OJSC Pharmstandard

(organised as an Open Joint Stock Company under the laws of the Russian Federation)

Offering of Ordinary Shares in the form of Ordinary Shares and Global Depositary Receipts at an offer price of US$58.20 per Ordinary Share and US$14.55 per Global Depositary Receipt

Augment Investments Limited (the "Selling Shareholder") is offering 15,117,041 ordinary shares (the "Shares"), each with a nominal value of RUR1 per Share, of OJSC Pharmstandard, an open joint stock company incorporated under the laws of the Russian Federation (the "Company"), in an international offering (the "Offering") in the form of Shares and global depositary receipts ("GDRs" and, together with the Shares, the "Securities"). Four GDRs represent an interest in one Share.

The Offering comprises (i) an Offering of Shares and GDRs (the "Regulation S GDRs") outside the United States and the Russian Federation in reliance on Regulation S ("Regulation S") under the US Securities Act of 1933 (the "Securities Act"), (ii) an Offering of Shares and GDRs (the "Rule 144A GDRs") within the United States to qualified institutional buyers ("QIBs") as defined in, and in reliance on, Rule 144A under the Securities Act ("Rule 144A"), and (iii) an Offering of Shares in the Russian Federation.

The Selling Shareholder has granted Citigroup Global Markets Limited and UBS Limited (the "Joint Global Coordinators") an option (the "Over-Allotment Option"), exercisable within 30 days after the announcement of the offer price (the "Offer Price"), to purchase at the Offer Price up to 1,232,367 additional Shares (the "Optional Shares") in the form of GDRs amounting to up to 15% of the total number of GDRs sold in the Offering, solely to cover over-allotments in the Offering.

The Company has applied to the U.K. Financial Services Authority (the "FSA"), in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "FSMA"), for a block listing of up to 52,909,644 GDRs, of which 32,863,132 GDRs will be issued on or about 10 May 2007 (the "Closing Date"), 4,929,468 GDRs may be issued pursuant to the Over Allotment Option, if exercised in full, and 15,117,044 GDRs may be issued from time to time against the deposit of ordinary shares with The Bank of New York (the "Depositary") or its nominee on its official list (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") to admit such GDRs for trading under the symbol PHST LI on its main market for listed securities (the "Main Market") through its International Order Book (regulated market segment) (the "IOB"). The IOB is a regulated market for purposes of the Markets in Financial Instruments Directive 2004/39/EC. Application has been made for the Rule 144A GDRs to be designated as eligible for trading in The PORTAL™ Market of The Nasdaq Stock Market, Inc. ("PORTAL"). Admission to the Official List, together with admission to the Main Market ("Admission"), constitutes listing on a stock exchange. The Company expects that conditional trading in the GDRs on the London Stock Exchange through the IOB will commence on a "when and if issued" basis on or about 4 May 2007 and that unconditional trading in the GDRs on the London Stock Exchange through the IOB will commence on or about 11 May 2007. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if the Admission does not take place and will be at the sole risk of the parties concerned.**

This prospectus (the "Prospectus"), upon approval by the FSA, is a prospectus relating to the Company prepared in accordance with the Prospectus Rules of the FSA made under section 73A of the FSMA (the "Prospectus Rules"). This Prospectus will be made available to the public in accordance with the Prospectus Rules.

The ordinary shares of the Company were listed on the "V" list on the Russian Trading System ("RTS") on 20 November 2006 and on the "I" list on the Moscow Interbank Currency Exchange ("MICEX") on 26 April 2007, but are not actively traded. Prices for ordinary shares traded on the RTS and MICEX may not reflect the Offer Price. Prior to the Closing Date, there has not been any public market for the GDRs.

An investment in the Securities involves a high degree of risk. See "Risk Factors." The GDRs are of a specialist nature and should normally only be purchased and traded by investors who are particularly knowledgeable in investment matters.

The Offering does not constitute an offer to sell, or the solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The Securities have not been, and will not be, registered under the Securities Act and may not be offered or sold within the United States except to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act or outside the United States except in offshore transactions in reliance on Regulation S under the Securities Act. Prospective purchasers are hereby notified that sellers of the Securities may be relying on an exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of further selling restrictions and certain restrictions on transfers of the Securities, see "Selling and Transfer Restrictions."

The Joint Global Coordinators will offer the Securities when, as and if delivered to and accepted by them, subject to their right to reject orders in whole or in part. The Regulation S GDRs will be evidenced by a Master Regulation S Global Depositary Receipt (the "Master Regulation S GDR"), which will be issued by the Depositary, registered in the name of The Bank of New York Depository (Nominees) Limited and deposited with The Bank of New York, London Branch, as common depositary for Euroclear Bank N.V./S.A. ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg"). Euroclear and Clearstream Luxembourg are expected to accept the GDRs for settlement in their respective book-entry settlement systems. The Rule 144A GDRs will be evidenced by a Master Rule 144A Global Depositary Receipt (the "Master Rule 144A GDR" and, together with the Master Regulation S GDR, the "Master GDRs") registered in the name of Cede & Co., as nominee for The Depositary Trust Company ("DTC") in New York. The Company expects that delivery of the GDRs will be made through the facilities of DTC, with respect to the Rule 144A GDRs, and Euroclear and Clearstream, Luxembourg, with respect to the Regulation S GDRs, on or about the Closing Date. Except as set forth herein, investors may hold beneficial interests in and transfer the GDRs only through DTC, Euroclear or Clearstream, Luxembourg and their direct and indirect participants, as applicable. Transfers within Euroclear and Clearstream Luxembourg, or within DTC, will be in accordance with the usual rules and operating procedures of the relevant system.

Joint Global Coordinators and Joint Bookrunners

Citi **UBS Investment Bank**

The date of this Prospectus is 4 May 2007.

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

If you are in any doubt about the contents of this document, you should consult your stockbroker, bank manager, solicitor, accountant or financial adviser. In making an investment decision, prospective investors must rely on their own examination of the Company and the terms of this Prospectus, including the risks involved.

The Company accepts responsibility for the information contained in this Prospectus. To the best of the Company's knowledge (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The content of our website does not form any part of this Prospectus.

The Joint Global Coordinators are acting exclusively for the Company and the Selling Shareholder and no one else in connection with the Offering. They will not regard any other person as their respective clients in relation to the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering or any transaction or arrangement referred to in this Prospectus.

No person is authorised to give any information or to make any representation in connection with the offering or sale of the Securities other than as contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by the Company, the Selling Shareholder, the Depositary or either of the Joint Global Coordinators. This Prospectus is being furnished by the Company and the Selling Shareholder solely for the purpose of enabling a prospective investor to consider the purchase of the Securities. No representation or warranty, express or implied, is made by the Joint Global Coordinators or any of their affiliates or advisors as to the accuracy or completeness of any information contained in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by the Joint Global Coordinators as to the past or the future. Any reproduction or distribution of this Prospectus, in whole or in part, any disclosure of its contents, except to the extent that such contents are otherwise publicly available, and any use of any information herein for any purpose other than considering an investment in the Securities, is prohibited. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct at any time subsequent to such date. Each prospective investor, by accepting delivery of this Prospectus, agrees to the foregoing.

This Prospectus does not constitute an offer to sell, or a solicitation by or on our behalf, of the Selling Shareholder, the Depositary or the Joint Global Coordinators to any person to subscribe for or purchase any of the GDRs in any jurisdiction where it is unlawful for such person to make such an offer or solicitation. The distribution of this Prospectus and the offering or sale of the Securities in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus may come are required by the Company, the Selling Shareholder and the Joint Global Coordinators to inform themselves about and to observe such restrictions. No action has been taken by the Company, the Selling Shareholder or the Joint Global Coordinators that would permit, otherwise than under the Offering, an offer of the Securities, or possession or distribution of this Prospectus or any other offering material or application form relating to the Securities in any jurisdiction where action for that purpose is required. This Prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorised or is unlawful. See "Plan of Distribution."

The Regulation S GDRs and the Rule 144A GDRs will be delivered by the Depositary, pursuant to the Deposit Agreement (the "Deposit Agreement"), dated 30 April 2007, between the Company and the Depositary. The Shares represented by the GDRs will be registered in the name of the Depositary or its nominee.

In connection with the Offering, UBS Limited (the "Stabilising Manager"), or persons acting on its behalf, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market for a limited period after the issue date. However, the Stabilising Manager is not required to enter into such transactions. Such stabilising, if commenced, may be discontinued at any time, and may only be undertaken during a period of 30 days after the announcement of the Offer Price (the "Stabilisation Period").

In connection with the Offering, the Stabilising Manager or any persons acting for the Stablising Manager, may, for stabilisation purposes, over-allot GDRs up to a maximum of 15% of the total number of GDRs being sold in the Offering. For the purposes of allowing the Stabilising Manager to cover short positions resulting from

any such over-allotments and/or from sales of GDRs effected by the Stabilising Manager during the Stabilisation Period, the Selling Shareholder has granted the Stabilising Manager the Over-Allotment Option pursuant to which the Stabilising Manager may require the Selling Shareholder to sell additional Shares, to be issued by the Depositary as GDRs, up to a maximum of 15% of the total number of GDRs being sold in the Offering, at the Offer Price. The Over-Allotment Option is exercisable in whole or in part, upon notice by the Joint Global Coordinators, at any time during the Stabilisation Period. Any GDRs made available pursuant to the Over-Allotment Option will be issued on the same terms and conditions as the GDRs being issued in the Offering and will form a single class for all purposes with the other GDRs.

A copy of this Prospectus can be obtained at the Company's registered office. See "General Information." The information set forth in this Prospectus is only accurate as of the date on the front cover of this Prospectus. The business and financial condition of the Company may have changed since that date.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

In any European Economic Area ("EEA") Member State that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any Member State, the "Prospectus Directive"), this communication is only addressed to, and is only directed at, qualified investors in that Member State within the meaning of the Prospectus Directive.

This Prospectus has been prepared on the basis that all offers of Securities will be made pursuant to an exemption under the Prospectus Directive, as implemented in Member States of the EEA, from the requirement to produce a prospectus for offers of GDRs. Accordingly, any person making or intending to make any offer within the EEA of Securities that are the subject of the placement contemplated in this Prospectus should only do so in circumstances in which no obligation arises for us or any of the Joint Global Coordinators to produce a prospectus for such offer. Neither we nor the Joint Global Coordinators have authorised, nor do we authorise, the making of any offer of Securities through any financial intermediary, other than offers made by Joint Global Coordinators that constitute the final placement of GDRs contemplated in this Prospectus.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

This Prospectus is only being distributed to and is only directed at: (i) persons who are outside the United Kingdom; (ii) investment professionals falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); and (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order, all such persons together being referred to as "relevant persons." The Securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents.

NOTICE TO INVESTORS IN THE UNITED STATES

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED WITH, OR APPROVED OR DISAPPROVED BY, THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER US REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT PASSED ON OR ENDORSED THE MERITS OF THE OFFERING OR THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE

CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT, NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION, MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO INVESTORS IN CANADA

The GDRs have not been nor will be qualified by a prospectus for sale to the public in Canada under applicable Canadian securities laws and, accordingly, any offer or sale of the GDRs in Canada will be made pursuant to an exemption from the applicable prospectus filing requirements, and otherwise in compliance with applicable Canadian laws. Investors in Canada should refer to the section entitled "Selling and Transfer Restrictions—Canada" and Ontario purchasers in particular should refer to the subsection therein entitled "Rights of Action for Damages or Rescission (Ontario)." **The financial statements and certain other financial information disclosed in this Prospectus are presented in roubles. On 2 May 2007, RUR1.00 = CAD0.04308, based on the Bank of Canada noon exchange rate.**

NOTICE TO INVESTORS IN THE RUSSIAN FEDERATION

Neither of the Joint Global Coordinators may offer, transfer or sell the GDRs as part of their initial distribution in the Russian Federation, or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

The GDRs have not been and will not be registered in Russia and are not intended for "placement" or "public circulation" in Russia. This Prospectus does not constitute an advertisement of the GDRs in Russia and may not be made publicly available in Russia.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus includes forward-looking statements, which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words "targets," "believes," "expects," "aims," "intends," "will," "may," "anticipates," "would," "could" or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond our control that could cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Among the important factors that could cause our actual results, performance or achievements to differ materially from those expressed in such forward-looking statements include those in "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Prospectus. These factors include:

- our ability to develop safe and efficacious products;
- our ability to obtain marketing approval and market acceptance of our products in development;
- the impact of competition;
- the growth of the Russian pharmaceutical market;
- existing and future regulations affecting our business; and
- general economic and business conditions, both internationally and within our industry.

These forward-looking statements speak only as at the date of this Prospectus. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any of such statements are based unless required to do so by the disclosure rules or the listing rules of the FSA.

AVAILABLE INFORMATION

For so long as any Shares or GDRs representing such Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934 (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such person pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

Our presence outside the United States and the United Kingdom may limit your legal recourse against us. All of our directors and executive officers reside outside the United States and the United Kingdom, principally in the Russian Federation. All or a substantial portion of the assets of our directors and executive directors and our assets and the assets of the Selling Shareholder are located outside the United States and the United Kingdom, principally in the Russian Federation. As a result, you may not be able to effect service of process within the United States or the United Kingdom upon us, our directors and executive officers or the Selling Shareholder or to enforce court judgements obtained in the United States or United Kingdom against us, our directors and executive officers or the Selling Shareholder in jurisdictions outside the United States and the United Kingdom. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon U.S. or U.K. securities laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation generally will be recognised by courts and State authorities in the Russian Federation only if an international treaty providing for recognition and enforcement of judgements in civil cases exists between the Russian Federation and the country where the judgement is rendered and/or a federal law is adopted in Russia providing for the recognition and enforcement of foreign court judgements.

There is no treaty between the United States and the Russian Federation or the United Kingdom and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgements in civil and commercial matters. These limitations may deprive you of effective legal recourse for claims related to your investment in the GDRs. Under the terms of the Deposit Agreement, owners of GDRs agree that any dispute, controversy or cause of action against us and/or the Depositary arising out of the GDRs, the Shares or other deposited securities, the Deposit Agreement or any transaction contemplated therein, will be referred to and resolved by arbitration in accordance with the rules of the London Court of International Arbitration in proceedings in London, England, as more fully described in the Deposit Agreement. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including the inexperience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors, and corruption and/or Russian courts' inability to enforce such orders. The possible need to re-litigate in the Russian Federation a judgement obtained in a foreign court on the merits may also significantly delay the enforcement of such judgement. Under Russian law, certain amounts may be payable by the claimant upon the initiation of any action or proceeding in any Russian court. These amounts in many instances depend on the amount of the relevant claim.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Statements of the Company. Our audited consolidated financial statements in respect of the financial years ended 31 December 2004, 2005 and 2006 included in this Prospectus (the "Consolidated Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Ernst & Young LLC has provided a qualified audit opinion with respect to the Consolidated Financial Statements that describes limitations on the scope of their audit for 2004 due to their inability to observe the counting of physical inventories at 1 January 2004 and their inability to obtain sufficient evidence concerning those inventory quantities by alternative means. See page F-2.

IFRS differs in certain respects from generally accepted accounting principles in the United States ("US GAAP"). We have not prepared and do not currently intend to prepare our financial statements in, or reconcile them to, US GAAP. You should consult your own professional advisers for an understanding of the differences between US GAAP and IFRS.

Financial Statements of Masterlek. The audited financial statements for CJSC Masterlek ("Masterlek") in respect of the financial years ended 31 December 2005 and 2006 included in this Prospectus (the "Masterlek Financial Statements") have been prepared in accordance with IFRS. Ernst & Young LLC has provided a qualified audit opinion with respect to the Masterlek Financial Statements that describes limitations on the scope of their audit for 2005 due to their inability to observe the counting of physical inventories at 1 January 2005 and their inability to obtain sufficient evidence concerning those inventory quantities by alternative means. See page F-31.

Unaudited Pro Forma Financial Information. The unaudited pro forma financial information for the year ended 31 December 2006 is presented to give effect to our acquisition of Masterlek as if such acquisition had occurred on 1 January 2006. See "Summary—Unaudited Pro Forma Consolidated Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Acquisitions."

Market data used in this Prospectus under the captions "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Market Overview," "Business" and "Regulatory Matters" and elsewhere have been extracted from official and industry sources and other sources we believe to be reliable. Sources of such information, data and statistics consist of excerpts from "The Russian Pharmaceutical Market Year 2006 Results" by Pharmexpert Market Research Center ("Pharmexpert"), "The Russian Pharmaceutical Market 2006" by DSM Group ("DSM") and the "Industry Forecast for Financial Services in Russia July 2006" by the Economist Intelligence Unit. The data and statistics contained in excerpts from "The Russian Pharmaceutical Market Year 2006 Results" by Pharmexpert are preliminary and subject to change. Such information has been accurately reproduced and, as far as we are aware and are able to ascertain from information published by the aforementioned sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

In this Prospectus, we refer to ourselves as the leading domestic pharmaceutical company in Russia, the fourth largest pharmaceutical company operating in Russia overall and the second ranked pharmaceutical company in the commercial segment of the Russian pharmaceutical market. We have based these statements on data and statistics of Pharmexpert and value of sales in 2006 on a pro forma basis (including the sales of Masterlek products, which we acquired in August 2006). We also refer to Arbidol® as the leading brand in the commercial segment. This statement is based on value of sales in 2006, also extracted from data and statistics of Pharmexpert. Data and statistics derived from Pharmexpert are based on retail sales figures, which differ from the wholesale figures we use to present our financial results. Although we use both retail sales figures and wholesale figures in our business, you should not rely on the retail sales figures presented in this Prospectus as being representative of our results of operations. In this Prospectus, references to "top-3," "top-5," "top-10," "top-15" and "top-20" are to the three, five, 10, 15 and 20 largest pharmaceutical companies operating in Russia or the largest selling brands (as the case may be), respectively, by value of sales. Unless otherwise stated, references to a "market-leading" brand are to a brand ranked in the top-5 brands within its respective therapeutic segment.

In this Prospectus, we refer to EBITDA. EBITDA is defined as profit for the accounting period before finance costs, income tax expense and depreciation and amortisation. We present EBITDA because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities

analysts, investors and other interested parties in the evaluation of companies in our industry. EBITDA has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of our operating results as reported under IFRS. For example, EBITDA does not reflect the impact of finance costs on our operating performance, the impact of income tax expense on our operating performance, or the impact of depreciation and amortisation on our operating performance. Also, other companies in our industry may calculate EBITDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure. We compensate for these limitations by relying primarily on our IFRS operating results and using EBITDA only supplementally. EBITDA is a measure of our operating performance that is not required by, or presented in accordance with, IFRS.

EBITDA should not be considered as an alternative to net profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

In addition, in this Prospectus we refer to pro forma EBITDA. This measure is defined as EBITDA adjusted to give effect to our acquisition of Masterlek as if such acquisition had occurred on 1 January 2006. In addition to the cautionary notes made with respect to EBITDA, pro forma EBITDA is unaudited pro forma financial information which is presented for illustrative purposes only and should not be relied upon as an indication of the EBITDA that we would have achieved if the Company had acquired Masterlek on 1 January 2006, nor should it be used as an indication of the EBITDA that the Company will achieve in the future.

In this Prospectus, we refer to net debt. Net debt is defined as short-term debt and long-term debt less cash and cash equivalents.

