSC “TZMOI”, as production subsidiary, and by equipment department of OJSC “Pharmstandard”, as managing and logistics division. Since 3rd quarter 2011 the staff of equipment department of OJSC “Pharmstandard” were transferred to “Pharmstandard-Medtechnika” LLC (Note 5.2). This joint venture is represented as managing, distributing and logistics company for the purpose of distribution of TZMOI and DGM products. In accordance with IAS 31 its financial results were proportionally included in the medical equipment segment’s results.

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

Management monitors the segment s’ assets, liabilities, sales, gross profit, segments’ 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 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 30 June 2012 and 31 December 2011. 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.

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

8. Segment information (continued)

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

Six months period ended 30 June 2012 (unaudited)	**Production and wholesale of pharmaceutical products**	**Production and wholesale of medical equipment**	**Group**
Sales to external customers	15,786,471	380,573	16,167,044
Total revenue	**15,786,471**	**380,573**	**16,167,044**
Gross profit	6,078,990	149,039	6,228,029
Segment result	**3,768,690**	**56,785**	**3,825,475**
Financial income, net			53,913
Profit before income tax			**3,879,388**
Income tax expense			(804,761)
Profit for the period			**3,074,627**
Acquisition of property, plant and equipment (Note 10)	531,252	17,176	548,428
Depreciation and amortisation	434,550	15,914	450,464

Six months period ended 30 June 2011 (unaudited)	**Production and wholesale of pharmaceutical products**	**Production and wholesale of medical equipment**	**Group**
Sales to external customers	18,382,380	271,129	18,653,509
Total revenue	**18,382,380**	**271,129**	**18,653,509**
Gross profit	7,137,752	63,130	7,200,882
Segment result	**5,163,484**	**(12,455)**	**5,151,029**
Financial income, net			96,912
Profit before income tax			**5,243,894**
Income tax expense			(1,050,661)
Profit for the period			**4,197,280**
Acquisition of property, plant and equipment (Note 10)	922,582	4,033	926,615
Depreciation and amortisation	419,547	18,044	437,591

The following table presents segment assets of the Group’s operating segments as at 30 June 2012 and 31 December 2011:

	Production and wholesale of pharmaceutical products	**Production and wholesale of medical equipment**	**Group**
Segment assets			
At 30 June 2012 (unaudited)	**41,976,703**	**961,568**	**42,938,271**
At 31 December 2011 (audited)	42,637,626	978,991	43,616,617

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

8. Segment information (continued)

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

The table below shows the revenue from these customers:

Customer	6 months 2012 (unaudited)	6 months 2011 (unaudited)
The Ministry of health and social development (state open auctions)	**2,097,207**	6,329,547
Customer 1 (only third party products, Note 21)	**2,346,268**	1,650,744
Customer 2	**1,822,040**	1,652,331
Customer 3	**1,878,514**	1,327,625
Customer 4	**1,206,052**	1,001,683

The Group's sales to the Ministry of health and social development represent about 13% of the Group's revenue for 6 months 2012 (6 months 2011: 33%).

9. Balances and transactions with related parties

The nature of the related party relationships for those related parties with whom the Group entered into transactions or had balances outstanding at 30 June 2012 and 31 December 2011 are detailed below.

Balances with related parties

30 June 2012 (unaudited)	Short-term financial assets (a)	Cash – (a) Note 15	Short-term loans and borrowings – (b)	Trade and other receivables – (a) Note 13	Trade payables, other payables and accruals – (c) Note 19
Other related parties[1]	1,558,803	4,539,809	32,900	33,658	1,496,948
Total	**1,558,803**	**4,539,809**	**32,900**	**33,658**	**1,496,948**

31 December 2011 (audited)	Short-term financial assets (a)	Cash and short-term deposits – (a) Note 15	Short-term loans and borrowings – (b)	Trade and other receivables – (a) Note 13	Trade payables, other payables and accruals – (c) Note 19
Other related parties	200,000	5,285,895	32,900	20,922	1,391,371
Total	**200,000**	**5,285,895**	**32,900**	**20,922**	**1,391,371**

(a) These balances primarily represented (i) cash, short-term bank deposits and interest receivable at a bank controlled by a related party (Notes 13, 15 and 16), (ii) short-term loans provided to a majority shareholder (refer to sub-section "Loans provided to majority shareholder" below and Note 16) and (iii) immaterial trade receivables for agency fee from sales of certain products of the related party.

(b) This balance primarily represented non-interest loan received by "NauchTechStroy Plus" LLC from another participant of this joint-venture (Note 17). Since July 2011, this participant is a member of the Board of Directors of the Company.