The official data published by Russian federal, regional and local government agencies, including such data in this Prospectus, is substantially less complete or researched than data available in other countries. Official statistics may also be produced on different bases than those used in other countries. Any discussion of matters relating to Russia in this Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

In this Prospectus, unless the context requires otherwise, all references to the "Company" are to OJSC Pharmstandard. Unless the context requires otherwise, all references to "we," "us," "our," or "the Group" are to the Company and its consolidated subsidiaries, taken as a whole.

In this Prospectus, all references to "RUR" and "rouble" are to the currency of the Russian Federation, all references to S$ are to the currency of the Republic of Singapore, all references to "€" and "euro" are to the currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European community and all references to "US$," "$," "US dollar" and "dollar" are to the currency of the United States of America. Solely for the convenience of the reader, and except as otherwise stated, this Prospectus contains translations of some rouble amounts into US dollars at a conversion rate, with respect to certain balance sheet and net debt data, of RUR26.33 to US$1.00, which was the official exchange rate quoted by the Central Bank of Russia ("CBR") on 31 December 2006, and, with respect to certain statement of operations, cash flow and other financial data, of RUR27.09 to US$1.00, which was the average exchange rate quoted by the CBR for 2006. No representation is made that the rouble or dollar amounts referred to herein could have been or could be converted into roubles or dollars, as the case may be, at these rates, at any particular rate or at all.

In this Prospectus, all references to "US" are to the United States of America, all references to "UK" are to the United Kingdom, all references to "Russia" are to the Russian Federation, all references to "EU" are to the European Union and its member states as of the date of this Prospectus, and all references to the "EEA" are to the European Economic Area and its member states as of the date of this Prospectus.

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

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SUMMARY

This summary must be read as an introduction to this Prospectus and any decision to invest in the Securities should be based on a consideration of the Prospectus as a whole, including the Risk Factors section. No civil liability will attach to us solely on the basis of this summary, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff investor may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.

Overview

We are the leading domestic pharmaceutical company in Russia, by sales value, and the fourth largest pharmaceutical company operating in Russia overall, also by sales value. We develop, manufacture, market and sell generic and, to a lesser extent, original pharmaceutical products in various formulations, primarily in Russia. Our product portfolio includes market-leading brands, such as Arbidol® (antiviral for systemic use), Pentalgin® (analgesics), Terpincod® (cough and cold), Complivit® (vitamins) and Flucostat® (antifungal). In 2006, we ranked second, by sales value, in the commercial segment of the Russian pharmaceutical market, and Arbidol® was the leading brand, by sales value, in this segment.

Our pharmaceutical product portfolio includes products that do not require a medical prescription ("over-the-counter" or "OTC" products), as well as prescription products. OTC products accounted for 82% of our pharmaceutical product sales in 2006 and, on a pro forma basis (including the sales of Masterlek products, which we acquired in August 2006), 82% of our pharmaceutical product sales in 2006. Our pharmaceutical product portfolio covers a wide range of therapeutic segments. In 2006, sales of products within our five core therapeutic segments, namely analgesics, cough and cold, vitamins, antiviral for systemic use and antifungal (the "Core Therapeutic Segments"), accounted for 71% of our pharmaceutical product sales and, on a pro forma basis, 73% of our pharmaceutical product sales. Our pharmaceutical product portfolio consists of both branded generics, which may be trademarked and which we promote through our direct sales force, and non-branded, or "pure," generics, which are older products that have demonstrated sustainable demand from consumers without the need for continued active promotion. Pharmaceutical products accounted for 86% of our sale of goods in 2006 and, on a pro forma basis, 87% of our sale of goods in 2006.

In August 2006, we acquired Masterlek, a Russian pharmaceutical company focused on the antiviral for systemic use and antifungal therapeutic segments, for a total cash consideration of RUR3,912.4 million. In line with our strategy to expand our market position in Russia through acquisitions that complement our product portfolio, Masterlek contributed approximately 30 products to our product portfolio, including market-leading brands such as Arbidol® and Flucostat®, which had sales of RUR1,484.8 million and RUR434.8 million, respectively, in 2006.

In addition to our pharmaceutical business, we also develop, manufacture, market and sell medical equipment, such as sterilising and distilling machines, and disposable medical products, such as syringes. Medical equipment and disposables accounted for 14% of our sale of goods in 2006 (compared to 18% in 2005) and, on a pro forma basis, 13% of our sale of goods in 2006.

We generated sale of goods and profit of RUR8,522.8 million and RUR2,036.1 million, respectively, in 2006 and, on a pro forma basis, RUR9,374.2 million and RUR2,006.3 million, respectively, in 2006. Our EBITDA and pro forma EBITDA (each as defined in "Presentation of Financial and Other Information") was RUR3,252.3 million and RUR3,497.2 million, respectively for the same period. We believe we were one of the fastest growing pharmaceutical companies in Russia in 2006.

The Russian Pharmaceutical Market

According to Pharmexpert, the Russian pharmaceutical market amounted to $10.7 billion in 2006, an increase of 27% compared to 2005, and is expected to reach up to $15.5 billion by 2008. We believe that the Russian pharmaceutical market offers significant growth opportunities. In particular, the commercial segment, which accounted for 63% of overall market sales value in 2006 (and 89% of our pharmaceutical product sales by value in 2006), exhibits a number of positive macro-economic trends, including, but not limited to, increased real disposable income per capita, greater acceptance of modern pharmaceuticals and an ageing population. See "Market Overview."

Competitive Strengths

We believe that we are well positioned to maximise our growth opportunities in the Russian pharmaceutical market because of the following competitive strengths:

- market-leading brands in Core Therapeutic Segments.
- modern and efficient manufacturing facilities.
- experienced sales force.
- proven product development strategy.
- highly experienced management team.

Strategy

Our goal is to further strengthen our position as the leading domestic pharmaceutical company in Russia by sales and become one of the top-3 pharmaceutical companies operating in Russia overall. The key elements of our strategy are as follows:

- promote our market-leading brands to drive sales growth and profitability.
- launch new pharmaceutical products in a timely manner to capture market share.
- maintain our focus on cost control.
- expand our sales and marketing capabilities.
- grow through acquisitions and realise synergies.
- exploit opportunities from government healthcare expenditure as they arise.

Risk Factors

The GDRs are specialised investments and should normally only be bought and traded by investors who are particularly knowledgeable in investment matters. Prior to making an investment decision, prospective investors should consider the risks relating to investing in the Securities and in a company whose assets and operations are located in Russia. Prospective investors should also consider the following risks relating to the operations of the Company prior to making an investment decision:

- we face intense competition in the Russian pharmaceutical market.
- our success depends on our ability to successfully market existing products and successfully develop and market additional pharmaceutical products.
- increasingly expensive or scarce active pharmaceutical ingredients ("API") or other raw materials could seriously impair our operations.
- we face intense competition in Russia for highly qualified management and technical personnel.
- our continued growth depends on increases in real disposable income and per capita spending on pharmaceutical products in Russia.
- our continued growth depends on our ability to identify and acquire businesses, technologies or products.
- we may not be able to successfully integrate acquisitions we make.
- our ability to set our prices solely depending on market forces is restricted by government limits on reimbursement of pharmaceutical products.
- we do not set the retail prices charged for our products.
- we could be subject to regulatory sanctions if we or third-party suppliers fail to comply with applicable pharmaceutical regulations.
- the Russian pharmaceutical market is characterised by high levels of counterfeit products.
- we may experience difficulties managing our growth.

- we may not realise the anticipated benefits from our implementation of the Electronic Territory Management System ("ETMS") software system.
- we may not realise the anticipated long-term benefits from our participation in the Federal Reimbursement Programme ("FRP").
- we may not realise the anticipated benefits from our participation in the Priority National Health Project ("PNHP").
- we are exposed to credit risk on accounts receivable from our distributors.
- our business strategy is subject to the risks inherent in the development of generic drugs.
- our ability to successfully market our pharmaceutical products depends, in part, upon the acceptance of our products by independent third parties.
- our intellectual property rights are difficult to protect.
- we depend on our trademarks and patents.
- third parties may claim that we infringe their intellectual property rights and may prevent us from manufacturing and selling certain of our products.
- changes in pharmaceutical legislation may adversely affect our business.
- we could face financial liabilities and disruptions of our operations if we improperly handle any of the dangerous materials we use in our business and accidents result.
- we may be exposed to product liability claims.
- our insurance coverage is not customary for other more developed countries.
- our ability to pay dividends is restricted.
- we do not have a fully integrated information system or a fully staffed IFRS division.
- foreign exchange fluctuations may adversely affect our results.
- the interests of our Selling Shareholder could conflict with our interests and/or the interests of other holders of our shares.
- our subsidiaries may be liquidated due to negative assets.
- unclear privatisation legislation could be exploited to challenge our ownership of our business.
- a challenge by minority shareholders to our past or future approval of transactions among our subsidiaries that require special approval in accordance with Russian legislation could adversely affect our business and results of operations.
- if the Federal Antimonopoly Service were to conclude that we are in contravention of antimonopoly legislation we could face various sanctions.

The Offering

The Offering will comprise the sale by the Selling Shareholder of 15,117,041 Shares of the Company, each with a nominal value of RUR1 per share, in the form of Shares and GDRs, each such GDR without nominal value and four such GDRs representing an interest in one Share. The Selling Shareholder will also make Shares in the form of GDRs available to the Joint Global Coordinators pursuant to the Over-Allotment Option amounting to up to 15% of the total number of GDRs sold in the Offering. The Shares and the GDRs are being offered outside the United States and the Russian Federation in reliance on Regulation S and within the United States to QIBs, as defined in, and in reliance on, Rule 144A, and the Shares are being offered in the Russian Federation.

Use of Proceeds

The Selling Shareholder is selling all of the Shares and GDRs in the Offering and will receive approximately $925 million in net proceeds from the sale, less underwriting commissions (assuming exercise in full of the over-allotment option and that the Selling Shareholder elects to pay the discretionary underwriting commission of approximately $4.75 million). We will not receive any proceeds from the Offering.

Dividend Policy

To the extent that we declare and pay dividends, holders of the Shares and the GDRs on the relevant respective record dates will be entitled to receive dividends payable in respect of Shares, or Shares underlying the GDRs, as the case may be, subject to the terms of the Deposit Agreement. Beginning with respect to the year ending 31 December 2007, we currently intend to pay dividends annually of at least 15% of our IFRS consolidated net profits (subject to any contractual restrictions or any restrictions under Russian law).

Capitalisation and Net Debt

The Group's capitalisation and net debt at 31 December 2006 was RUR5,876.7 million and RUR3,682.4 million, respectively.

Lock Up Arrangements

Each of the Company and the Selling Shareholder may not, and will procure that its subsidiaries, affiliates and persons acting on their behalf do not, for a period commencing on the date of the Underwriting Agreement and ending 180 days after the Closing Date without the prior written consent of the Joint Global Coordinators (such consent, with respect to the Selling Shareholder, not to be unreasonably withheld), (i) issue, offer, sell, lend, mortgage, assign, contract to sell or issue, pledge, charge, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, or any security or financial product whose value is determined directly or indirectly by reference to the price of any Shares or such securities, including equity swaps, forward sales and options or global depositary receipts representing the right to receive any such securities ("Locked-Up Securities"); (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Shares; or (iii) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above, whether any such transaction described above is to be settled by delivery of Shares or such other securities, in cash or otherwise, except in limited circumstances.

Current Trading and Prospects

We have performed in line with our expectations during the period since 31 December 2006 and we currently expect this performance to continue during the remainder of 2007. We believe that our financial and trading prospects remain favourable based on the continued improvement of our sales and marketing of existing products.

Summary Historical Financial Information and Other Data

The summary consolidated financial and operating information set forth below shows our summary historical consolidated financial and operating information as of 31 December 2004, 2005 and 2006 and for the years then ended. The summary consolidated financial information set forth below has been derived from, and should be read in conjunction with, our Consolidated Financial Statements and the notes thereto included elsewhere in this Prospectus. The summary historical financial information and other data should also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" below.

Historical Financial Information

	Year ended 31 December			
	2004 (RUR millions)	2005 (RUR millions)	2006 (RUR millions)	2006 (US$ millions)
Consolidated Statement of Operations Data				
Sale of goods	3,945.7	5,684.8	8,522.8	314.6
Cost of sales	(2,220.0)	(2,507.1)	(3,581.2)	(132.2)
Gross profit	1,725.7	3,177.7	4,941.5	182.4
Selling and distribution costs	(531.6)	(1,069.5)	(1,268.2)	(46.8)
General and administrative expenses	(522.0)	(443.3)	(498.9)	(18.4)
Other expenses	(160.7)	(126.6)	(207.0)	(7.6)
Interest income	3.7	11.8	24.0	0.9
Interest expense	(77.8)	(106.4)	(291.4)	(10.8)
Profit before income tax	437.3	1,443.7	2,700.1	99.7
Income tax expense	(117.7)	(424.4)	(664.0)	(24.5)
Profit for the period	319.6	1,019.3	2,036.1	75.2
Attributable to:				
Equity holders of the Company	305.1	906.2	1,897.7	70.1
Minority Interests	14.5	113.1	138.4	5.1
Basic and diluted earnings per share (RUR or US$)	8.08	23.98	50.21	1.9

	As of 31 December			
	2004 (RUR millions)	2005 (RUR millions)	2006 (RUR millions)	2006 (US$ millions)
Consolidated Balance Sheet Data				
Cash and cash equivalents	65.6	244.0	193.0	7.3
Total assets	5,337.5	8,313.1	13,769.8	523.0
Total non-current liabilities	378.2	501.8	4,652.6	176.7
Total current liabilities	2,426.4	3,886.5	2,776.9	105.5
Total equity and liabilities	5,337.5	8,313.1	13,769.8	523.0
Minority interest	349.1	1,134.5	463.7	17.6

	Year ended 31 December			
	2004 (RUR millions)	2005 (RUR millions)	2006 (RUR millions)	2006 (US$ millions)
Consolidated Cash Flow Data				
Cash flow from operating activities	417.3	1,367.4	1,261.3	46.6
Cash flow used for investment activities	(821.1)	(733.2)	(4,522.3)	(167.0)
Cash flow from (used for) financing activities	434.8	(455.8)	3,209.9	118.5

	As of and for the year ended 31 December			
	2004 (RUR millions)	2005 (RUR millions)	2006 (RUR millions)	2006 (US$ millions)
Other financial data				
Operating profit[1]	672.1	1,664.9	3,174.5	117.4
Operating profit margin[2]%	17.0	29.3	37.2	37.2
EBITDA[3]	583.1	1,719.7	3,252.3	120.3
EBITDA margin[4]%	14.8	30.3	38.2	38.2
Net debt[5]	1,430.0	339.5	3,682.4	139.9

(1) As defined in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Operating Profit."
(2) Defined as operating profit as a percentage of sale of goods.
(3) As defined in "Presentation of Financial Information and Other Information."
(4) Defined as EBITDA as a percentage of sale of goods.
(5) As defined in "Presentation of Financial Information and Other Information."

For the purposes of this summary historical consolidated financial information, convenience translations from the rouble to US dollar are provided at the following exchange rates:

Financial Statement	Description	Rate RUR/1 US$
Balance sheet and net debt as of 31 December 2006	CBR spot rate at close of the business on 31 December 2006	26.33
Statement of operations, cash flow and other financial data, except for net debt for the year ended 31 December 2006	Average CBR spot rate for 2006	27.09

Reconciliation of profit to EBITDA is as follows for the periods indicated:

	Year ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006
		(in RUR millions)	
Profit	319.6	1,019.3	2,036.1
Add:			
Interest expense, net	74.1	94.6	267.4
Income tax expense	117.7	424.4	664.0
Depreciation and amortisation	71.7	181.4	284.8
EBITDA	583.1	1,719.7	3,252.3

Reconciliation of debt to net debt is as follows for the periods indicated:

	As of 31 December 2004	As of 31 December 2005	As of 31 December 2006
		(in RUR millions)	
Total debt	1,495.6	583.5	3,875.4
Less: Cash and cash equivalents	65.6	244.0	193.0
Net debt	1,430.0	339.5	3,682.4

Unaudited Pro Forma Consolidated Financial Information

The unaudited pro forma consolidated financial information set forth below shows our unaudited pro forma consolidated statement of operations for the year ended 31 December 2006 presented to give effect to the acquisition of Masterlek (the "Acquisition") as if the Acquisition had occurred on 1 January 2006. The unaudited pro forma consolidated financial information is prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and therefore does not represent the results of operations of the Group. As a result of the Acquisition, we have consolidated the results of operations of Masterlek from 2 August 2006. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Acquisitions."

All unaudited pro forma consolidated financial information is based on estimates and assumptions deemed appropriate by us and has been prepared using historical financial information derived from our financial statements. If the Acquisition had occurred on 1 January 2006, our operating results might have been different from those presented in the following table. The unaudited pro forma consolidated financial information should not be relied on as an indication of the operating results that we would have achieved if the Acquisition had occurred on 1 January 2006, nor should it be used as an indication of the results that we will achieve following the Acquisition.

Unaudited Pro Forma Consolidated Statement of Operations for the year ended 31 December 2006

	Pharmstandard (Note 1)	Masterlek (Note 2)	Pro forma adjustments (Note 3)	Unaudited pro forma results
	(historical)	(historical)	(in RUR millions)	
Sale of goods	8,522.8	851.4	—	9,374.2
Cost of sales(D)	(3,581.2)	(464.4)	(95.6)(A)	(4,141.3)
Gross profit	4,941.5	386.9	(95.6)	5,232.9
Selling and distribution costs(D)	(1,268.2)	(103.6)	—	(1,371.7)
General and administrative expenses(D)	(498.9)	(50.5)	—	(549.4)
Other expenses	(207.0)	11.1	—	(195.9)
Interest income	24.0	0.1	—	24.1
Interest expense	(291.4)	0.1	(179.8)(B)	(471.3)
Profit before income tax	2,700.0	244.0	(275.4)	2,668.7
Income tax expense	(664.0)	(64.4)	66.1(C)	(662.3)
Profit for the period	2,036.0	179.6	(209.3)	2,006.3
Attributable to:				
Equity	1,897.6			1,867.9
Minority interests	138.4			138.4
Basic and diluted earnings per share, roubles	50.21			49.43

General

On 2 August 2006, we completed the acquisition of Masterlek for cash consideration of RUR3,912.4 million using the proceeds of a shareholder loan agreement which was subsequently refinanced using the proceeds of the Citibank Loan Agreement as defined in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Overview." Masterlek was involved in the marketing and sale of pharmaceutical products. The purchase price was determined through arms length negotiations between the Company and the previous shareholders of Masterlek. The Company began consolidating Masterlek upon the date of completion of the acquisition.

Note 1 Historical Consolidated Statement of Operations of Pharmstandard

This column reflects our consolidated statement of operations for the year ended 31 December 2006 prepared and presented in accordance with IFRS.

Note 2 Historical Statement of Operations of Masterlek

This column reflects Masterlek's consolidated statement of operations for the seven month period ended 31 July 2006 prepared and presented in accordance with IFRS.

Note 3 Unaudited Pro Forma Consolidated Statement of Operations Adjustments

The unaudited pro forma consolidated statement of operations includes the adjustments necessary to give effect to the acquisition as if it had occurred on 1 January 2006.

Adjustments included in the 2006 unaudited pro forma consolidated statements of operations are summarised as follows:

(A) Amortisation of the acquired intangible assets over estimated useful lives (20 years).

(B) Effect of interest expense incurred in respect of the Citibank Loan Agreement.

(C) Tax effect of amortisation expense in respect of the acquired intangible assets and interest expense in respect of the Citibank Loan Agreement.

(D) Includes the following amounts related to depreciation and amortisation:

	Pharmstandard	Masterlek	Pro forma Adjustments	Total
Cost of sales	260.3	—	95.6	355.9
Selling and distribution costs	10.5	—	—	10.5
General and administrative expenses	14.0	1.0	—	15.0
	284.8	1.0	95.6	381.4

Other Pro Forma Data

Reconciliation of pro forma profit to pro forma EBITDA is as follows for the year ended 31 December 2006:

	Year ended 31 December 2006
Pro forma profit	2,006.3
Add:	
Interest expense, net	447.2
Income tax expense	662.3
Depreciation and amortisation	381.4
Pro forma EBITDA	3,497.2

RISK FACTORS

An investment in the Securities involves a high degree of risk. You should carefully consider the following information about these risks, together with the information contained elsewhere in this Prospectus, before you decide to buy the Securities. Each of these risks could have a material adverse effect on our business, financial condition and results of operations, or on the trading price of the Securities, and you could lose all or part of your investment.

We have described the risks and uncertainties that our management believes are material, but these risks and uncertainties may not be the only ones we face. Additional risks and uncertainties, including those about which we are currently not aware or which we deem immaterial, could have the effects set forth above.

Risks Related to our Business and Industry

We face intense competition in the Russian pharmaceutical market.

Our products face intense competition from products developed, or that are under development, by foreign pharmaceutical companies, including major international companies, other Russian pharmaceutical companies and research and development firms, universities and other research institutions. OTC pharmaceutical products accounted for 82% of our pharmaceutical product sales in 2006 and our primary competitors in this segment of the Russian pharmaceutical market are Novartis, GSK, BMS, Boehringer Ingelheim and Sopharma. Our primary competitors in the prescription segment are Sanofi-Aventis, Berlin-CH/Menarini, Pfizer, Servier, Gedeon Richter and Krka. Several of our international competitors have increased their efforts to penetrate the Russian pharmaceutical market in recent years. For example, in 2005, Stada Arzneimittel, a German manufacturer of generic pharmaceuticals, acquired OJSC Nizhpharm, and, in March 2007, Polpharma, a Polish pharmaceutical manufacturer, acquired OAO Akrihin. Also, in January 2007, Servier, a French pharmaceutical company, announced plans to construct a production facility in Russia. Many of our international competitors have extensive experience developing and marketing pharmaceuticals and substantially greater financial resources than we do. In addition, many of our competitors, particularly those that are large multinational corporations, have access to less costly sources of capital, which could give them a competitive advantage over us and materially and adversely affect our business, financial condition and results of operations, and the trading price of the Securities.

According to Pharmexpert, the Russian pharmaceutical market was the fastest-growing pharmaceutical market in the world in 2006. We expect increased competition in the Russian pharmaceutical market as international and domestic competitors attempt to take advantage of this growth. We have faced increased competition, particularly from our international competitors, in recent years. According to Pharmexpert, imported pharmaceutical products accounted for 78% of the total sales value of the Russian pharmaceutical market in 2006 (a 39% increase compared to 2005), although the substantial majority of these sales were of prescription products. We expect to face continued intense competition from international competitors, in part, due to the relative ease with which international competitors are able to enter the Russian pharmaceutical market. For example, the Government does not apply import duties on pharmaceutical products and does not support domestic pharmaceutical companies through preferable tax treatment or credit terms, and historically has not given preference to domestic pharmaceutical companies in connection with State tenders.

We may also face competition from other companies with lower cost bases than us. We compete on the basis of price, the timing of product launches, sales, marketing and distribution capabilities, financial strength, product availability, the availability of new competing products, product range and the variety of formulations. Our competitors may succeed in developing technologies and products that are more effective, more popular or cheaper than the pharmacologically similar products that we produce or plan to produce. Such developments could render our technologies and products uncompetitive or obsolete, which would harm our business, financial condition and results of operations.

We expect that competition will remain intense as the pharmaceutical industry adjusts to increasing pressure in Russia to contain healthcare costs. See "Regulatory Matters" and "— Our ability to set our prices solely depending on market forces is restricted by government limits on reimbursement of pharmaceutical products." In addition, changes in healthcare legislation and pressure from third party payers to reduce costs may adversely affect our profits.

Major originator pharmaceutical companies continually develop new strategies that can defeat or reduce generic competition, such as filing new patents on pharmaceutical products whose original patent protection is

about to expire, developing alternative formulations of patented products, changing product claims and product labelling, or developing and marketing their own generic products as their original patented products are about to face generic competition. Originator pharmaceutical manufacturers do not face significant barriers to entry into the generic market. Such companies increasingly sell their products into the generic market directly by acquiring or forming strategic alliances with generic pharmaceutical companies. For example, Merck has recently partnered with Dr. Reddy's Laboratories, a generic pharmaceutical company based in India, to produce generic versions of its cholesterol-reducing drug Zocor and its drug for the treatment of benign prostatic hyperplasia, Proscar. More recently, some originator pharmaceutical manufacturers have begun cutting the prices of their original drugs just prior to patent expiry. For example, prior to the patent expiry of Zocor, Merck offered to cut its price for some large health plans in the United States to a level below that offered by manufacturers of generic Zocor. The implementation by original pharmaceutical manufacturers of such competitive policies in Russia would materially and adversely affect our business, financial condition and results of operations, and the trading price of the Securities.

Our success depends on our ability to successfully market existing pharmaceutical products and successfully develop and market additional pharmaceutical products.

Our future results of operations depend on our ability to successfully market existing pharmaceutical products and successfully develop and market additional pharmaceutical products, particularly additional branded generic products. We must develop, test and manufacture generic products, as well as prove that our generic products are no less effective or safe than their original counterparts. All of our pharmaceutical products must meet regulatory standards and receive regulatory approvals. The development and commercialisation process is both time consuming and costly, and involves a high degree of business risk. Delays in any part of the registration and approval process or our inability to obtain regulatory approval for our product candidates could materially and adversely affect our operating results by prohibiting or restricting the timely launch of new products, which could lead to our competitors gaining market shares of product markets important to our overall profitability.

In addition, our product candidates, if and when fully developed, tested and approved, may not perform as we expect, and may not be able to be successfully and profitably produced and marketed. Furthermore, selling prices of generic drugs frequently decline, sometimes dramatically, as additional companies receive approvals for a given product and competition intensifies, which, if not offset by volume increases, can lead to our not fully recovering development costs. This could materially and adversely affect our business, financial condition and results of operations, and the trading price of the Securities.

If we are unable to obtain active pharmaceutical ingredients ("API") or other raw materials, or if the costs of API or other raw materials increase substantially, our operations could be seriously impaired.

We only produce a small amount of the API or other raw materials that we use to manufacture our pharmaceutical products. Instead, we currently obtain API and other raw materials for our pharmaceutical products from a variety of external sources, including manufacturers, licensees, agents and traders. As of 31 December 2006, we had more than 500 suppliers of raw materials, and we obtained 53% of our raw material requirements from our top-10 suppliers in 2006. API and other raw materials for generic products are generally available from multiple sources, but are often only available from a single supplier or a limited number of suppliers for original products. For example, we obtain the API for one of our two original products, Arbidol®, which accounted for, on a pro forma basis, 18.2% of our pharmaceutical product sales in 2006, from a single supplier, Bever.

We do not generally have long-term supply agreements for most of our API and other raw materials. Accordingly, we are subject to the risk of supply interruptions or that our suppliers may not continue to supply API or such other raw materials on similarly acceptable terms. We attempt to manage this risk by maintaining certain safety stock amounts of raw materials in our manufacturing facilities to cover approximately 30 days of production requirements for non-strategic products and approximately 60 days for strategic products, which we consider as those which are not readily available in the Russian market or are used to produce our top-selling products. For example, we maintain safety stocks of metamizol sodium, codeine phosphate, paracetamol and phenobarbital, which are used in the manufacture of Pentalgin®, codeine base and terpin hydrate, which are used in the manufacture of Terpincod®, and codeine base, thermopsidis herbal and natrium hydrocarbonicum, which are used in the manufacture of Codelac®. See "Business — Manufacturing and Facilities — Sourcing raw materials". Although we have not experienced difficulty in obtaining such materials to date, supply interruptions or changes in purchase terms may occur in the future, thereby requiring us to obtain substitute materials or

products from alternative registered suppliers. Because we do not maintain back-up sources of supply for a given raw material, if we are unable to source a given raw material from a producer, we would need to register a new producer of the material, which could take up to eight months. Any curtailment in the availability of raw materials, or change in purchase terms, could result in production or other delays, and, in the case of products for which only one raw material supplier exists, could result in a material loss of sales, with consequent material adverse effects on our business, financial condition and results of operations, and the trading price of the Securities.

In addition, certain types of the raw materials we require are not produced in Russia, fail to meet quality standards or are produced in insufficient quantities. As a result, we import the majority of our raw materials for our pharmaceutical products from a number of countries, including China, Hungary and India. Imports of these materials are subject to customs and other government clearance, duties and regulation by the countries of origin and consequent political instability and currency fluctuations of those countries.

Because regulatory authorities must generally approve raw material sources for pharmaceutical products, changes in raw material suppliers, for whatever reason, may result in significant production delays, higher raw material costs and loss of sales and customers. If for whatever reason we are unable to maintain a sufficient list of approved suppliers, our suppliers are unable to meet our needs, any significant interruption or increase in the cost of our supply of raw materials could have a material adverse effect on our business, financial condition and results of operations, and the trading price of the Securities.

We face intense competition in Russia for highly qualified management and technical personnel, and we may be unable to attract, retain and motivate qualified personnel.

Our growth and future success will depend on the continued service of our senior management and other key personnel, in particular on the continued service of our Chief Executive Officer, Igor Krylov, our Chief Sales & Marketing Officer, Olga Mednikova, and our Chief Financial Officer, Elena Arkhangelskaya. Under Russian law, any of our employees can terminate his or her employment on two weeks notice. We are not insured against damage that may be incurred in case of loss or dismissal of our key specialists or managers. The loss of the services of one or more of our key personnel could have a material adverse effect on our business, financial condition and results of operations, and the trading price of the Securities.

Our future success will also depend on our continued ability to attract, retain and motivate highly qualified sales, production, technical, customer support, financial and accounting, marketing, promotional and managerial personnel. The competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals. Although we attempt to structure compensation packages in a manner consistent with the evolving standards of the Russian pharmaceutical market, we may not be able to retain or attract necessary personnel. The failure to successfully manage or predict our personnel needs could materially adversely affect our continued operation and growth strategy.

Our continued growth depends, in part, on increases in real disposable income and per capita spending on pharmaceutical products in Russia, each of which may not grow as rapidly as it has in the past or may not grow at all.

Generally, an increase in disposable income raises demand for pharmaceutical products after a considerable time lag, whereas a fall in disposable income has an immediate negative effect. Spending on OTC products, in particular, is linked to rising disposable income and consumer spending, as compared to prescription products, the sales of which are more strongly linked to Government healthcare expenditure. OTC products accounted for 82% of our pharmaceutical product sales in 2006 and, on a pro forma basis, 82% of our pharmaceutical product sales in 2006. While real disposable income and per capita spending on pharmaceutical products in Russia have each risen in recent years, each may not grow as rapidly as it has in the past or may not grow at all, in which case our business, financial condition and results of operations, and the trading price of the Securities, could be materially and adversely affected.

Our continued growth depends, in part, on our ability to identify and acquire businesses, technologies or products.

Part of our strategy for future growth depends on the acquisition of businesses, technologies or products. In addition, we may seek to obtain licences or other rights to develop, manufacture and distribute products. Any future growth through new acquisitions will depend on the continued availability of suitable acquisition

candidates at favourable prices and on advantageous terms and conditions. Even if such opportunities are present, we may be unable to successfully identify suitable candidates. Moreover, other companies, many of which may have substantially greater financial, marketing and sales resources, are competing with us for the right to acquire such businesses, technologies and products. These companies may be able to offer better terms for an acquisition or licence than we can offer, or they may be able to demonstrate a greater ability to market licensed products. If we are unable to identify and acquire businesses, technologies or products to support our growth, our business, financial condition and results of operations, and the trading price of the Securities could be materially and adversely affected.

We may not be able to successfully integrate acquisitions we make and we face certain risks inherent in such acquisitions.

As part of our business strategy we regularly review potential acquisitions of businesses, technologies and products. Our acquisition strategy entails the following risks, among others:

- we may incorrectly assess the value of any acquisition target;
- we may not realise any of the anticipated benefits from any of the acquisitions we complete;
- we may face difficulties associated with integrating the operations and/or the technologies or products of acquired businesses with our operations;
- we may experience increasing competition for potential acquisitions;
- we may not have access to sufficient capital to finance potential acquisitions; and
- we may not be able to retain key employees of companies acquired by us or key employees necessary to successfully commercialise technologies and products that we acquire.

For example, we are continuing to integrate into our operations those of Masterlek, which we acquired in 2006. This process has involved, among other things, closing Masterlek's head office in Moscow and centralising its sales functions. We may not successfully complete this integration process. For example, part of our business strategy is to realise cost savings from switching the manufacturing of products we acquired through the acquisition of Masterlek from third-party facilities to our modern and efficient facilities. While we expect the State registration for all Masterlek products to be completed by the end of 2007, the registration of key Masterlek products, such as Arbidol®, have not been secured. We may encounter difficulties registering these products and this process may be delayed, in which case we would be prevented from realising the expected cost savings from manufacturing these products in-house.

Any future acquisitions would involve risks inherent in assessing the value, strengths and weaknesses of such businesses. Such acquisitions may divert our resources and management time. In addition, companies that we acquire may not have internal policies (in particular with respect to accounting control procedures and corporate housekeeping) that are easily integrated with those of our Group, and it may be costly to integrate the operations of acquired businesses into those of the Group.

If we are unable to make acquisitions in accordance with our strategy, if we are unable to successfully integrate our acquisitions, or if a failure by the acquired company to comply with law or to administer good business practice and policies prior to acquisition has a material adverse effect on the value of such acquired company, we may not be able to obtain the advantages that the acquisitions were intended to create and our business, financial condition and results of operations, and the trading price of the Securities may be materially and adversely affected.

Our ability to set our prices solely depending on market forces is restricted by government limits on reimbursement of pharmaceutical products.

Reimbursement levels for pharmaceutical products in Russia are subject to regulation and the prices of pharmaceutical products defined by the Government as "life saving" and those sold through the FRP are subject to pricing restrictions. Approximately 64 of our pharmaceutical products in different formulations, which accounted for 15.3% of our pharmaceutical sales in 2006, are considered to be "life saving." Also, the prices charged for pharmaceutical products sold through the FRP are subject to Government approval. In the past, we have withdrawn products (e.g., Gastrozol in 2006) from the FRP list when we believed the approved FRP list price for a given product was significantly below the market price. We expect pricing regulation in Russia to become increasingly restrictive in the near term due, in part, to the 2006 FRP budget deficit. See "Market Overview." We cannot predict the nature of any measures that may be adopted in the future by the Government to control prices or their impact on our sales. Government limits on reimbursement of pharmaceutical products could materially and adversely affect our business, financial condition and results of operations, and the trading price of the Securities.

We do not set the retail prices charged for our products by wholesalers and retail outlets, and our reputation and sales could be damaged if the prices for any given product sold by wholesalers and retail outlets are significantly above or below those of our competitors.

We sell our pharmaceutical products to wholesale distributors. Historically, we have been able to maintain close relationships with our distributors and have been able to monitor and react through renegotiation to any pricing discrepancy we perceive from retail prices. Whilst we discuss with our customers the retail prices at which we expect our products to be sold, we have no control over the prices charged either by distributors or by retail outlets. If the retail prices charged are set significantly above those of our competitors, customers may choose to buy our competitors' products instead of ours. Conversely, significantly lower pricing may deter customers through a perception that our products are of a lower quality than those of our competitors. If we are unable to effectively monitor such prices in the future, our business, financial condition and results of operations, and the trading price of the Securities may be materially and adversely affected.

If we or third-party suppliers fail to comply with applicable regulations regarding the approval, testing, manufacture, labelling, marketing and sale of our products, then we could be subject to regulatory sanctions.

Regulatory authorities administer complex laws and regulations governing the testing, approval, manufacturing, importing, exporting, labelling and marketing of drugs, and also review the safety and effectiveness of pharmaceutical products. For example, we handle large quantities of codeine at our manufacturing facilities in Tomsk and Kursk, which requires us to maintain a licence, issued by the Ministry of Health and Social Development, to carry out operations involving narcotic drugs. Such regulatory requirements are a major factor in determining whether a substance can be developed into a marketable product, and also affect the amount of time and expense associated with such developments. Regulatory authorities may not approve, or may withdraw approval for, pharmaceutical products, processes and manufacturing facilities. Failure to obtain approval for our pharmaceutical products, processes and manufacturing facilitates, or the withdrawal of any such approval could have a material adverse effect on our business, financial condition, results of operation and prospects and the trading price of the Securities. For example, if the Ministry of Health and Social Development were to cancel our licence to carry out operations involving narcotic drugs, our production of Pentalgin® and Codelac®, each of which include codeine as an active ingredient, would be adversely affected. In addition, regulatory authorities are authorised to cancel the registration of a product if it is found to be harmful or ineffective or if it is manufactured or marketed other than in accordance with registration conditions. If we or third-party suppliers fail to comply with applicable regulations regarding the approval, testing, manufacture, labelling, marketing and sale of our products, our business, financial condition and results of operations, and the trading price of the Securities may be materially and adversely affected.

The Russian pharmaceutical market is characterised by high levels of counterfeit reproduction of products.

The presence of fake pharmaceutical products is more prevalent in countries with weak drug regulation control and enforcement, and counterfeiting is a significant problem in Russia. See "Regulatory Matters." A significant presence of counterfeit products on the market can negatively impact both the sales and the brand image of a manufacturer. Although we are not aware of any counterfeits of our products, there can be no assurance that the actions taken by us to establish and protect the use of our intellectual property will be successful. If any of our products are the subject of widespread counterfeit production or other similar infringements of our proprietary rights, our business, financial condition and results of operations, and the trading price of the Securities could be materially and adversely affected.

We may experience difficulties managing our growth.

We expect continued growth throughout our operations as we continue to develop and, assuming we obtain necessary regulatory approvals, market our product candidates. For example, our sales force of 287 individuals (as at 31 December 2006) has more than doubled in the last two years and we expect our sales force to number over 350 by the end of 2007. We may be unable to control the costs associated with retaining and motivating highly qualified employees. To manage our anticipated future growth, we will need to expand our operations and recruit additional personnel, which may significantly strain our existing managerial, operational, financial and other resources. See "— We face intense competition in Russia for highly qualified management and technical personnel, and we may be unable to attract, retain and motivate qualified personnel." Our failure to manage our future growth effectively could materially and adversely affect our business, financial condition and results of operations, and the trading price of the Securities.

We may not realise the anticipated benefits from the implementation of the Electronic Territory Management System ("ETMS") software system.