(c) This balance represented payables for supply of the third-party products, payables for certain products sold under agency contracts with related parties, payables for other services and obligation for the license fee described in section "Transactions with related parties" below.

Cash balances with the related bank carry no interest.

[1] Other related parties, represent entities under control of the Company's shareholders and key management.

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

9. Balances and transactions with related parties (continued)

Significant transactions with related parties

Statement of comprehensive income caption	Relationship	6 months 2012 (unaudited)	6 months 2011 (unaudited)
Revenue	Other related parties	**29,692**	4,620
Interest income from deposits placed in a related bank (included in financial income)	Other related parties	**1,117**	13,848
License fee (included in distribution costs) (A)	Other related parties	**(9,367)**	(8,560)
Warehouse rental expenses (included in distribution costs) (B)	Other related parties	**(45,347)**	(38,521)
Office rental expenses (included in general and administrative expenses) (B)	Other related parties	**(28,369)**	(17,073)
Cost of sales (C)	Other related parties	**(151,884)**	(620,772)
Agency fee income (included in other income) (D)	Other related parties	**107,315**	-
Interest income from loan provided to majority shareholder	Majority shareholder	**8,300**	-

(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 parties.

(C) Cost of sales

In 2010, the Group signed purchase contracts for supply of third-party product Koagil VII manufactured by a related party. RR 76,379 (6 months 2011: RR 620,772) includes the cost of this product sold by the Group primarily through open state auctions. As of 30 June 2012 the Group had RR 5,005 of unsold inventory balances of Koagil VII. In addition, the remaining amount of RR 75,535 (6 months 2011: nil) included in the cost of sales line primarily represents the cost of raw materials purchased from a related party.

(D) Agency fee income

In 2012, the Company held agency contracts with related parties for distribution and sales of certain products owned by these related parties.

Loans provided to majority shareholder

In April 2012, the Company’s majority shareholder “Augment Investments Limited” (“Augment”), a company registered under the laws of Cyprus (see Note 20), applied to the Company with request to provide short-term interest loan for the purpose of financing the current business activity of Augment not related to the Group. The Group provided unsecured US$ denominated short-term loans to Augment with total maturity date not later than 4 October 2012 with fixed interest rate of 3.5% per annum by two tranches:

- in April 2012, of US$ 27,500 thousand (RR 902,465 at the exchange rate as of 30 June 2012); and
- in June 2012, of US$ 20,000 thousand (RR 656,338 at the exchange rate as of 30 June 2012).

Compensation to key management personnel

Total compensation to key management personnel, amounted to RR 14,243 for the 6 months period ended 30 June 2012 (6 months 2011: RR 12,271). Such compensation represents the payroll and bonuses included in general and administrative expenses.

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

10. Property, plant and equipment

During the six months period ended 30 June 2012 the Group acquired property, plant and equipment with a cost of RR 548,428 (6 months 2011: RR 926,615). Property, plant and equipment with net book value of RR 12,695 were disposed of by the Group during the six months period ended 30 June 2012 (6 months 2011: RR 19,344), resulting in loss on disposal of RR 3,032 (6 months 2011: RR 9,793). Total depreciation of the property, plant and equipment for the six months period ended 30 June 2012 was RR 275,726 (6 months 2011: RR 262,853). During the six months period ended 30 June 2012 the Group recognized an impairment loss of property, plant and equipment in the amount of RR 1,506 and reversal of impairment in the amount of RR 18,291 (Note 25).

In 2012 and 2011, the Group did not borrow money for capital construction and there were no new qualifying assets, therefore no interest expense was capitalized.

11. Intangible assets

There were no acquisitions and disposals of the intangible assets for the six months period ended 30 June 2012 and 2011.

Total amortization of the intangible assets for the six months period ended 30 June 2012 was RR 174,738 (6 months 2011: RR 174,738). This amount is included in the cost of sales line item (Note 22).

12. Inventories

Inventories consist of the following:

	30 June 2012 (unaudited)	**31 December 2011 (audited)**
Raw materials - at cost	**4,868,928**	3,369,275
Work in progress - at cost	**230,957**	211,645
Finished goods - at net realisable value	**3,913,276**	3,564,371
	9,013,161	7,145,291

13. Trade and other receivables

	30 June 2012 (unaudited)	**31 December 2011 (audited)**
Trade receivables (net of allowance for impairment of receivables of RR 268,173 (31 December 2011: RR 135,600))	**12,006,720**	13,973,032
Interest receivable – third parties	**48,863**	145,744
Interest receivable – related parties (Note 9)	**8,520**	8,450
Other receivables (a)	**50,484**	120,195
	12,114,587	14,247,421

(a) Other receivables represent cash rebates on procurement due from vendors.

At 30 June 2012 RR 211,479 (31 December 2011: RR 287,216) of trade receivables were denominated in currencies other than Russian Roubles, primarily in US$ (RR: 125,885) and Ukrainian Hryvnia (RR: 84,343).

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

14. Prepayments

	30 June 2012 (unaudited)	31 December 2011 (audited)
Trade prepayments for services and materials	**366,262**	245,734
Trade prepayments for third parties products	**-**	500,000
	366,262	745,734

15. Cash and short-term deposits

Cash and short-term deposits consist of the following:

	30 June 2012 (unaudited)	31 December 2011 (audited)
Cash in related bank – Russian Roubles (Note 9)	**2,713,766**	5,250,330
Cash in related bank – US$ and Euro (Note 9)	**1,826,043**	35,565
Cash in bank – Russian Roubles	**28,662**	22,746
Cash in bank – Ukrainian Hryvnia	**143**	7,072
Cash in bank – US$ and Euro	**12,946**	6,049
Short-term bank deposits with original maturity less than 90 days – Ukrainian Hryvnia (a)	**7,028**	30,042
Cash deposits on state open auctions – Russian Roubles (b)	**180,276**	31,268
	4,768,864	5,383,072

(a) Short-term bank deposits bear an interest rate of 14% p.a. (31December 2011: 10.5%).

(b) This item represents cash deposits restricted for use placed to secure participation in state open auctions announced by the Government of the Russian Federation. These cash deposits are interest free and released within 90 days from the date of deposit.

16. Short-term financial assets

	30 June 2012 (unaudited)	31 December 2011 (audited)
Accounted for as loans and receivables:		
Promissory notes	**623,220**	586,820
Short-term bank deposits – Russian Roubles	**400,000**	2,300,000
Short-term bank deposits in related bank – Russian Roubles (Note 9)	**-**	200,000
Short-term bank deposits – US$	**328,169**	321,961
Short-term loans to related parties (Note 9)	**1,558,803**	-
Other short-term loan	**25,000**	25,000
Accounted for as available for sale:		
Securities	**10,016**	9,340
Other	**2,580**	2,920
	2,947,788	3,446,041

Short-term bank deposits as of 30 June 2012 bear interest at a rate 10% p.a. for US$ denominated deposits and 8.5% p.a. for Russian Roubles denominated deposits (31 December 2011: 10% p.a. for US$ denominated deposits and from 6.5% p.a. to 8.5% p.a. for Russian Roubles denominated deposits). The short-term loan provided to third parties as of 30 June 2012 bears interest at 14% p.a. (31 December 2011: 14% p.a.).

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

17. Short-term borrowings and loans

	30 June 2012 (unaudited)	31 December 2011 (audited)
Short-term loans – Russian Roubles	**650**	700,650
Loans from related parties – Russian Roubles (Note 9)	**32,900**	32,900
	33,550	733,550

18. Taxes payable other than income tax

	30 June 2012 (unaudited)	31 December 2011 (audited)
Value-added tax	**289,910**	512,696
Property and other taxes	**79,086**	86,589
	368,996	599,285

19. Trade and other payables

	30 June 2012 (unaudited)	31 December 2011 (audited)
Trade payables	**782,224**	1,412,990
Payables for products procurement – third parties (a)	**6,402,596**	7,346,166
Payables for products procurement and other payables – related parties [Note 9] - (a)	**1,496,948**	1,391,371
Advances received	**33,239**	103,359
Issued promissory notes – US$ and Euro (b)	**273,453**	277,030
Other payables and accruals	**627,057**	704,072
	9,615,517	11,234,988

(a) These balances represent payables for branded third parties products manufactured by other pharmaceutical companies.

(b) This balance primarily represents the interest free promissory notes issued by the Company’s subsidiary “Pharmstandard-Biolik” before the date of acquisition. The promissory notes are payable to the companies affiliated with the non-controlling shareholders of Biolik. These payables have arisen prior to the acquisition of Biolik by the Company in January 2011. These notes remain outstanding as of 30 June 2012 and 31 December 2011 and are payable on demand (Note 4).

At 30 June 2012 RR 932,028 of total payables were denominated in currencies other than Russian Rouble, primarily in US$ (31 December 2011: RR 1,597,538).

20. 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 2011 and 2012 except for the acquisition of Company’s treasury shares by “Pharmstandard-Leksredstva” as described in Note 6.