An important element of our sales and marketing strategy is the implementation of the ETMS software system. We expect that the implementation of ETMS will allow us to integrate our sales and marketing function

further with our overall business processes. We only recently completed training on ETMS, and may encounter unexpected technical difficulties and associated costs during its implementation. In addition, members of our sales force may be unable to adapt to this new technology. If we fail to implement ETMS successfully, or if we are unable to otherwise integrate the system into our business operations, we may not realise the efficiencies we expect from its implementation, which could materially and adversely affect our business, financial condition and results of operations, and the trading price of the Securities.

We may not realise the anticipated long-term benefits from our participation in the Federal Reimbursement Programme ("FRP").

According to Pharmexpert, in 2006, sales through the FRP exceeded $2.5 billion, accounting for 23% of the overall market. Part of our business strategy is to exploit opportunities presented by the FRP as they arise. We may not realise the anticipated benefits from our participation in the FRP. For example, we may not be able to compete successfully in the FRP. International companies, which are often able to offer broader ranges of "life saving" drugs (as defined by the Government) that are eligible for the FRP list of drugs, accounted for 89% of sales by value in the FRP in 2006. In addition, the FRP allows eligible citizens to elect to receive financial compensation instead of pharmaceutical products. If eligible citizens elect to receive substantial portions of FRP benefits through financial compensation, rather than pharmaceutical products, it may be difficult for us to grow our sales of pharmaceutical products through the FRP. Also, the number of drugs offered through the FRP is subject to significant adjustment. For example, in November 2006, approximately 600 drugs were removed from the FRP list, including our Phosphogliv® and Gastrozol® products.

Government funding of the FRP is uncertain. The federal budget for the FRP decreased by approximately RUR22 billion from 2005 to 2006 due, in large part, to the fact that approximately 15% of the FRP budget in 2005 was not spent. Any further reductions of State budget funds allocated to timely reimbursement of pharmaceuticals purchased in the FRP could materially and adversely affect our business. In 2006, government expenditure exceeded the FRP budget by approximately RUR37 billion resulting in severe delays in supplies of FRP drugs to pharmacies, government accusations of potential mismanagement, dismissals of officials within the Ministry of Health and Social Development, the government agency charged with administering the FRP, and informal requests that distributors and manufacturers assist in remedying the deficit by discounting the price of products sold into the FRP in 2006. It is unclear to what extent, or on what grounds, the State might impose any such discounts on past sales and what effect the deficit of 2006 may have on current or future FRP budgeting and spending. Any downward pressure in FRP pricing or budget levels may affect the sales opportunity that we envisage and, consequently, we are monitoring this situation. Any potential agreement to discount past prices of products sold during 2006 or prior periods would result in a deduction of revenue previously recognised in a previous period. We may not realise the anticipated benefits from our participation in the FRP, which could materially and adversely affect our business, financial condition and results of operations, and the trading price of the Securities.

We may not realise the anticipated benefits from our participation in the Priority National Health Project ("PNHP").

Part of our business strategy is to exploit opportunities from increased government expenditure on the PNHP. We expect that the PNHP's focus on strengthening the primary care segment in Russia, including through equipping hospitals with modern equipment, will increase demand for the sterilising machines we manufacture. The PNHP was only launched in 2006 and, although its budget increased from 2006 to 2007, future government funding of the programme is uncertain. In particular, the Russian government faces a substantial FRP budget deficit for 2006 and future funding of the PNHP could be adversely affected by the outcome of this dispute. We may not realise the anticipated benefits from our participation in the PNHP, which could materially and adversely affect our business, financial condition and results of operations and the trading price of the Securities.

We are exposed to credit risk on accounts receivable from our distributors.

We sell our pharmaceutical products to our distributors through contracts that are not secured by collateral or other security and therefore bear the risk that our distributors will be unable to pay amounts due to us. Our standard commercial contract with distributors includes credit terms ranging from 30 to 90 days. Delivery terms to distributors under the FRP involve deferred payment of up to 180 days. Each of these limits is often exceeded. For example, the deferred payment we expect to receive for sales through the FRP often extends to more than 200 days and some distributors under the FRP have experienced between 12 and 24 month payment delays due to the 2006 FRP budget deficit. See "Market Overview." In 2006, 8% of our pharmaceutical product sales were made through the FRP. We may not be able to limit our potential loss of revenues if a significant number of distributors are unable to pay amounts owed to us.

Our business strategy is subject to the risks inherent in the development of generic drugs.

The pharmaceutical industry is characterised by intensive research, development and commercialisation efforts and rapid technological change. The success of our product candidates is highly dependent on our ability to identify reference products that provide a suitable basis for the development of a generic formulation of existing drugs, to develop these drugs on a cost-effective basis and to commercialise them successfully. Research and discoveries by others may render some or all of our product candidates uncompetitive or obsolete. Unforeseen problems may develop with technologies or applications we use in our development programme, and we may be unable to successfully address these challenges, which could result in our inability to realise our strategy to develop commercially feasible products.

Our ability to successfully market our pharmaceutical products depends, in part, upon the acceptance of our products not only by consumers, but also by independent third parties.

Our product candidates may not achieve market acceptance even if they are approved for marketing by regulatory authorities. Our ability to successfully market pharmaceutical products depends, in part, on the acceptance of our products by independent third parties (including hospitals and pharmacists), as well as patients. Unanticipated side effects or unfavourable publicity concerning any of our products could have an adverse effect on our ability to achieve acceptance by prescribing physicians, and recommendations by pharmacists and patients. Physicians, pharmacists, patients or the medical community in general may not accept and utilise any products that we develop, in which case our business, financial condition and results of operations, and the trading price of the Securities could be materially and adversely affected.

Our intellectual property rights are difficult to protect, and we cannot guarantee that the steps we have taken to protect our intellectual property rights will be adequate.

We rely primarily on a combination of trademarks and formulation patents to protect our intellectual property. We have registered 173 trademarks and 30 patents for inventions in Russia and have registered 26 trademarks for coverage outside of Russia. However, many aspects of our technology are not patented and only protected to the extent we can maintain their secrecy. Despite the steps taken by us, it may be possible for a third party to copy or otherwise obtain and use our intellectual property without authorisation, or to design around our patents. Russian law generally offers less intellectual property protection than the laws of countries in Western Europe or the United States. See "Regulation." Our inability to protect our proprietary rights against infringement or misappropriation could have a material adverse effect on our business, financial condition and results of operations, and the trading price of the Securities. For example, we are aware of imports of a product into Russia that we believe infringes our patent covering the formulation of Pentalgin-N®, and we are taking steps to prevent these imports. These steps may not be successful and we may need to engage in litigation to enforce our intellectual property rights to Pentalgin-N® or our other products in the future or to determine the validity and scope of the rights of others. Any litigation could result in substantial costs and diversion of management and other resources, either of which could have a material adverse effect on our business, financial condition and results of operations, and the trading price of the Securities.

We depend on our trademarks and patents.

We depend on our ability to protect and promote our trademarks, patents and other proprietary rights. We believe that our trademarks are adequately protected by applications for registrations, existing registrations and other legal protection in Russia. However, it can be time consuming and costly to enforce trademarks against those who misuse them, with no guarantee of success. The failure to maintain trademark protection, or to prevent illegal use of any trademarks we have obtained, may have a material adverse effect on our business, financial condition and results of operations, and the trading price of the Securities.

We rely on our patents for the protection of certain of our products and product formulations. Others may attack our patents through opposition, interference, revocation or other proceedings. Even if we successfully maintain them, there can be no assurance that our patents will be sufficiently broad in scope to provide commercially meaningful protection against competition from third parties. If we fail to protect our technologies, competitors may manufacture and market similar products. In addition, patent rights may not prevent competitors from developing, using or selling products that are similar or functionally equivalent to our products.

Third parties may claim that we infringe their intellectual property rights and may prevent us from manufacturing and selling certain of our products.

There has been substantial litigation in the global pharmaceutical industry and, to a lesser extent, in the Russian pharmaceutical market, with respect to whether the manufacture, use and sale of pharmaceutical

products infringe the intellectual property rights of others. These lawsuits often relate to the validity and infringement of patents. The law relating to patents is complex and changing, and we therefore cannot predict the outcome of any litigation. We may be required to defend ourselves against charges relating to the alleged infringement of patent or other proprietary rights of third parties. Any such litigation could:

- require us to incur substantial expense, even if we are successful in the litigation;
- require us to divert significant time and effort of our technical and management personnel;
- result in the loss of our rights to develop or make and sell certain products; and
- require us to pay substantial monetary damages in respect of products we have sold in the past, or royalties and other payments in order to license proprietary rights to enable us to make and sell products in the future.

Although patent and intellectual property disputes within the pharmaceutical industry have often been settled through licensing or similar arrangements, costs associated with these arrangements may be substantial and could include the long term payment of royalties. Furthermore, the required licences may not be made available to us on acceptable terms, or at all. Accordingly, an adverse determination in a judicial or administrative proceeding or a failure to obtain necessary licences could prevent us from manufacturing and selling some of our products, or could increase the costs of marketing these products.

Changes in pharmaceutical legislation may adversely affect our business.

Draft amendments to the Federal Law "On Pharmaceutical Products" (adopted in the first reading in 2005) provide, inter alia, for a prohibition on using the brand names of generics produced in Russia. Instead of brand names, it is suggested to register medicines and write out prescriptions using international non-proprietary names ("INN") of medicines. Although the second reading of these amendments was subsequently postponed and there has been no indication from the State Duma that they will be reconsidered, adoption of these amendments would materially and adversely affect our ability to market and sell our pharmaceutical products, which largely comprise well-known branded generics. In 2006, branded generics accounted for 85% of our pharmaceutical product sales. If the proposed amendments become law we may be forced to reduce our prices to maintain market share. In addition, the amendments provide for the establishment of State price adjustment, which could also have a material adverse effect on our business, financial condition and results of operations, and the trading price of the Securities.

If we improperly handle any of the dangerous materials we use in our business and accidents result, we could face financial liabilities and disruptions of our operations.

We handle dangerous materials, including explosive, toxic and flammable materials like acids. If improperly handled or subjected to the wrong conditions, these materials could harm our employees and other persons, cause damage to our property and harm the environment. This in turn could subject us to significant civil or criminal penalties, which could adversely affect our business, financial condition and results of operations in the event we were found liable.

We may be exposed to product liability claims that could cause us to incur significant costs or suspend or cease selling some of our products.

The global pharmaceuticals industry is characterised by high levels of product liability claims, primarily aimed at originator pharmaceutical companies and their products. Pharmaceutical companies may be liable, or incur costs related to, liability claims if any of their products cause injury or are found unsuitable during development, manufacture, sale or use. The risk exists with respect to products that have received, or may receive in the future, regulatory approval for commercial use. In addition, efficiency and safety concerns with respect to marketed products, whether or not scientifically proven, may lead to product recalls, withdrawals or declining sales. Although the prevalence of such claims is lower in Russia compared to the industry as a whole and we have not faced such claims, we cannot ensure that we will not be subject to any such claims in the future. As we are not insured against losses resulting from such claims, if such claims are determined in a manner adverse to us, or if we otherwise incur significant costs in defending such claims, our business, financial condition and results of operations, and the trading price of the Securities could be materially and adversely affected.

We do not carry the types of insurance coverage customary in other more developed countries for a business of our size and nature.

The insurance industry is not yet fully developed in Russia, and many forms of insurance protection common in other more developed countries are not yet available in Russia or are not available on comparable

terms, including coverage for business interruption. We hold insurance policies in relation to our property, plant and equipment that covers approximately 70% of its carrying value because insurance coverage is based on the statutory book value of property, plant and equipment, which is substantially lower than its IFRS value. We do not currently maintain business interruption insurance coverage, nor do we maintain insurance coverage for product liability. Product liability claims, lawsuits and safety alerts or product recalls, regardless of their ultimate outcome, may have a material adverse effect on our business and reputation. In the event that a significant event were to affect one of our manufacturing facilities, we could experience substantial property loss and significant disruptions in our production capacity, for which we would not be compensated. Moreover, depending on the severity of the damage, we may not be able to rebuild such damaged property in a timely fashion or at all. Any such loss or third-party claim for damages could have a material adverse effect on our business, results of operations and financial condition, and the trading price of the Securities. See "Business — Insurance."

Our ability to pay dividends is restricted.

Pursuant to the Citibank Loan Agreement (as defined in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Overview"), we may not, without the prior written consent of the lenders under the facility, pay dividends to our shareholders until the aggregate amount available for distribution has been determined and then only in an amount not exceeding 75% of the aggregate amount available for distribution. There can be no assurance that this restriction would not adversely affect our dividend policy (see "Dividend Policy") or that any such effect would not be avoided by the lenders under the Citibank Loan Agreement granting a waiver for this purpose. In which case we would be unable to pay dividends.

We do not have a fully integrated information system, or a fully staffed IFRS division, for the preparation of IFRS financial statements, which may adversely impact our ability to prepare accurate financial information.

We do not have a fully integrated information system for the preparation of IFRS financial statements. Each of our subsidiaries prepares separate financial statements under Russian accounting standards for statutory purposes. The preparation of IFRS financial statements is primarily a manual process that involves, first, the transformation of the statutory financial statements of our subsidiaries into IFRS financial statements through accounting adjustments and, second, the consolidation of these financial statements. This process is complicated and time-consuming, and requires significant attention from our senior accounting personnel. We do not have IFRS accounting systems and internal controls that are commonplace in companies that have a longer history of IFRS reporting, and the preparation of financial statements requires significantly more time for us than it does for companies with a longer history of IFRS reporting.

In addition, we lack a sufficient number of financial personnel with experience in the application and interpretation of IFRS. Specifically, and in common with many Russian companies, we have identified areas in our financial control which require improvement, including in the preparation of our footnote disclosures to our IFRS financial statements. Whilst we have a Chief Financial Officer and Deputy Chief Financial Officer responsible for our IFRS division who are knowledgeable in IFRS, we will be required, going forward, to commit more time and resources in the preparation of our IFRS financial statements and to work closely with our auditors to ensure the accuracy of our footnote disclosures.

We have taken, and plan to continue to take, steps to further improve our accounting systems, internal controls and IFRS staffing. Notwithstanding the steps we are taking to address these issues, we may not be successful in remedying these deficiencies or preventing future deficiencies. If we are unable to remedy these deficiencies, we may not be able to prevent or detect a material misstatement of our annual or interim IFRS financial statements, and the process of preparing our annual or interim IFRS financial statements may be subject to delays. Notwithstanding the above, we believe that our financial systems are sufficient to ensure compliance with our continuing obligations as a listed entity with securities admitted to trading on the London Stock Exchange, and in particular the FSA's Disclosure Rules and Transparency Rules.

Foreign exchange fluctuations may adversely affect our results.

Approximately 6% of our expenses in 2006, principally for API and raw materials, were in currencies other than the rouble (the measurement and presentation currency of our consolidated financial statements), and as such our results are subject to exchange rate risks. Over the past ten years, the rouble has fluctuated dramatically against the US dollar. In earlier years, the rouble depreciated against the US dollar, although in each of the past four years, it has, on average, appreciated modestly. To the extent that we incur expenses in one currency and

generate sales in another, any change in the values of those currencies could cause our profits to decrease or our products to be less competitive against those of our competitors. Our currency and receivables that are non-rouble denominated are less than our liabilities denominated in such other non-rouble currencies and, consequently, we are exposed to the risk of fluctuations and movements in the foreign exchange markets. This may have a material adverse impact on our business, financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Quantitative and Qualitative Disclosures About Market Risk – Currency risk."

We are, and will be, controlled by the Selling Shareholder, and its interests or the interests of its shareholders could conflict with our interests and/or the interests of the holders of our shares.

Following the Offering, the Selling Shareholder will own 59.9% of our Shares (56.6% assuming the Over-Allotment Option is exercised in full). As a result, the Selling Shareholder will have the power to control the outcome of most matters to be decided by vote at a shareholders' meeting and, as long as it holds the majority of our Shares, will control the election of the members of the board of directors. The Selling Shareholder will also be able to control or significantly influence the outcome of any vote on any proposed amendment to our charter, merger proposal, any proposed substantial sale of assets or other major corporate transactions. The Selling Shareholder and our management may have conflicting goals or objectives for the Company, which may restrict or undermine the ability of our management to implement our business strategies. For example during 2004 and the first quarter of 2005, we paid approximately RUR165.9 million in premiums for the provision of an insurance policy for certain of our real estate. The policy provider was related to one of our indirect shareholders who is also a member of our board of directors. Although we terminated these arrangements in April 2005 and have recently appointed an independent member to our board of directors and expect to appoint two additional independent directors in the future to improve our corporate governance, we may engage in similar related party transactions in the future which may conflict with our interests or the interests of holders of our shares. Any such conflict could have a material adverse effect on our business, financial condition and results of operations and the trading price of the Securities. See "— Risks Relating to the Russian Federation — There are weaknesses in legal protections for minority shareholders and in corporate governance standards under Russian law."

We believe that the involvement of the Selling Shareholder in our operations has been, and will continue to be, important in the pursuit and implementation of our business strategy. Personal connections of the Selling Shareholder are important to the conduct and the future of our business. However, there can be no assurance that the Selling Shareholder will remain the controlling shareholder in the future. Our business, financial condition and results of operations, and the trading price of the Securities could be adversely affected if the Selling Shareholder ceases to own or control us or to actively participate in our operations.

The forced liquidation of our subsidiaries due to negative assets could adversely affect our results of operations.

In accordance with Russian legislation, in the event that a company's net assets, as stated in the annual balance sheets prepared under Russian accounting standards, fall below the minimum share capital required by law, the company must voluntarily liquidate. If it fails to do so within a "reasonable period," the company's creditors may accelerate their claims or demand early performance of the company's obligations to them and demand payment of damages, and governmental authorities may seek the involuntary liquidation of the company. Courts have on occasion ordered the involuntary liquidation of a company for having negative net assets, even if the company had continued to fulfil its obligations and had net assets in excess of the minimum amount at the time of liquidation. In 2005, our subsidiary LLC Pharmstandard had negative equity, but returned to positive equity in early 2006. If any of our subsidiaries' net assets fall below the minimum share capital required by law and an involuntary liquidation were to occur, we would be forced to reorganise the operations we currently conduct through any such subsidiaries. There can be no assurance that we would be able to do so, and we could be required to cease trading, in which case holders of our Securities would likely lose all or substantially all of their investment.

Deficiencies or ambiguities in Russian privatisation legislation could be exploited to challenge our ownership of our business.

Our business includes a number of privatised companies, and we may seek to acquire additional companies that have been privatised. To the extent that Russian privatisation legislation has been vague, internally inconsistent and in conflict with other legislation, including conflicts between federal and local privatisation legislation, most, if not all, privatisations are arguably deficient and therefore are vulnerable to attack. For instance, a series of presidential decrees issued in 1991 and 1992 which granted the Government of Moscow the

right to adopt its own privatisation procedures were subsequently invalidated by the Constitutional Court of the Russian Federation in 1993, which ruled, in part, that the presidential decrees addressed issues which were the subject of federal law. Whilst this court ruling, in theory, does not require any implementing actions, the Presidential Decrees were not officially annulled by another presidential decree until 2000. Several of our companies were privatised by the Russian Government, including OJSC Pharmstandard — Leksredstva, OJSC Pharmstandard — Tomskhimfarm and OJSC Pharmstandard — TZMOI in 1992 and OJSC Pharmstandard (Ufa) in 1993. In the event that any of our privatised companies are subject to attack as having been improperly privatised and we are unable to defeat such claims, we risk losing our ownership in these companies or their assets, which could materially adversely affect our business, financial condition and results of operations, and the trading price of the Securities.