As of 30 June 2012 and 31 December 2011 more than half of voting shares of OJSC “Pharmstandard” were held by Augment controlled by Victor Kharitonin, a Russian citizen.

In May 2007, 16,349,408 ordinary shares representing 43.3% 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.

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

20. Share capital (continued)

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. In 1st Quarter 2011, approximately 4.83% of the Company’s shares were acquired by the Company’s subsidiary “Pharmstandard-Leksredstva” and were recognized as treasury shares (for more details see Note 6). Also, in June 2012, approximately 2.02% of the Company’s shares were acquired by the Company’s subsidiary “Pharmstandard-Leksredstva” and were recognized as treasury shares (for more details see Note 6).

After these transactions, “Pharmstandard-Leksredstva” holds 6.85% of issued shares as treasury shares, Augment holds 54.32% of share capital and 38.83% of share capital is publicly listed of which 27.56% is on the LSE.

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

Earnings per share

Earnings per share are as follows:

	6 months 2012	6 months 2011
	----------(unaudited)	----------
Weighted average number of ordinary shares outstanding (Note 6)	**35,967,853**	36,576,103
Profit for the period attributable to the shareholders	**3,059,793**	4,179,320
Basic and diluted earnings per share, Russian Roubles	**85.07**	114.26

21. Revenue

Revenue breakdown by product groups comprised the following:

	6 months 2012	6 months 2011
	----------(unaudited)	----------
Pharmaceutical products		
Over the Counter (“OTC”)		
Branded	**4,496,397**	5,714,613
Non-branded	**1,014,592**	953,633
	5,510,989	6,668,246
Prescription		
Branded	**1,866,272**	1,464,838
Non-branded	**393,352**	347,158
	2,259,624	1,811,996
Third parties products (a)	**7,763,638**	9,754,023
Other – substances and APIs	**252,220**	148,115
Total pharmaceutical products	**15,786,471**	18,382,380
Medical equipment	**380,573**	271,129
	16,167,044	18,653,509

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

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

22. Cost of sales

The components of cost of sales were as follows:

	6 months 2012	6 months 2011
	----------(unaudited)----------	
Materials and components	**2,326,150**	2,434,184
Third parties products	**6,454,711**	8,009,903
Production overheads	**614,883**	474,724
Depreciation and amortisation	**382,811**	393,014
Direct labour costs	**160,460**	140,802
	9,939,015	11,452,627

23. Selling and distribution costs

Selling and distribution costs were as follows:

	6 months 2012	6 months 2011
	----------(unaudited)----------	
Advertising	**998,701**	659,121
Labour costs	**617,784**	557,280
Freight, communication and insurance of goods in transit	**80,917**	93,668
Trainings and other services	**16,424**	25,758
Certification expenses	**29,706**	35,805
Rent	**45,653**	38,789
Commission and license fee	**38,340**	33,869
Materials, maintenance and utilities	**49,806**	58,724
Travel and entertainment	**54,353**	39,655
Depreciation	**40,249**	29,528
Other expenses	**17,451**	15,892
	1,989,384	1,588,089

24. General and administrative expenses

General and administrative expenses were as follows:

	6 months 2012	6 months 2011
	----------(unaudited)----------	
Labour costs	**418,807**	332,533
Services, legal, audit and consulting expense	**30,579**	46,077
Travel and entertainment	**14,453**	11,700
Taxes other than income tax	**11,107**	9,894
Property insurance	**10,177**	9,513
Freight and communication	**13,047**	12,254
Depreciation	**27,404**	15,049
Rent	**38,129**	20,012
Materials, maintenance and utilities	**58,747**	51,945
Other	**16,892**	17,512
	639,342	526,489

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

25. Other income and other expenses

Other income comprised the following:

	6 months 2012	6 months 2011
	----------(unaudited)----------	
Foreign exchange gain, net	**150,133**	116,976
Income from non-core operations (a)	**133,854**	50,530
Cash rebates (b)	**-**	63,427
Reversal of impairment – property, plant and equipment (Note 10)	**18,291**	1,509
Other	**1,804**	-
	304,082	232,442

(a) Income from non-core operations primarily includes (i) agency fee earned by the Group in respect of sale of certain third-parties products, including products manufactured by related parties (ii) income from sale of materials and other assets not included in other categories (iii) income from tolling operation (iv) income from other non-core services.

(b) Cash rebates represent vendor rebates on procurement of several products which were purchased and realized in 2010. These cash rebates were recognized in accordance with the terms of rebate contracts agreed with vendors in 2011 after the date of release of consolidated financial statements for the year ended 31 December 2010.