A challenge by minority shareholders to our past transactions or future approval of transactions among our subsidiaries that require special approval in accordance with Russian legislation could adversely affect our business and results of operations.

We own less than 100% of the issued and outstanding share capital of a number of our subsidiaries. Under Russian law, certain transactions defined as "interested party transactions" require approval by disinterested directors or disinterested shareholders of the companies involved. See "Description of Share Capital and Certain Requirements of Russian Legislation — Interested Party Transactions." We and our subsidiaries engage in numerous transactions that require "interested party transaction" approvals in accordance with Russian law. However, the provisions of Russian law defining which transactions must be approved as "interested party transactions" are subject to different interpretations. We cannot be certain that our application of these concepts will not be subject to challenge. Any such challenge could result in the invalidation of transactions that are important to our business. Moreover, in some cases, our minority shareholders may not approve transactions with "interested parties" that require shareholders' approval, or there may be an insufficient number of disinterested shareholders to constitute a quorum required for approval of transactions with "interested parties." In the event our minority shareholders do not approve transactions with "interested parties" or successfully challenge them, we could be limited in our operational flexibility in connection with such transactions, and our results of operations could be materially adversely affected.

We are aware that in the past our subsidiaries approved interested party transactions in violation of Russian law. For example, some transactions were approved after their execution, which is a sufficient ground for challenging the validity of such transactions. To date, no claims on challenging such transactions have been brought against us by minority shareholders in subsidiaries.

In addition, certain transactions between members of a consolidated corporate group may be considered "interested party transactions" under Russian law even when the companies involved are wholly-owned by the parent company. Whilst we generally endeavour to obtain all corporate approvals required under Russian law to consummate transactions, we cannot be certain that all such corporate approvals are obtained in accordance with Russian law. In the event that a claim is filed in relation to certain transactions with or between our subsidiaries, such transactions are found to have been interested party transactions, and we are found to have failed to obtain the appropriate approvals for such transactions, these transactions may be declared invalid. The unwinding of any transactions concluded with or between our subsidiaries may adversely affect our business, results of operations and financial condition, and the trading price of the Securities.

If the Federal Antimonopoly Service were to conclude that we acquired or created a new company or reorganised certain shareholdings in contravention of antimonopoly legislation or were to increase the level of control it exerts over certain of our operations, we could face various sanctions, including administrative fines, divestiture of assets, invalidation of the transaction or be subject to limitations in our operating flexibility.

Our business has grown through the acquisition and founding of companies incorporated and operating in the Russian Federation. In part, relevant legislation restricts the acquisition (indirect and direct) or founding or reorganisation of companies by groups of companies or individuals acting in concert without the prior approval or subsequent notification of the Federal Antimonopoly Service (the "FAS"). Whilst we believe that we have complied with applicable regulations and the requirements of the FAS applicable to our operations, certain parts of the legislation and regulations with respect to such matters are vague and there can be no assurance that we will be able to remain in compliance in the future or that our past conduct will not be challenged. Any such finding could result in the imposition of various sanctions (including administrative fines and the invalidation of

the transaction) or require the divestiture of such newly acquired or created company or other assets, and our business, results of operations and prospects could be materially adversely affected.

Risks Related to the Russian Federation

Political and Social Risks

Political and governmental instability to varying degrees in the Russian Federation could adversely affect the value of the Securities.

Since 1991, Russia has sought to transform itself from a one-party State with a centrally planned economy into a pluralist democracy with a market-oriented economy. Although it has developed institutions and a legal and regulatory system characteristic of parliamentary democracies, these institutions and systems lack a long-term institutional history and are not as firmly established as their Western counterparts. The course of political, economic and other reforms has in some respects been uneven, and the composition of the governments — the prime minister and the other heads of federal ministries — has at times been unstable. For example, six different prime ministers headed governments between March 1998 and May 2000. Shifts in government policy and regulation in the Russian Federation may be less predictable than in many Western democracies, and changes in government policy that could affect us may (and in certain cases are likely to) continue.

For example, in February 2004, just prior to his election to a second term as president, President Putin dismissed his entire cabinet, replaced the prime minister and issued a presidential decree that significantly reduced the number of federal ministries, redistributed certain functions amongst various State agencies and announced plans for a major overhaul of the federal administrative system. President Putin implemented reforms under which executives of sub-federal political units are no longer elected by the people, but instead are nominated by the President and confirmed by the legislature of the sub-federal political unit. Pursuant to legislation that was adopted in 2005 and took effect in December 2006, single-member-district elections for the State Duma were eliminated, and all votes are now instead cast on a party-list basis. Elections for the State Duma are scheduled for late 2007, and the next presidential election is scheduled for 2008.

Future governmental changes, major policy shifts or lack of consensus internally between the leaders, executive and legislative bodies and powerful economic groups could lead to political instability, which could materially and adversely affect our business, financial condition and results of operations, and the trading price of the Securities.

The reversal of reform policies or the implementation of government policies in Russia targeted at specific individuals or companies could harm our business as well as investments in Russia more generally.

Since President Putin took office as prime minister and then president in 1999, the political and economic situation in Russia has become more stable and conducive to investment. However, signs of a breakdown in the consensus among key governmental officials have raised certain questions about the direction of future economic reforms. In 2003 and 2004, significant back tax claims were brought against OAO NK Yukos ("Yukos"), resulting in the auction of its major production subsidiary, OAO Yuganskneftegaz, which was acquired, indirectly, by OAO NK Rosneft, a State-owned oil company. The key shareholders of Yukos were accused of tax evasion and related charges and, in May 2005, were sentenced to imprisonment on these charges. Some analysts contend that these events portended a willingness on the part of the presidential administration to reverse key political and economic reforms of the 1990s, including certain privatisations. Other analysts, however, believe that these occurrences were isolated events that relate to the specific individuals and companies involved in illegal activities and do not signal any deviation from broader political and economic reforms or a wider programme of asset redistribution. Any significant struggle over the direction of future reforms, or the reversal of the reform programme, could lead to a deterioration in Russia's investment climate that might constrain our ability to obtain financing, limit our sales in Russia and otherwise materially and adversely affect our business, financial condition and results of operations, and the trading price of the Securities.

Political, social and other conflicts create an uncertain operating environment that hinders our long-term planning ability and could adversely affect the value of our investments in Russia.

Russia is a federation of 86 sub-federal political units, some of which have the right to manage their internal affairs pursuant to agreements with the federal government and in accordance with federal laws. In practice, the delineation of authority between federal and regional authorities remains uncertain and contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of

conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatisation, securities, corporate legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus creates uncertainties in our operating environment, which may prevent us from effectively and efficiently carrying out our business strategy.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, such as the continuing conflict in Chechnya, which has brought normal economic activity within Chechnya to a halt and disrupted the economies of neighbouring regions. Various armed groups in Chechnya have regularly engaged in guerrilla attacks in that area. Violence and attacks relating to this conflict have also spread to other parts of Russia, including terrorist attacks in Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its continued spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce in Russia, and could materially and adversely affect our business, financial condition and results of operations.

Crime and corruption could create a difficult business climate in Russia.

The political and economic changes in Russia since the early 1990s have led, amongst other things, to reduced policing of society and increased lawlessness. In September 2006, the Deputy Chairman of the CBR was assassinated in what was allegedly a contract killing tied to Mr. Kozlov's enforcement actions against corrupt Russian banking organisations. In October 2006, a journalist, Anna Politkovskaya, was assassinated in Moscow. Certain commentators have linked this murder with Ms. Politkovskaya's articles criticising the Russian and Chechen governments and her human rights activities. Organised crime, particularly property crimes in large metropolitan centres, has reportedly increased significantly since the dissolution of the Soviet Union. In addition, the Russian and international media have reported high levels of corruption in Russia. Press reports have also described instances in which government officials have engaged in selective investigations and prosecutions to further the interest of the government and individual officials or business groups. Although we adhere to a business ethics policy and internal compliance procedures to counteract the effects of crime and corruption, illegal activities, demands of corrupt officials, allegations that we or our management have been involved in corruption or illegal activities or biased articles and negative publicity could materially and adversely affect our ability to conduct our business in Russia and the trading price of the Securities.

Deterioration of Russia's relations with other countries of the former Soviet Union could disrupt normal business activity.

Since Mr. Putin became President in 1999, Russia has attempted to reassert its geopolitical interests in what had previously been Republics of the USSR. On several occasions, this has resulted in the deterioration of Russia's relations with such countries, including a comprehensive economic embargo against Georgia in 2006 and temporary suspension of oil transshipments through Belarus in 2007. The Russian Law "On Special Economic Measures," adopted in the fall of 2006, grants the President, acting only upon recommendation of the Russian Security Counsel, authority to both (i) impose restrictions or prohibit dealings with foreign states and/or foreign citizens and (ii) impose obligations to perform specific activities in furtherance of the adopted economic measures. If Russia were to impose a similar embargo or adopt any of the restrictive economic measures contemplated by this law with respect to its neighboring countries, or if these countries were to impose similar measures on Russia, our business, results of operations and financial condition, and the trading price of the Securities could be materially and adversely affected.

Social instability could lead to labour and social unrest, renewed centralised authority or increased nationalism.

The failure of the Russian government and of many private enterprises to pay full salaries regularly, and the failure of salaries and benefits generally to keep pace with the increasing cost of living, could lead to labour and social unrest, increased support for centralised authority and a rise in nationalism. For example, in 1998, miners in several regions of Russia, demanding payment of overdue wages, resorted to a strike that included blockading major railroads. In 2005, Russian pensioners organised street protests against government proposals to monetise in-kind benefits. These protests periodically blocked highways and streets in major Russian cities. Such labour and social unrest could disrupt normal business operations, which also could materially and adversely affect our business, financial condition and results of operations, and the trading price of the Securities.

Economic Risks

Emerging markets, such as Russia, are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt our business, as well as cause the price of the Securities to decline.

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors should also note that emerging markets, such as Russia, are subject to rapid change and that the information set forth in this Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity markets of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in any emerging market country could seriously disrupt our business, as well as result in a decrease in the trading price of the Securities.

Economic instability in Russia could adversely affect our business.

Since the dissolution of the Soviet Union in 1991, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high State debt relative to gross domestic product;
- a weak banking system providing limited liquidity to domestic enterprises;
- a large number of loss-making enterprises that have continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- the growth of black and grey market economies;
- high levels of capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the population.

The Russian economy has been subject to abrupt downturns. In particular, in August 1998 the Russian government defaulted on its rouble-denominated securities, the CBR stopped its support of the rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the rouble, a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and the inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector after the events of August 1998, which further impaired the ability of the banking sector to act as a reliable and consistent source of liquidity for Russian companies.

Recent favourable trends in the Russian economy, such as the increase in gross domestic product, a relatively stable rouble and a reduced rate of inflation, may not continue or may be abruptly reversed. For example, during 2005 economic growth slowed and consumer price inflation remained high. In addition, because Russia produces and exports large quantities of oil and natural gas, the Russian economy is particularly vulnerable to fluctuations in the price of oil and natural gas on the world market, and a decline in the price of oil or natural gas could significantly slow or disrupt the Russian economy. The occurrence of any of these events could materially and adversely affect consumer demand in Russia, and thus our business, financial condition and results of operations.

The banking system in Russia remains underdeveloped, and another banking crisis could place severe liquidity constraints on our business.

The banking and other financial systems in Russia are not well-developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. The 1998 financial crisis referred to above resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. From April through July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of various market rumours and, in some cases, certain regulatory and liquidity problems, several privately-owned Russian banks experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed or ceased or severely limited their operations. Russian banks owned or controlled by the Government or the CBR and foreign-owned banks generally were not adversely affected by the turmoil. There are currently also only a limited number of creditworthy Russian banks, most of which are located in Moscow. Most Russian banks do not meet international banking standards, and the transparency of the Russian banking sector still falls short of internationally accepted norms.

Another banking crisis or the bankruptcy or insolvency of the banks with which we hold funds could result in the loss of our deposits or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, financial condition and results of operations, and the trading price of the Securities.

Russia's physical infrastructure is in poor condition, which could disrupt normal business activity.

Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained since the dissolution of the Soviet Union. Particularly affected are the rail and road networks, power generation and transmission, communications systems and building stock. For example, during the winter of 2000 and 2001, electricity and heating shortages in Russia's far eastern Primorye region seriously disrupted the local economy. In May 2005, an electricity blackout affected much of Moscow for one day, disrupting normal business activity. The Russian government is actively pursuing plans to reorganise its rail, electricity and telephone systems, as well as the public utilities. Any such reorganisation may result in increased charges and tariffs whilst failing to generate the anticipated capital investment that is needed to repair, maintain and improve these systems. The deterioration of physical infrastructure in Russia harms its national economy, disrupts the transportation of goods and supplies, adds costs to doing business and can interrupt business operations. Further deterioration in the physical infrastructure could have a material adverse effect on our business, financial condition and results of operations, and the trading price of the Securities.

Inflation could increase our costs and decrease our operating margins.

In the recent past, the Russian economy has suffered from high rates of inflation. Although the inflation rate decreased to 7.8% in 2006, it was 84.5% in 1998, 36.5% in 1999 and 20.2% in 2000. Certain of our costs, such as salaries, are affected by inflation in Russia. In this situation, due to competitive pressures, we may not be able to raise the prices for our products sufficiently to preserve operating margins. Accordingly, high rates of inflation could increase our costs and decrease our operating margins.

Information that we have obtained from the Russian government and other sources may be incomplete and unreliable.

The official data published by the Russian government is substantially less complete and less reliable than similar data in the United States and Western Europe. We cannot be certain that the information we have obtained from the Russian government and other sources and included in this document is reliable. When reading this prospectus, you should keep in mind that the data and statistics relating to Russia that we have included could be incomplete or erroneous.

Legislative and Legal Risks

The immaturity of legal systems, processes and practices in the Russian Federation may adversely affect our business, financial condition or results of operations.

Risks associated with the legal systems of the Russian Federation include, to varying degrees: inconsistencies between and among laws, presidential decrees, edicts and governmental and ministerial orders

and resolutions; conflicting local, regional, and federal rules and regulations; the lack of judicial or administrative guidance regarding the interpretation of the applicable rules; the untested nature of the independence of the judiciary and its immunity from political, social and commercial influences; the relative inexperience of jurists, judges and courts in interpreting recently enacted legislation and complex commercial arrangements; a high degree of unchecked discretion on the part of governmental authorities; substantial gaps in the regulatory structure due to delays in or absence of implementing regulations; bankruptcy procedures that are not well-developed and are subject to abuse; and a lack of binding judicial precedent. All of these weaknesses affect our ability to protect and enforce our legal rights, including rights under contracts, and to defend against claims by others.

The relatively recent enactment of many laws, the lack of consensus about the scope, content and pace of political and economic reform and the rapid evolution of legal systems in ways that may not always coincide with market developments have resulted in ambiguities, inconsistencies and anomalies and, in certain cases, the enactment of laws without a clear constitutional or legislative basis. Legal and bureaucratic obstacles and corruption exist to varying degrees in each of the jurisdictions in which we operate, and these factors are likely to hinder our further development. These characteristics give rise to investment risks that do not exist in countries with more developed legal systems. The developing nature of the legal systems in the countries in which we operate could result in our business, financial condition or results of operations or the trading price of the Securities being materially and adversely affected.

Weaknesses relating to the Russian legal system and legislation create an uncertain environment for investment and business activity.

Russia is still developing the legal framework required to support a market economy. The risks described above under "— The immaturity of legal systems, processes and practices in the Russian Federation may adversely affect our business, financial condition or results of operations," create uncertainties with respect to the legal and business decisions that we make, many of which do not exist in countries with more developed market economies.

Additionally, the independence of the judicial system and the prosecutor general's office and their immunity from economic, political and nationalistic influences in Russia is less than complete. The court system is understaffed and underfunded; judges and courts are generally inexperienced in the areas of business and corporate law; judicial precedents generally have no binding effect on subsequent decisions; and most court decisions are not readily available to the public. Enforcement of court judgements can, in practice, be difficult. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims, and law enforcement agencies do not always enforce or follow court judgements. We may be subject to such claims and may not be able to receive fair trials or to enforce any judgements in our favour.

These uncertainties also extend to property rights. During its transition from a centrally-planned economy to a market economy, Russia has enacted laws to protect private property against expropriation and nationalisation. However, due to a lack of experience in enforcing these provisions and to political pressure, Russian courts might not enforce these protections in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of our entities, any of our entities' assets or portions thereof, potentially without adequate compensation, could have a material adverse effect on our business, financial condition and results of operations, and the trading price of the Securities.

Unlawful, selective or arbitrary government action may have an adverse effect on our business and the trading price of the Securities.

Governmental authorities have a high degree of discretion in Russia and at times appear to act selectively or arbitrarily, without hearing or prior notice, and in a manner that is contrary to law or influenced by political or commercial considerations. Moreover, the Government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities also appear to have used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate the issuances or registrations or to void transactions, seemingly for political purposes. Standard & Poors has expressed concerns that "Russian companies and their investors can be subjected

to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups." In this environment, our competitors could receive preferential treatment from the government, potentially giving them a competitive advantage. Unlawful, selective or arbitrary governmental action, if directed at our operations in Russia, could materially and adversely affect our business, financial condition and results of operations, and the trading price of the Securities.

The Russian corporate governance code is not of the same standard as corporate governance requirements in the European Union and has not yet proven effective at ensuring strong corporate governance practices in the Russian Federation. The Company, being a joint stock company incorporated in the Russian Federation, is not required to comply with the UK Combined Code principles on corporate governance or similar standards of other EU member states or the United States.

In 2002, the Russian Federation introduced its first corporate governance code, which is recommended for use by companies listed on the Russian stock exchanges. However, the Russian legal system continues to suffer from a lack of effectiveness and fails to provide adequate support for strong corporate governance practices and the Russian corporate governance code is not of the same standard as corporate governance requirements in the European Union. According to the European Bank for Reconstruction and Development, failures of the Russian corporate governance regime include using political connections in hostile takeovers, unlawfully engaging police or other law enforcement agencies in corporate conflicts and exercising improper influence over judicial verdicts, in particular those involving state-owned or other major business interests. In addition, as a joint stock company incorporated in the Russian Federation, the Company is not required to comply with the UK Combined Code principles on corporate governance or similar standards of other EU member states or the United States.

Nevertheless, a failure to comply in full with corporate governance requirements that are mandatory for obtaining and maintaining a Russian stock exchange listing may constitute grounds for de-listing a company such as us. Although a Russian stock exchange listing is a condition to the issuance by FSFM of a permit for GDRs, Russian securities laws and regulations are silent as to whether a de-listing constitutes grounds for revocation of the FSFM permit for the GDRs. While we are not aware of any other Russian issuer that has been de-listed on such grounds or has had its GDR permit revoked due to de-listing, this gap in the Russian securities regulatory regime creates uncertainty as to whether a failure to comply with corporate governance requirements may have such consequences. A Russian stock exchange de-listing and/or a GDR permit revocation would have a material adverse effect on the price of the Securities.

There are weaknesses in legal protections for minority shareholders and in corporate governance standards under Russian law.

Corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices. In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of action. Russian law also requires companies to obtain the approval of disinterred shareholders for certain transactions with interested parties. For example, the Company held an extraordinary shareholders' meeting ("ESM") on 3 May 2007 to approve the Underwriting Agreement and non-interested shareholders who were entitled to vote at that meeting were granted statutory buyout rights by the Company if they did not vote or voted against the resolutions of the ESM. For the purposes of such buy-out rights, the Company engaged a Russian licensed appraiser, OOO Gorodskaya Expertiza, to determine the price of shares used as a basis for the buy-out price in accordance with Russian statutory requirements. As of 2 April 2007, the date on which the list of shareholders eligible to participate in the ESM was fixed, the maximum number of shares owned by non-interested shareholders entitled to such buyout rights did not exceed 45,601 shares. If purchased by the Company, such shares will become treasury shares, will not have voting rights or pay dividends and should be sold by the Company within one year or be cancelled.

In addition, the supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are registered at a shareholders' meeting. Thus, controlling shareholders owning less than 75% of the outstanding shares of a company may have 75% or more voting power if certain minority shareholders are not registered at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a shareholders' meeting they are in a position to approve amendments to the charter of the company and other measures requiring supermajority shareholder approval, which could be prejudicial to the interest of minority shareholders.

Although the Law on Joint Stock Companies provides that shareholders owning not less than 1% of a company's stock may bring an action for damages on behalf of the company, Russian courts have very limited experience with such lawsuits. Russian law does not provide for class action litigation. Accordingly, investors' ability to pursue legal redress against us may be limited.

Disclosure and reporting requirements and anti-fraud legislation have only recently been enacted in Russia. Most Russian companies and managers are not accustomed to restrictions on their activities arising from these requirements. The concept of fiduciary duties of management or directors to their companies or shareholders is also relatively new and is not well developed.

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

The Russian Civil Code and the Law on Joint Stock Companies generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one person (an "effective parent") is capable of determining decisions made by another (an "effective subsidiary"). The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies; and
- the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of an effective parent. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to act or fail to act, knowing that such action or inaction would result in losses. Until very recently, there were no decisions of the Russian courts based on this provision of the law. However, on 26 January 2006, the Arbitrazh Court of the Moscow Region, reviewing the case on appeal, adopted a decision where it imposed a liability on the shareholders of the bankrupt company. Accordingly, in our position as an effective parent, we could be liable in some cases for the debts of our effective subsidiaries in Russia.

Appraisal rights provisions of Russian law may impose additional costs on us.

Under Russian law, shareholders of a Russian joint stock company that vote against or abstain from voting on some decisions have "appraisal rights," or the right to sell their shares to such company at market value. The decisions that trigger this right to sell shares include:

- a reorganisation of the joint stock company;
- the approval by shareholders of a "major transaction," regardless of whether the transaction is actually consummated. A "major transaction" is one whose value comprises over 25% of the assets of the joint stock company, calculated in accordance with Russian Accounting Standards ("RAS"); and
- the amendment of the joint stock company's charter in a manner that limits shareholder rights.

A joint stock company's obligation to purchase shares in these circumstances is limited to 10% of its net assets, calculated according to RAS at the time the decision is taken. The application of these appraisal rights to any Russian joint stock company that we may acquire less than 100% of in the future, could have a material adverse effect on our cash flow and the ability to service our indebtedness.

Underdeveloped corporate and securities laws and regulations in Russia may limit our ability to attract investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, anti-fraud safeguards, insider trading restrictions and fiduciary duties have been adopted relatively recently and have more limited histories of interpretation and enforcement. In addition, the Russian securities market is regulated by several different authorities, including the FSFM, the Ministry of Finance, the Federal Antimonopoly Service, the CBR and various professional self-regulatory organisations, which are at times in competition with or operate in contradiction to each other.

The FSFM has recently undertaken a considerable revision of its regulations relating to initial public offerings, including its regulations and procedures in relation to FSFM permissions on offering of shares of Russian companies in the form of GDRs. The application and interpretation of these new regulations, including in the context of this Offering, may be subject to uncertainty in certain respects. In particular, the new rules provide that no more than 70% of shares which the selling shareholder committed to offer in the Russian Federation can be sold outside the Russian Federation, including in the form of GDRs. There is a risk that this requirement may be interpreted as placing an obligation on a selling shareholder to sell in the form of shares (rather than merely to offer) at least 30% of the total number of shares (included in the offering commitment of a selling shareholder to the FSFM).

Russian corporate and securities rules and regulations are also subject to rapid change. Whilst some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing capital markets. It is often unclear whether or how regulations, decisions and letters issued by various regulatory authorities apply to us. As a result, we may be subject to fines or other enforcement measures despite our best efforts at compliance. Any or all of these factors may adversely affect our ability to conduct securities-related transactions, including the Offering.

Russia's unpredictable federal and local tax systems give rise to significant uncertainties and risks that complicate our tax planning and business decisions.

Taxes payable by Russian companies are substantial and include value added tax, excise duties, profit tax, payroll-related taxes, property taxes and other taxes. Russia's federal and local tax laws and regulations are subject to frequent change, varying interpretations and inconsistent enforcement. In addition, we are subject to periodic tax inspections that may result in tax assessments and additional amounts owed by us for prior tax periods. Russia's federal and local tax collection system increases the likelihood that Russia will impose arbitrary or onerous taxes and penalties in the future, which could adversely affect our business. Generally, tax declarations remain open and subject to inspection by tax and/or customs authorities for a period of three years immediately preceding the year in which the tax inspection is carried out. The fact that a year has been reviewed by tax authorities does not close that year, or any tax declaration applicable to that year, from further review during the three-year period. Therefore, because previous tax audits do not preclude subsequent claims relating to the audited period, the statute of limitations is not entirely effective. In addition, on 14 July 2005 the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the tax laws if a court determines that a taxpayer has obstructed or hindered a tax inspection. Moreover, recent amendments to the first part of the Tax Code, effective 1 January 2007, provide for the extension of the three-year statute of limitations if the actions of the taxpayer created insurmountable obstacles for the tax audit. Because the terms "obstructed", "hindered" or "created insurmountable obstacles" are not defined, tax authorities may have broad discretion to argue that a taxpayer has "obstructed", "hindered" or "created insurmountable obstacles" in respect of an inspection and ultimately to seek penalties beyond the three-year term.

In addition, on 12 October 2006, the Plenum of the High Arbitration Court of the Russian Federation issued Ruling No. 53 which introduced a new concept of "unjustified tax benefit" which is defined mainly by reference to specific examples of such tax benefits (e.g. absence of business purpose) which may lead to disallowance thereof for tax purposes. There is no practice or guidance on interpretation of this new concept by the tax authorities or courts, but it is likely that the tax authorities will actively seek to apply this concept when challenging in court tax positions taken by taxpayers. Although the intention of Ruling No. 53 was to combat abuse of tax law, in practice there is no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the High Arbitration Court.

In addition to our substantial tax burden, these conditions complicate our tax planning and related business decisions. For example, some tax laws are unclear with respect to the deductibility of certain expenses and recoverability of VAT and, at times, we have taken positions that we consider to be in compliance with current law, but have been challenged by the Russian tax authorities. Uncertainty related to Russian tax laws exposes us to significant fines and penalties and to enforcement measures despite our best efforts at compliance, and could result in a greater than expected tax burden. Moreover, court decisions in one jurisdiction of Russia may have little, if any, precedential effect in other jurisdictions, which could lead to multiple judgements against a company.

In addition, transfer pricing legislation became effective in Russia on 1 January 1999. Despite the fact that Russian transfer pricing rules are not yet aggressively applied on a consistent basis by the Russian tax authorities, the scope of these rules is very broad. To date, there has been no formal guidance (although some court practice

is already available) as to how these rules will be applied. Nonetheless, Russian tax authorities have paid particular attention to transfer pricing rules in their recent audits of Russian companies. If the tax authorities impose significant additional tax liabilities as a result of transfer pricing adjustments or other similar claims, it could have a material adverse effect on our company. Moreover, in the event that a transfer pricing adjustment is assessed by Russian tax authorities, the Russian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to adjustment.

It is likely that Russian tax legislation will become more sophisticated in the future. The introduction of new tax provisions may affect the overall tax efficiency of our group and may result in significant additional taxes becoming payable. Although we will undertake to minimise such exposures with effective tax planning, we cannot assure you that additional tax exposure will not arise in the future. Additional tax exposure could cause our financial results to suffer. In addition, financial statements of Russian companies are not consolidated for tax purposes under Russian law. As a result, each entity in our group pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in our group, which may result in higher taxes for the group than if taxes were assessed on a consolidated basis. In addition, recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

Other than remote contingent risks and those risks which we consider probable (in respect of which we accrue a tax liability in our financial statements), we estimate that as at 31 December 2006 we are potentially exposed to tax risk in an amount of approximately RUR53 million reflecting a risk that certain of our arrangements may be challenged by the tax authorities. Should the Russian tax authorities decide to issue a claim and prove successful in court, they would be entitled to recover the amount claimed, together with fines amounting to 20% of such amount and interest. No provision for these contingencies was recorded in our financial statements. As a result, significant additional taxes, penalties and interest may be assessed.

We could face large and perhaps arbitrary tax claims.

Since 2003, the Russian Ministry for Taxes and Levies (now succeeded by the Federal Tax Service) has aggressively cracked down on certain Russian companies' use of tax optimisation schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. For example, the Federal Tax Service determined that Yukos owes over US$28 billion in back taxes and related penalties, and, as noted above, in December 2004, Yukos' major production subsidiary, Yuganskneftegaz, was auctioned in partial settlement of these obligations. In addition, the press has reported significant claims for back taxes and related penalties against other oil companies, including TNK-BP, OJSC Lukoil, telecommunications companies, including OAO Vimpelcom, and other major companies.

In March 2005, President Putin announced that the government was considering plans to reform the system of tax collection and administration. However, in April 2005, the back tax claim against TNK-BP for 2001 increased by RUR22 billion, bringing the total claim against TNK-BP for 2001 to RUR26 billion, and Sibneft, another oil company, received a back tax claim for RUR21 billion. As a result of further audits of TNK-BP's operations in 2002 and 2003, the Federal Tax Service filed a claim against TNK-BP for payment of approximately US$1.8 billion, comprised of back taxes for such years and related penalties. As a result, TNK-BP has reportedly paid approximately US$1.5 billion in settlement of the back taxes and related penalties for 2002 and 2003. The Federal Tax Service could become more aggressive in respect of past and future tax audits, which may have a material adverse effect on our business, financial condition and operating results, and the trading price of the Securities.

The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of our shares, including the Shares and the Shares underlying the GDRs.

Ownership of Russian open joint stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in Russia. Share registers are maintained by the companies themselves, or if a company has more than 50 shareholders or so elects, by licensed registrars located throughout Russia. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars often have relatively low levels of capitalisation and

inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, official or unofficial government actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. Further, the Depositary, under the terms of the Deposit Agreement, is not liable for the unavailability of shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares. See "Description of Share Capital and Certain Requirements of Russian Legislation" and "Terms and Conditions of the Global Depositary Receipts."

Risks Related to this Offering

Because there has been no prior active public trading market for the Securities, the Offering may not result in an active or liquid trading market for the Securities, and their price may be highly volatile.

Before the Offering, there has been no public trading market for the GDRs or an active public trading market for the Shares. Prior to the Offering, there was limited trading of the Shares on RTS in connection with market-maker services provided in order to maintain the Russian listing of Shares. As the trading in the Shares was limited, the prices at which those Shares traded may not be representative of the trading prices of the Shares or GDRs following the Offering. Although the GDRs will be admitted to trading on the London Stock Exchange, an active, liquid trading market may not develop or be sustained after this offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If an actual liquid trading market for the Securities does not develop, the price of the Securities may be more volatile and it may be difficult to complete a buy or sell order for the Securities.

The trading prices of the Securities may be subject to wide fluctuations in response to many factors that are unrelated to us or our performance, including:

- variations in our operating results and those of other pharmaceutical companies;
- variations in national and industry growth rates;
- actual or anticipated announcements of technical innovations or new products or services by us or our competitors;
- changes in governmental legislation or regulation;
- general economic conditions within our business sector or in Russia; and
- extreme price and volume fluctuations on stock exchanges in Russia.

In addition, the market price of the Securities may decline below the Offer Price, which will be determined by the results of the book-building exercise being conducted by the Joint Global Coordinators.

In addition, pursuant to FSFM regulations, our shares included in the quotation list "V" of the RTS and included in the quotation list "I" of the MICEX must be transferred to a higher quotation list of the RTS and the MICEX within six months following the admission of our Shares in the quotation list "V" of the RTS and five years following the admission of our shares in the quotation list "I" of the MICEX subject to our compliance with the additional requirements of such a quotation list. If we fail to comply with these requirements or if we fail to transfer our Shares from the quotation list "V" and/or list "I", as applicable within the specified time period, our Shares will be delisted from the relevant quotation list which will adversely affect the price and trading of our Shares.

The number of shares that can be deposited into the GDR programme is limited, and requires certain approvals from Russian authorities.

Russian securities regulations currently provide that no more than 35% of a Russian company's shares may be circulated abroad through depositary receipt programmes. Accordingly, there are significant practical and legal limitations which effectively cap the size of our GDR programme at 35% of our issued share capital. We have received permission from the FSFM for up to 25% of our shares to be circulated abroad through depositary receipt programmes. Upon completion of the Offering (assuming exercise of the Over-Allotment Option in full), we expect that the GDR programme will account for approximately 25% of our ordinary shares. Our GDR programme may not have sufficient capacity to accept all future deposits of ordinary shares. In addition, there can be no assurance that, in the future, we will be able to increase the share of our issued share capital that is allowed to be deposited in the GDR programme to the maximum of 35% of our issued and outstanding shares currently contemplated by FSFM regulations.

In addition, under Russian law the Selling Shareholder offering shares for placement outside Russia must offer to place these shares on a Russian stock exchange or via a Russian broker and no more than 70% of the shares may be sold in an offering outside the Russian Federation, including in the form of GDRs. Accordingly, the size of our GDR programme could be effectively limited to the equivalent of 70% of the total number of Shares offered (whether offered as Shares or in the form of GDRs).

Our ability to pay dividends depends primarily upon receipt of sufficient funds from our subsidiaries.

Because we are a holding company, our ability to pay dividends depends primarily upon receipt of sufficient funds from our subsidiaries as well as the Company's ability to make dividend payments under Russian law. Furthermore, the payment of dividends by our subsidiaries and/or our ability to repatriate such dividends may, in certain instances, be subject to statutory restrictions, and retained earnings criteria, and are contingent upon the earnings and cash flow of those subsidiaries. The inability on the part of some of our subsidiaries to pay dividends would negatively affect the amount of funds available to us to pay dividends.

Because the Depositary may be considered the beneficial holder of the shares represented by the GDRs, these Shares may be arrested or seized in legal proceedings in Russia against the Depositary.

Russian law may not recognise GDR holders as beneficial owners of the underlying Shares. Accordingly, holders of GDRs could lose all of their rights to those Shares if the Depositary's assets in Russia are seized or arrested. In that case, they would lose all the money they invested. Russian law may treat the Depositary as the beneficial owner of the Shares underlying the GDRs. This is different from the way other jurisdictions treat GDRs. In the United States, although shares may be held in the Depositary's name or to its order, making it a "legal" owner of the shares, the GDR holders are the "beneficial" or real owners. In U.S. or U.K. courts, an action against the Depositary, the legal owner of the Shares, would not result in the beneficial owners losing their Shares. Russian law may not make the same distinction between legal and beneficial ownership, and it may only recognise the rights of the Depositary in whose name the Shares are held, not the rights of GDR holders, to the underlying Shares. Thus, in proceedings brought against a depositary, whether or not related to Shares underlying GDRs, Russian courts may treat those underlying Shares as the assets of the Depositary, open to seizure or arrest. In the past, a lawsuit was filed against a depositary bank seeking the attachment of various Russian companies' shares represented by GDRs issued by that depositary. In the event that this type of suit were to be successful in the future against the Depositary, and the Shares underlying our GDRs were to be seized or arrested, the GDR holders involved would lose their rights to such underlying Shares.

Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement for the GDRs and relevant requirements of Russian law.

GDR holders will have no direct voting rights with respect to the Shares represented by the GDRs. They will be able to exercise voting rights with respect to the Shares represented by GDRs only in accordance with the provisions of the Deposit Agreement relating to the GDRs and relevant requirements of Russian law. There are, therefore, practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, our Charter requires us to notify shareholders at least 30 days in advance of any shareholders' meeting and, in relation to an extraordinary meeting to elect directors, the Joint Stock Companies Law requires at least 70 days' notice. Our common shareholders will receive notice directly from us and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

GDR holders, by comparison, will not receive notice directly from us, but rather, in accordance with the Deposit Agreement, we will provide that notice to the Depositary. The Depositary has undertaken, in turn, as soon as reasonably practicable thereafter, if requested by us in writing in a timely manner and at our expense, and provided there are no English or Russian legal prohibitions (including, without limitation, the rules of the London Stock Exchange or the rules of any Russian stock exchange on which the Shares are listed or admitted to trading), to mail to GDR holders notice of the meeting, copies of voting materials (if and as received by the Depositary from us) and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, GDR holders must then instruct the Depositary how to vote the Shares represented by the GDRs they hold. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for them than for holders of the Shares and we cannot assure GDR holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. GDRs for which the Depositary does not receive timely voting instructions will not be voted. In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to

the Shares underlying the GDRs in accordance with instructions from GDR holders, such regulations remain untested, and the Depositary will, if requested by us, refrain from voting altogether unless it receives instructions from all GDR holders to vote the Shares in the same manner. Moreover, GDR holders may not exercise voting rights in respect of fractional shares. GDR holders may thus have significant difficultly in exercising voting rights with respect to the Shares underlying the GDRs. There can be no assurance that holders and beneficial owners of GDRs will (i) receive notice of shareholder meetings to enable the timely return of voting instructions to the Depositary, (ii) receive notice to enable the timely cancellation of GDRs in respect of shareholders actions (as discussed below) or (iii) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions. See "Terms and Conditions of the Global Depositary Receipts" for a description of the voting rights of holders of GDRs.

Holders of GDRs may also not be able to instruct the Depositary to introduce proposals for the agenda of shareholders' meetings, request that a shareholders' meeting be called, nominate candidates for our board of directors or otherwise exercise the rights of minority ownership arising under the Joint Stock Companies Law. See "Description of Share Capital and Certain Requirements of Russian Legislation." If holders of GDRs wish to take such actions, they may need to request that their GDRs be cancelled and take delivery of the Shares and thus become the owner of the Shares on our share register.

US holders may not be able to exercise their pre-emptive rights.

Generally, existing holders of Shares of Russian companies are in certain circumstances entitled to pre-emptive rights pursuant to Russian law and the charter of the Company, as described in "Description of Share Capital and Certain Requirements of Russian Legislation." US holders of GDRs may not be able to exercise pre-emptive rights for Shares represented by GDRs unless a registration statement under the Securities Act is effective with respect to those rights, or an exemption from the registration requirement thereunder is available. The Company is unlikely to file any such registration statement, and no assurance can be given that an exemption from the registration requirements of the Securities Act would be available to enable such US holders to exercise such pre-emptive rights and, if such exemption were available, the Company may not take the steps necessary to enable holders of GDRs to rely on it.

Future sales of our Securities may affect their market price.