Other expenses comprised the following:

	6 months 2012	6 months 2011
	----------(unaudited)----------	
Loss from disposal of property, plant and equipment	**3,032**	9,793
Expense related to the joint venture – Note 5.1 (a)	**-**	53,142
Charity	**1,145**	15,631
Bank charges (b)	**11,580**	20,199
Other taxes and penalties	**37,498**	26,517
Impairment of property, plant and equipment (Note 10)	**1,506**	35,902
Other	**23,149**	6,533
	77,910	167,717

(a) In May 2011 the Group's share in "NTS+" decreased from 50% to 37.5% (Note 5.1). As a result of a decrease of the Group's share in net assets of the joint venture, the Group recognised a loss in the amount of RR 53,142 presented as other expenses.

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

26. Financial income and expense

Financial income and expense comprised the following:

	6 months 2012	6 months 2011
	----------(unaudited)----------	
Financial income:		
Income from changes in fair value of Interest Rate Swap (a)	**-**	8,043
Interest income from loans and deposits	**54,258**	107,427
Other	**676**	-
	54,934	115,470
Financial expense:		
Loss from Interest Rate Swap (a)	**-**	7,196
Interest expense on borrowings and loans	**1,021**	10,912
Other	**-**	450
	1,021	18,558

(a) In December 2011 the terms of the Group's interest swap agreement expired.

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

27. Income tax

	6 months 2012	6 months 2011
	----------(unaudited)----------	
Income tax expense – current	**859,622**	1,014,112
Deferred tax expense– origination and reversal of temporary differences	**(54,861)**	36,549
Income tax expense	**804,761**	1,050,661

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

	6 months 2012	6 months 2011
	----------(unaudited)----------	
Profit before income tax	**3,879,388**	5,247,941
Theoretical tax charge at Russian statutory rate of 20%	**775,878**	1,049,588
Effect of the difference in tax rates in countries other than the Russia	**229**	133
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	**28,654**	940
Income tax expense	**804,761**	1,050,661

Movements in deferred tax balances were as follows:

	31 December 2011 (audited)	Temporary differences recognition and reversal in profit and loss	30 June 2012 (unaudited)
Tax effects of deductible temporary differences – asset (liability):			
Property, plant and equipment (Note 10)	(285,485)	18,197	(267,288)
Intangible assets (Note 11)	(453,957)	15,065	(438,892)
Trade and other receivables	(2,363)	9,213	6,850
Inventories	131,881	28,349	160,230
Trade and other payables	20,112	(15,621)	4,491
Financial instruments	5,258	(258)	5,000
Other	2,764	(84)	2,680
Total net deferred tax liability	**(581,790)**	**54,861**	**(526,929)**

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;
- write down of inventory to net realizable value;
- amortisation of trade marks in excess of the amortisation for tax purposes; and
- deemed cost adjustments upon conversion to IFRS.

The aggregate amount of temporary differences associated with investments in subsidiaries and joint ventures for which deferred tax liabilities have not been recognised was approximately RR 11,571,539 as at 30 June 2012 (31 December 2011: RR 10,534,712).

28. Contingencies, commitments and operating risks

Operating environment of the Group

Russia, where majority of the Group’s operations are located, continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.
The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2011 and 2012, the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group’s future financial position, results of operations and business prospects.

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

Taxation

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

As at 30 June 2012 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 30 June 2012. 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.

Guarantees issued

In December 2011, the Group provided certain unsecured guaranties in the total amount of RR 137,104 with maturity period of one year for one of the Company’s key customers to allow certain distribution activities to be performed by this customer.

29. Events after the reporting period

Finalization of acquisition of Bigpearl outstanding shares

As described in Note 3 the Company signed contracts with shareholders of “Bigpearl Trading Limited” (“Bigpearl”) with the purpose of acquiring of the 50.005% of outstanding Bigpearl shares. In July 2012, the Company finalized the acquisition and obtained control over Bioprocess group of companies. The total cash consideration for this acquisition is US$ 57 million, of which US$ 32 million (RR: 1,056,454 at the exchange rate as of the dates of payments) was paid in June 2012 as an advance for acquisition and the remainder of US$ 25 million (RR: 798,773 at the exchange rate as of the date of payment) was paid by in July 2012. In accordance with IFRS 3 and IAS 27, this acquisition will be accounted for as a business combination from the date of obtaining control and the financial results of Bioprocess group of companies will be included in the Group’s consolidated financial statements for the year ended 31 December 2012.