Sales, or the possibility of sales, of substantial numbers of Securities, in the public markets, including the Russian stock market, following the offering could have a material adverse effect on the trading prices of the Securities or could affect our ability to obtain further capital through an offering of equity securities. Subsequent equity offerings may reduce the percentage ownership of our existing shareholders. Moreover, newly issued shares may have rights, preferences or privileges senior to those of the Securities.

Holders of GDRs may not be able to benefit from double tax treaties.

In accordance with Russian legislation, dividends paid to a non-resident holder of GDRs generally should be subject to Russian withholding tax at a rate of 15% for legal entities and organisations and at a rate of 30% for individuals. Tax may be reduced under an applicable double tax treaty for holders entitled to treaty benefits. The Russian tax rules applicable to GDR holders are characterised by significant uncertainties and, until recently, by an absence of interpretive guidance. In 2005 and 2006, the Russian Ministry of Finance expressed an opinion that GDR holders should be treated as the beneficial owners of the underlying shares for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that tax residencies of the GDR holders are duly confirmed. However, in the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities and courts will ultimately treat the GDR holders in this regard. Thus, in the absence of any official interpretative guidance on the concept of beneficial ownership for Russian tax purposes, we will likely withhold tax at non-treaty rates when paying dividends to holders of the GDRs and holders of GDRs may be unable to benefit from the relevant income tax treaties.

THE OFFERING

The Company	OJSC Pharmstandard.
Selling Shareholder	Augment Investments Limited of Arch. Makariou III, 284 Fortuna Court, Block B, 2nd Floor P.C. 3105, Limassol, Cyprus.
The Offering	The Offering comprises an offer of 16,349,408 Shares in the Company in the form of Shares and GDRs (including the exercise of the Over-Allotment Option in full). Excluding the Over-Allotment Option, the Selling Shareholder is offering 15,117,041 Shares in the form of Shares and GDRs. The Offering comprises (i) an Offering of Shares and Regulation S GDRs outside the United States and the Russian Federation, (ii) an Offering of Shares and Rule 144A GDRs to QIBs within the United States, and (iii) an Offering of Shares in the Russian Federation.
Over-Allotment Option	The Selling Shareholder has granted the Joint Global Coordinators an option, exercisable within 30 days after the announcement of the Offer Price, to purchase up to an additional 1,232,367 Optional Shares in the form of GDRs at the Offer Price, solely to cover over-allotments, if any, in the Offering.
Offer Price	US$58.20 per Share and US$14.55 per GDR.
The Shares	Our share capital consists of 37,792,603 ordinary shares, each with a nominal value of RUR 1, which are fully paid, issued and outstanding. Our shares have the rights described under "Description of Share Capital and Certain Requirements of Russian Legislation."
The GDRs	Four GDRs will represent one Share. The GDRs will be issued and delivered by the Depositary pursuant to the Deposit Agreement. The Regulation S GDRs will be evidenced by the Master Regulation S GDR and the Rule 144A GDRs will be evidenced by the Master Rule 144A GDR. See "Summary of Provisions Relating to the GDRs whilst in Master Form." GDRs representing 8,215,783 Shares will initially be created for the purposes of the Offering (without taking into account the Shares subject to the Over-Allotment Option). Pursuant to the Deposit Agreement, the Shares represented by the GDRs will be held by the Custodian, ING Bank (Eurasia) ZAO, for the benefit of the Depositary and for the further benefit of the holders and beneficial owners of the GDRs from time to time. Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. Subject to the terms of the Deposit Agreement, interests in the Master Regulation S GDR may be exchanged for interests in the corresponding number of GDRs represented by the Master Rule 144A GDR and vice versa.
Depositary	The Bank of New York.
Voting Rights	Our shareholders are generally entitled to one vote per Share at a shareholders' meeting. See "Description of Share Capital and Certain Requirements of Russian Legislation." The Depositary will endeavour to exercise on behalf of holders of GDRs, at any meeting of holders of the Shares of which the Depositary receives timely notice, the voting rights relating to the Shares underlying the GDRs in accordance with instructions it

	receives from holders of GDRs. We will notify the Depositary of any resolution to be proposed at any general meeting. The Deposit Agreement does not allow for the voting of fractional entitlements. Since each Share is represented by four GDRs, holders of GDRs will need four GDRs to be entitled to one vote. See "Terms and Conditions of the Global Depositary Receipts — Voting Rights."
Dividends	See "Dividend Policy."
Taxation	For a discussion of certain US, UK and Russian tax consequences of purchasing and holding the Securities, see "Taxation."
Listing and Trading	Application has been made to (i) the UK Listing Authority for a listing of up to 52,909,644 GDRs, consisting of up to 32,863,132 GDRs to be issued on the Closing Date, up to 4,929,468 additional GDRs issued pursuant to the Over-Allotment Option, as described herein, and up to 15,117,044 additional GDRs to be issued from time to time against the deposit of shares with the Depositary, to be admitted to the Official List and (ii) the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities. We have applied for the Rule 144A GDRs to be designated as eligible for trading on PORTAL. The Shares were listed on the "V" list of the RTS on 20 November 2006 and on the "I" list of the MICEX on 26 April 2007, but are not actively traded. Prior to the Offering, there has been no market for the GDRs. Trading in the GDRs on the London Stock Exchange is expected to commence on a when and if issued basis on 4 May 2007. Closing and settlement are expected to take place on 10 May 2007, and admission to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's regulated market for listed securities is expected to take place on 11 May 2007. An additional 3,779,261 Shares may be deposited, subject to the provisions set forth under "Terms and Conditions of the Global Depositary Receipts" and in the Deposit Agreement, with the Custodian against which the Depositary shall issue GDRs representing such shares up to the maximum aggregate number of 15,117,044 GDRs permitted under the UK Listing Authority block listing application subject to obtaining permission therefore from the FSFM.
Payment and Settlement	The Depositary has applied to have the Regulation S GDRs accepted for clearance through the book-entry settlement systems of Euroclear and Clearstream, Luxembourg and the Rule 144A GDRs accepted for clearance through DTC. Payment for, and delivery of, the Regulation S GDRs will be made on or about 10 May 2007 through the facilities of Euroclear and Clearstream, Luxembourg. Payment for, and delivery of, the Rule 144A GDRs will be made on or about 10 May 2007 through the facilities of DTC. Upon acceptance by DTC, a single Master Rule 144A GDR will be held in book-entry form and will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. The Master Regulation S GDR will be registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Each purchaser of the Shares in the Offering is required to pay for any Shares in same-day funds and the Shares will be delivered to such

purchasers on or about 21 May or a later date. In order to take delivery of the Shares, potential purchasers should either have a direct account with our share registrar, OJSC Registrar R.O.S.T., or a deposit account with CJSC Depositary Clearing Company ("DCC") or Not-for-Profit Partnership The National Depositary Center ("NDC"), or any other depository that has an account with DCC or NDC or a direct account with our share registrar. Upon taking delivery of the Shares, purchasers may choose to hold the Shares through a direct account with our share registrar; however, directly-held Shares are ineligible for trading on MICEX or the RTS. In addition, in order to trade your Shares on MICEX or the RTS you may have to further transfer your Shares to an account at a different depository.

The security identification numbers of the Securities offered hereby are as follows:

Regulation S GDRs ISIN:	US7171402065
Regulation S GDRs Common Code:	029669546
Regulation S GDRs CUSIP Number:	717140206
Rule 144A GDRs ISIN:	US7171401075
Rule 144A GDRs Common Code:	029669376
Rule 144A GDRs CUSIP Number:	717140107
London Stock Exchange GDR identification number:	PHST LI
PORTAL Rule 144A GDR trading symbol:	P717140107
RTS and MICEX trading symbol:	PHST RU/PHST RM

Risk Factors . . . . . Prospective investors should consider carefully certain risks, including those discussed under "Risk Factors."

USE OF PROCEEDS

The Selling Shareholder is selling all of the Shares and GDRs in the Offering and will receive approximately $925 million in net proceeds from the sale, less underwriting commissions (assuming exercise in full of the over-allotment option and that the Selling Shareholder elects to pay the discretionary underwriting commission of approximately $4.75 million). We will not receive any proceeds from the Offering.

DIVIDEND POLICY

Beginning with respect to the year ending 31 December 2007, we currently intend to declare and pay dividends annually of at least 15% of our IFRS consolidated net profits (subject to any contractual restrictions or restrictions under Russian law). We paid dividends of RUR576.4 million, and RUR249.1 million and nil for the years ended 31 December 2004, 2005 and 2006, respectively.

As a Russian holding company, our ability to pay dividends depends upon receipt of dividends and distributions from our subsidiaries and the Company's ability to make dividend payments under Russian law. See "Description of Share Capital and Certain Requirements of Russian Legislation." The payment of dividends by our subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves and the ability of our subsidiaries to make, in accordance with relevant legislation, and exchange controls, dividend payments to us. Our ability to pay dividends is also restricted by the terms of the Citibank Loan Agreement (as defined in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Overview"). See "Risk Factors —Risks Related to our Business and Industry — Our ability to pay dividends is restricted."

To the extent that we declare and pay dividends, owners of Shares and GDRs on the relevant respective record dates will be entitled to receive dividends payable in respect of Shares or, as the case may be, Shares underlying the GDRs, subject to the terms of the Deposit Agreement. Cash dividends may be paid to the Depositary in any currency and, except as otherwise described under "Terms and Conditions of the Global Depositary Receipts — Conversion of Foreign Currency," are converted into US dollars by the Depositary and paid to holders of GDRs net of currency conversion expenses. Accordingly, the value of dividends received by holders of the GDRs will be subject to fluctuations in the exchange rate between the rouble and the US dollar. In addition, dividends that we distribute to the Depositary will be subject to applicable Russian withholding tax. See "Taxation — Russian Federation."

EXCHANGE RATE INFORMATION

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the rouble and US dollar and the rouble and euro, based on the official exchange rate quoted by the CBR. The exchange rate is expressed in roubles per US dollar and in roubles per euro. Fluctuations in the exchange rate between the rouble and US dollar and between the rouble and the euro in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of our Consolidated Financial Statements and other information presented in this Prospectus.

Year ended 31 December	High	Low	Average[1]	Period end
		RUR per $1.00		
2002	31.86	30.14	31.35	31.78
2003	31.88	29.25	30.69	29.45
2004	29.45	27.75	28.82	27.75
2005	29.00	27.46	28.27	28.78
2006	28.48	26.18	27.09	26.33
Month ended				
30 November 2006	26.78	26.31	26.62	26.31
31 December 2006	26.39	26.18	26.29	26.33
31 January 2007	26.58	26.45	26.53	26.53
28 February 2007	26.55	26.16	26.34	26.16
31 March 2007	26.24	26.01	26.11	26.01
30 April 2007	26.01	25.69	25.84	25.69

Year ended 31 December	High	Low	Average[1]	Period end
		RUR per Euro 1		
2002	33.11	26.30	29.64	33.11
2003	36.82	32.95	34.66	36.82
2004	37.84	34.12	35.81	37.81
2005	37.84	33.68	35.26	34.19
2006	34.88	33.33	34.12	34.70
Month ended				
30 November 2006	34.68	33.99	34.24	34.68
31 December 2006	34.88	34.57	34.73	34.70
31 January 2007	34.49	34.31	34.39	34.39
28 February 2007	34.52	34.30	34.41	34.52
31 March 2007	34.73	34.54	34.57	34.69
30 April 2007	35.01	34.69	34.89	35.01

(1) The average of the exchange rates on the last business day of each full month for the relevant annual periods, and on each business day for which the CBR quotes the rouble to US dollar and Euro exchange rate for the relevant monthly period.

On 3 May 2007, the exchange rate quoted by the CBR between the US dollar and the rouble was $1.00 to RUR25.76 and between the euro and the rouble was euro 1 to RUR34.98.

No representation is made that the rouble amounts referred to in this Prospectus could have been or could be converted into any currency at the above exchange rates, at any other rate or at all. The rouble is generally not convertible outside Russia. A market exists within Russia for the conversion of roubles into other currencies, but the limited availability of other currencies may tend to distort their values relative to the rouble.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth, at 31 December 2006, our cash and cash equivalents, short-term indebtedness and capitalisation. For further information, see our Consolidated Financial Statements included elsewhere in this Prospectus.

	At 31 December 2006
	Historical
	(in RUR millions)
Cash and cash equivalents	193.0
Short term indebtedness	—
Current portion of long-term indebtedness	351.4
Total short-term indebtedness	351.4
Interest bearing loans and borrowings	
Total long-term indebtedness	3,524.0
Equity	
Retained earnings	5,838.9
Share capital	37.8
Total capitalisation	**5,876.7**

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information set forth below shows our historical consolidated financial information as of 31 December 2004, 2005 and 2006 and for the years then ended. The selected consolidated financial information set forth below has been derived from, and should be read in conjunction with, our Consolidated Financial Statements and the notes thereto included elsewhere in this Prospectus. The selected consolidated financial information should also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" below.

	Year ended 31 December			
	2004 (RUR millions)	2005 (RUR millions)	2006 (RUR millions)	2006 (US$ millions)
Consolidated Statement of Operations Data				
Sale of goods	3,945.7	5,684.8	8,522.8	314.6
Cost of sales	(2,220.0)	(2,507.1)	(3,581.2)	(132.2)
Gross profit	1,725.7	3,177.7	4,941.5	182.4
Selling and distribution costs	(531.6)	(1,069.5)	(1,268.2)	(46.8)
General and administrative expenses	(522.0)	(443.3)	(498.9)	(18.4)
Other expenses	(160.7)	(126.6)	(207.0)	(7.6)
Interest income	3.7	11.8	24.0	0.9
Interest expense	(77.8)	(106.4)	(291.4)	(10.8)
Profit before income tax	437.3	1,443.7	2,700.1	99.7
Income tax expense	(117.7)	(424.4)	(664.0)	(24.5)
Profit for the period	319.6	1,019.3	2,036.1	75.2
Attributable to:				
Equity holders of the Company	305.1	906.2	1,897.7	70.1
Minority Interests	14.5	113.1	138.4	5.1
Basic and diluted earnings per share (RUR or US$)	8.08	23.98	50.21	1.9

	As of 31 December			
	2004 (RUR millions)	2005 (RUR millions)	2006 (RUR millions)	2006 (US$ millions)
Consolidated Balance Sheet Data				
Cash and cash equivalents	65.6	244.0	193.0	7.3
Total assets	5,337.5	8,313.1	13,769.8	523.0
Total noncurrent liabilities	378.2	501.8	4,652.6	176.7
Total current liabilities	2,426.4	3,886.5	2,776.9	105.5
Total equity and liabilities	5,337.5	8,313.1	13,769.8	523.0
Minority interest	349.1	1,134.5	463.7	17.6

	Year ended 31 December			
	2004 (RUR millions)	2005 (RUR millions)	2006 (RUR millions)	2006 (US$ millions)
Consolidated Cash Flow Data				
Cash flow from operating activities	417.3	1,367.4	1,261.3	46.6
Cash flow used for investment activities	(821.1)	(733.2)	(4,522.3)	(167.0)
Cash flow from (used in) financing activities	434.8	(455.8)	3,209.9	118.5

For the purposes of this selected historical consolidated financial information, convenience translations from the rouble to US dollar are provided at the following exchange rates:

Financial Statement	Description	Rate RUR/1 US$
Balance Sheet as of 31 December 2006	CBR spot rate at close of the business on 31 December 2006	26.33
Statement of Operations and Cash Flow for the year ended 31 December 2006	Average CBR spot rate for 2006	27.09

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the notes thereto and the other information included elsewhere in this Prospectus.

On 1 January 2005, the Company acquired a controlling interest in OJSC "TZMOI" ("TZMOI") and, as a result, from 1 January 2005 the Company's Consolidated Financial Statements include the activities of TZMOI.

On 2 August 2006, the Company acquired all of the share capital of CJSC "Masterlek" ("Masterlek") and, as a result, from 2 August 2006 the Company's Consolidated Financial Statements include the activities of Masterlek. We include elsewhere in this Prospectus the Masterlek Financial Statements and the unaudited pro forma financial information for the year ended 31 December 2006 to give effect to our acquisition of Masterlek as if such acquisition had occurred on 1 January 2006. The unaudited pro forma financial information is presented elsewhere in this Prospectus for illustrative purposes only and should not be relied upon as an indication of the operating results that we would have achieved if the Company had acquired Masterlek on 1 January 2006, nor should it be used as an indication of the results that the Company will achieve in the future.

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

Overview

We are the leading domestic pharmaceutical company in Russia and the fourth largest pharmaceutical company operating in Russia overall, by sales value. We develop, manufacture, market and sell generic and, to a lesser extent, original pharmaceutical products in various formulations, primarily in Russia. Our product portfolio includes market-leading brands, such as Arbidol® (antiviral for systemic use), Pentalgin® (analgesics), Terpincod® (cough and cold), Complivit® (vitamins) and Flucostat® (antifungal). In 2006, we ranked second, by sales value, in the commercial segment of the Russian pharmaceutical market, and Arbidol® was the leading brand, by sales value, in this segment.

Our pharmaceutical product portfolio includes OTC products, as well as prescription products. Our pharmaceutical product portfolio covers a wide range of therapeutic segments. Sales of products within our Core Therapeutic Segments accounted for 71% of our pharmaceutical product sales in 2006. Our pharmaceutical product portfolio consists of both branded generics, which may be trademarked and which we promote through our direct sales force, and non-branded, or "pure," generics, which are older products that have demonstrated sustainable demand from consumers without the need for continued active promotion.

In August 2006, we acquired Masterlek, a Russian pharmaceutical company focused on the antiviral for systemic use and antifungal therapeutic segments. In line with our strategy to expand our market position in Russia through acquisitions that complement our product portfolio, Masterlek contributed approximately 30 products to our product portfolio, including market-leading brands such as Arbidol® and Flucostat®.

In addition to our pharmaceutical business, we also develop, manufacture, market and sell medical equipment, such as sterilising and distilling machines, and disposable medical products, such as syringes.

The Company was originally incorporated as a Russian limited liability company (OOO "Biovit") in June 2003 and converted into an open joint stock company (OJSC "Pharmstandard") in May 2006. We own manufacturing facilities in Kursk, Tomsk, Ufa, Nizhny Novgorod and Tyumen. All of our subsidiaries are incorporated under the laws of the Russian Federation.

Basis of Presentation of Consolidated Financial Statements

The Group was established during 2005 through a series of restructurings of entities under common control. By 31 December 2005, following completion of the restructurings, the current subsidiaries of the Company (other than Masterlek) were directly owned by the Company. The reorganisations under common control for the years ended 31 December 2004 and 2005 were accounted for using the uniting of interests method. This method

allowed the Company to consider those entities that had been under common control, but were not subsidiaries of the Company, as being directly owned by the Company from the date on which they had become entities under common control. Consequently, since all current subsidiaries of the Company (other than TZMOI and Masterlek) had been under common control since 1 January 2004, all such subsidiaries are included in the Consolidated Financials Statements for the years ended 31 December 2004 and 2005 as if they had been consolidated subsidiaries since 1 January 2004. Each of TZMOI and Masterlek have been included in the Consolidated Financial Statements as a consolidated subsidiary from the date when it became an entity under common control, this date being 1 January 2005 with respect to TZMOI, and 2 August 2006 with respect to Masterlek.

Significant Acquisitions

We have made two significant acquisitions: TZMOI and Masterlek. For more information regarding our acquisitions before the periods covered by the Consolidated Financial Statements, see "Business — History of the Company."

Acquisition of Masterlek

On 2 August 2006, we completed the acquisition of all of the share capital of Masterlek, a Russian pharmaceutical company focused on the antiviral for systemic use and antifungal therapeutic segments. We purchased Masterlek through a related party (Artomik Trading Limited ("Artomik")) from Deshawn International Limited for total cash consideration of RUR3,912.4 million. Of its current products, we consider that three of these — Ameksin® and Arbidol® (antiviral for systemic use) and Flucostat® (antifungal) — are now among our most profitable and, as a result, have extended our Core Therapeutic Segments to include the antiviral for systemic use and antifungal segments. We financed the acquisition through a shareholder loan of US$146.2 million which we repaid in full by applying the proceeds of a drawdown under the Citibank Loan Agreement (as defined in "— Liquidity and Capital Resources — Overview"). See "— Significant Factors Affecting our Results of Operations — Acquisition of TZMOI and Masterlek." In this prospectus we refer to "Masterlek products" and to "Pharmstandard products" to distinguish between those products that have been contributed to our product portfolio by Masterlek as a result of its acquisition and those products that have not been contributed to our portfolio as a result of the acquisition.

Acquisition of TZMOI

On 1 January 2005, OOO "Gloverton" ("Gloverton"), a party related to a member of our board of directors and indirect shareholder, purchased 55% of the share capital of TZMOI on our behalf. TZMOI, a company incorporated in the Russian Federation, is a manufacturer of medical equipment and disposables located in Tyumen. Gloverton agreed to negotiate and arrange the transaction (including dealing with the various shareholders of TZMOI). We completed our purchase on 29 June 2006 for total cash consideration of RUR1,096.8 million (including an increase of RUR53.1 million over the amount paid by Gloverton reflecting the commission amount). The purchase price was payable in several instalments. During the year ended 31 December 2006, we paid an aggregate of RUR707.0 million and we are required to pay the balance prior to 30 June 2007. The additional RUR53.1 million received by Gloverton was recorded as a distribution to our shareholder in our financial statements for the year ended 31 December 2005.

We acquired a further 35% of the share capital of TZMOI for cash consideration of RUR435.0 million on 29 and 30 June 2006 through three related parties (Archer Consulting Corporation (an indirect shareholder of the Company) and Artomik and Dean Import Corporation (each a party related to a member of our board of directors and indirect shareholder)). The consideration, which is equal to the price paid by the related parties, is payable on or prior to 31 December 2007. On the date of this Prospectus, we own 90% of the share capital of TZMOI. In the future, and if the opportunity arises, we may increase our holding in TZMOI. See "— Significant Factors Affecting our Results of Operations — Acquisition of TZMOI and Masterlek" and "Related Party Transactions."

Sales

We sell our pharmaceutical products almost entirely to wholesale distributors and our medical equipment and disposable products through distributors and directly to hospitals. Our revenue is recognised when we deliver the related product to the customer, which is when title to the product has passed to the customer, collection is reasonably assured and the sales price is fixed or determinable. We offer discounts to some of our customers and record related sales net of any such discounts.

We have increased sales over the period under review through selective acquisitions and organically. We have grown our sales organically by improving sales volumes of our higher priced brands and by expanding the product ranges offered within those brands. We increase our production output in response to market demand which we rely, in part, on our marketing effort to stimulate and which we monitor through our sales force, distributors and third-party report providers (such as Pharmexpert). We believe that we currently have sufficient capacity at our manufacturing facilities to cover our current and forecast production volumes. Pricing for our pharmaceutical products reflects a variety of factors, including changes in API and other raw material costs, intensity of competition, industry practice, government regulation and general market conditions. We have generally maintained individual product prices at the same historical levels and intend to continue to do so unless we identify a particular opportunity to increase prices. We have grown sales by introducing line extensions of our higher priced product ranges or launching new, higher priced branded products (as compared to our bulk ranges) such as Maxi-Cold®, which we began selling in October 2006. By expanding the products offered within our umbrella brands, at the same or similar level of pricing, by increasing sales volume for those products through active promotion and by introducing new higher priced branded products, we have increased our overall average price per product sold, thereby growing sales by virtue of a higher priced product portfolio. We have not necessarily grown our overall production volume as a result of a decreasing reliance on our less expensive products. The product ranges, for which we are able to charge higher prices to our customers, are typically branded in our Core Therapeutic Segments, such as Pentalgin® (analgesics), Terpincod® and Codelac® (cough and cold) and Complivit® (vitamins). For example, in 2004 we leveraged the Complivit® brand to launch Complivit Active® for children and Complivit Mama® for pregnant women, thereby offering to different demographic segments a new product under the umbrella of a known brand name. We intend to strengthen the Complivit® brand further by introducing two new line extensions by the end of 2007. In addition, in line with this strategy, we expect to introduce new formulations of Pentalgin® in 2007 to leverage this already established brand.

We have also grown our sales by maintaining competitive pricing for our bulk products, which include those branded or non-branded pharmaceutical products which we do not actively promote (such as "Analgin," which is non-branded and has been sold since Soviet Union times). These products, in particular the non-branded bulk products, have experienced and, we believe, will continue to experience a downward trend in pricing as a result of their widespread accessibility by all market participants. We continue to decrease our reliance on bulk products by increasing our range of higher priced branded products. We continue to offer bulk products, however, to help us maintain a broad product portfolio which we believe makes us a more attractive partner for wholesale distributors and because the sales of these products do not require any marketing support from us.

Sales Breakdown

Our sales are divided into two business segments: production and wholesale of pharmaceutical products and production and wholesale of medical devices (which we also refer to as our medical equipment and disposables segment); and then sub-divided by product group as follows:

	Year ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006
		(in RUR millions)	
Pharmaceutical products	3,945.7	4,673.7	7,326.4
Of which:			
OTC products	3,346.7	3,901.9	6,031.5
Branded	2,766.2	3,275.0	5,340.6
Non-branded	580.5	626.9	690.8
Prescription products	555.2	733.1	1,198.5
Branded	294.4	440.1	899.3
Non-branded	260.8	293.0	299.2
Other[1]	43.8	38.7	96.4
Medical equipment and disposables[2]	—	1,011.1	1,196.4
Total sales	**3,945.7**	**5,684.8**	**8,522.8**

(1) Includes revenue from the lease of certain of our warehouses.

(2) Our medical equipment and disposables segment arose as a result of our acquisition of TZMOI in 2005 and is entirely represented by operations of TZMOI.

Cost of Sales

Our cost of sales comprises materials and components, production overheads, direct labour costs and depreciation. The largest factor of our cost of sales is materials and components which, as a percentage of cost of sales, were 62.5%, 62.8% and 65.9% in the years ended 31 December 2004, 2005 and 2006, respectively. Materials and components consist of all materials consumed in the manufacturing process (including API, raw materials, utility costs, maintenance material and packaging) of our pharmaceutical and medical equipment and disposable products. The research and development costs associated with our operations have not been significant to date and are principally included in our production overhead and direct labour costs.

We expect cost of sales to increase in the year ending 31 December 2007, primarily as a result of the first full year of consolidation of the operations of Masterlek and increased volumes of Pharmstandard products that require more expensive API input. To a lesser extent, an increase in such levels will be attributable to small increases in API prices in line with the rate of inflation and an increase in depreciation expense as a result of the start-up of operations of our new manufacturing equipment in Ufa and Kursk in December 2006. In the future, as a result of increases in API prices and labour costs, we expect our cost of sales to increase. However, we expect our cost of sales, as a percentage of sales, to continue to decrease as a result of a strong growth in sales of our higher priced brand products and as a result of our benefiting from synergies we expect to achieve by completing the integration of Masterlek into the Group.

Operating Costs and Expenses

Our operating costs and expenses comprise selling and distribution costs and general and administrative expenses. The following table presents our operating costs and expenses by category, in absolute terms and as a percentage of operating costs and expenses and as a percentage of sales for the years ended 31 December 2004, 2005 and 2006:

	Year ended 31 December 2004			Year ended 31 December 2005			Year ended 31 December 2006		
	(in RUR millions)	% of operating costs and expenses	% of Sales	(in RUR millions)	% of operating costs and expenses	% of Sales	(in RUR millions)	% of operating costs and expenses	% of Sales
Selling and distribution costs	531.6	50.5	13.5	1,069.5	70.7	18.8	1,268.2	71.8	14.9
General and administrative expenses	522.0	49.5	13.2	443.3	29.3	7.8	498.9	28.2	5.9
Total operating costs and expenses	**1,053.6**	100	26.7	**1,512.8**	100	26.6	**1,767.1**	100	20.7

Selling and distribution costs

Our selling and distribution costs primarily consist of marketing and advertising costs, inventory insurance expenses and the labour costs associated with our sales and marketing effort. The largest component of these costs is marketing and advertising expense which, as a percentage of selling and distribution costs, were 29.6%, 58.8% and 52.4% in the years ended 31 December 2004, 2005 and 2006, respectively.

We expect selling and distribution costs to increase in the future, principally as a result of our increased marketing campaigns. As our overall product portfolio increases with launches of new products, our advertising efforts and related expenditure incrementally increase to cover such products (in particular those belonging to our Core Therapeutic Segments which we actively promote). To a lesser extent, we expect our selling and distribution costs to increase as a result of the organic growth in our sales force (additional sales personnel contributed by Masterlek in August 2006 ceased to be employed by us in February 2007 with a view to avoiding duplication of staffing) and an increase in their salaries. Our sales force numbered 287 as at 31 December 2006 and we expect to increase the number to over 350 by the end of 2007.

General and administrative expenses

General and administrative expenses primarily consist of labour costs with respect to our managerial or administrative personnel, taxes (other than income tax) and utilities and services. On average, the largest component of these expenses is our labour costs which represented, as a percentage of general and administrative expenses, 26%, 36% and 58% in the years ended 31 December 2004, 2005 and 2006, respectively.

Excluding transaction fees and expenses we will incur as a result of this Offering, we expect labour costs to be the largest component of increases in general and administrative expenses during 2007 as a result of salary increases awarded to all of our administrative and managerial employees at our head office in Moscow and at our manufacturing facilities, as well as additional salary expenses owed to administrative and managerial personnel of Masterlek until February 2007 (being obligations we assumed under the terms of the related acquisition agreement). In February the majority of such personnel ceased to be employed by us in line with our strategy to focus on operating synergies resulting from the acquisition of Masterlek. As a result of these factors and other leverage we expect to derive from operating a larger pharmaceutical company, we expect that our general and administrative expenses to decrease as a percentage of sales.

Operating Profit

Operating profit is our profit before income tax and before the deduction of other expenses and interest expense, net. We exclude other expenses and interest expense, net from operating profit since these items are less integral to the understanding of the day-to-day operation of our business. Operating profit is a measure of our operating performance that is not required by, or presented in accordance with, IFRS. We believe operating profit provides a more complete understanding of the factors and trends affecting our business than profit for the year alone. Other expenses, net principally includes the losses that we incur on the disposal of plant and equipment which, when they do occur, can fluctuate significantly from one period to the next. Interest expense, net is the sum of our interest income and interest expense. These two items substantially affect our income statement but are unrelated to the operations of our business. By excluding other expenses and interest expense, net, we are better able to compare the operating results of our underlying business from one reporting period to the next. Nevertheless, the amounts and the nature of other expenses and interest expense, net may be useful for an investor to consider, as they can have a material impact on our profit for the year.

Critical Accounting Policies

Our accounting policies are more fully described in Note 3 to our Consolidated Financial Statements included elsewhere in this Prospectus. However, certain of our accounting policies are particularly important to the presentation of our results of operations and require the application of significant judgement by our management.

In applying these policies, our management uses its judgement to determine the appropriate assumption to be used in the determination of certain estimates used in the preparation of our financial statements. These estimates are based on our previous experience, the terms of existing contracts, information available from other outside sources and other factors, as appropriate.

Our management believes that, among others, the following accounting policies that involve management judgements and estimates are the most critical to understanding and evaluating our reported financial results.

Useful Lives of Property, Plant and Equipment

We calculate depreciation expense for property, plant and equipment on a straight-line basis over their estimated useful lives. We establish useful lives for each category of property, plant and equipment based on our assessment of the use of the assets and anticipated technological evolution. We periodically review and revise, if appropriate, the assumptions used in the determination of useful lives of property, plant and equipment. We determined deemed cost for property, plant and equipment at 1 January 2004 by reference to their fair value (as valued by an independent appraisal company). The following is a list of the depreciation periods for the following asset categories:

Buildings:	10 to 50 years
Plant and machinery:	5 to 30 years
Equipment and motor vehicles:	3 to 7 years

We periodically review the carrying values of property, plant and equipment for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indications exist and where the carrying values exceed the estimated recoverable amount, the property, plant and equipment are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use.

Inventory

Our major categories of inventories are raw materials, work in progress and finished goods. We record inventories at the lower of cost and net realisable value. The cost of raw materials comprises purchase price net of supplier discounts. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. We calculate these costs on a weighted average basis. 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.

Net realisable value is determined by product category after a detailed review by management, taking into consideration, among other factors, stock levels, stock turnover, marketing programmes and current margins. Our management considers the assumptions used in the calculations to be reasonable and supportable in the existing economic environment.

We also provide for estimated inventory losses due to obsolescence based on the analysis of remaining shelf life of finished goods and raw materials, future purchase commitments and current and forecasted product demand. As a result, our reserve levels, and therefore our overall profitability, are subject to our ability to reasonably forecast demand versus quantities on hand and existing purchase commitments. Forecasting of demand and resource planning are subject to extensive assumptions that we must make regarding, among other variables, expected market changes, pricing incentives, competitive pressures and government actions.

Impairment of Property, Plant & Equipment and Goodwill

At each balance sheet date, we review the carrying amounts of our property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. Such assessments are performed for each cash generating unit and are a subjective matter. The carrying amount of our property, plant and equipment as at 31 December 2006 was RUR3,788.6 million.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount of goodwill may be not recoverable. We determine impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates, which requires a significant degree of judgement about expected financial performance of the respective units. The fair value of each cash-generating unit is determined based on value-in-use calculations, using expected future cash flows discounted at a suitable discount rate to calculate the present value. If the fair value is less than the carrying amount of the unit, we allocate the impairment first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the Group.

In connection with our acquisition of TZMOI in 2005, we allocated RUR218.9 million of the purchase price to goodwill and RUR977.2 million to property, plant and equipment. Similarly, in connection with our acquisition of Masterlek in 2006, for RUR3,912.4 million, we allocated RUR961.6 million to goodwill and RUR4.9 million to property, plant and equipment.

These impairment tests require a significant degree of judgement about future events, including our ability to maintain our forecasted operating margins, our expected weighted average cost of capital and the predictability of cash flows. Given the material levels of these assets on our consolidated balance sheets, if we were to determine that an impairment existed in any period, the impairment could have a material adverse effect on our results of operations for that period.

Intangible Assets

Intangible assets acquired separately from an acquisition of a business are measured on initial recognition at cost. Our intangible assets principally consist of trademarks acquired in connection with the purchase of Masterlek. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Intangible assets are amortised over their useful economic lives of 10 to 20 years depending on the anticipated product life cycle, which is based on subjective assumptions. In connection with our acquisition of

Masterlek, we allocated RUR3,278.2 million to the value of trademarks. The fair values of those trademarks on acquisition were determined using accepted valuation techniques and such rights are recorded as intangible assets and amortised over their expected product life cycle. The initial valuation of these types of assets is significantly impacted by the assumptions used, such as the long-term expected margins, cost of capital and market growth. A change in the actual asset return versus those forecasted at the date of acquisition could result in a material adjustment to the carrying value of the asset.

Accounts receivable and bad debt

Trade receivables are carried at original invoiced amounts less an allowance for any amounts we consider to be incollectible. We maintain an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. We evaluate the adequacy of an allowance on a specific account basis, using information on the aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of a customer were to deteriorate our level of write-offs would increase, and our ability to convert sales into cash flow would be adversely affected.

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of new subsidiaries by the Group. We are required to recognise separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgement in forecasting future cash flows and developing other assumptions.

Revenue recognition

Revenues are recognised when deliveries of products to final customers (our wholesale distributors) are made, which is when the title passes to the customer, assuming that collection is reasonably assured and the sales price to such customers is fixed or determinable. Revenues are measured at the fair value of the consideration received or receivable.

Significant factors affecting our results of operations

Focus on improving operating profit margins

We are focused on improving operating profit as a percentage of sales. Since 2004, we have achieved significant improvements in our operating profit margin (from 17% in 2004 to 37% in 2006) by increasing the proportion of our more highly priced and profitable branded products, implementing cost efficiencies and reducing our sourcing costs. From the beginning of 2005, we have calculated the cost of sales of our pharmaceutical products on an activity-based costing methodology allowing us to more clearly identify the costs associated with a particular product.

Historically, we have improved our operating profit through the active promotion and marketing of our more profitable products. These products tend to be our established brand products in our Core Therapeutic Segments for which we are able to charge higher prices than our non-branded products. By continued expansion of our product portfolio, particularly in, or by expanding, our Core Therapeutic Segments on which we focus, we are able to improve our margins through both improved sales in this area and a decreasing reliance on bulk products, which have lower margins. We organically expand our product portfolio through the introduction of new formulations of existing well known brands or new product launches. For example, we have introduced line extensions for Codelac® (syrup formulation), Complivit® (Complivit Active® and Complivit Mama®) and Pentalgin® (Pentalgin-ICN® and Pentalgin-N®), and expect to introduce new formulations of Pentalgin® and Complivit® in 2007 to leverage these already established brands. We plan to emphasise those prescription products, some of which we have recently launched (such as Phosphogliv®) and others that we are seeking registration for, that we believe will provide us an opportunity to increase our margins. We also seek to improve our product portfolio through the acquisition of products that complement or broaden our Core Therapeutic Segments (see "— Acquisition of TZMOI and Masterlek").

Our focus on cost control also contributes to our improving margins. For example, we realised cost savings from the closure of our manufacturing facility in St. Petersburg in July 2006 and from the reorganisation of our internal supply chain structure, which involved the rationalisation of our logistics operations by centralising our

warehousing in the Moscow area. In addition, we have improved our sourcing costs through the negotiation of significantly more favourable supply agreements. In support of this, in January 2007 we established a Production, Planning and Control Department responsible for, amongst other things, auditing the internal usage of API with a view to determining its most efficient procurement and usage. With the acquisition of Masterlek, and the related shift from third-party outsourced production services to our own manufacturing facilities for the Masterlek products, we believe that the trend in our operating profit margin will continue in the near term due to our increased purchasing power.

The table below sets forth the development of our operating profit for the years ended 31 December 2004, 2005 and 2006 in absolute terms and as a percentage of sales:

	Year ended 31 December 2004		Year ended 31 December 2005		Year ended 31 December 2006	
	(RUR in millions)	%	(RUR in millions)	%	(RUR in millions)	%
Operating profit	672.1	17	1,664.9	29	3,174.5	37

Acquisition of TZMOI and Masterlek

The activities of TZMOI and Masterlek have been consolidated in our financial statements since 1 January 2005. As a result of the TZMOI acquisition, in 2005, our sales increased by RUR1,011.1 million and our profit increased by RUR136.1 million.

We expect our total sales to continue to increase as a result of the expansion of our range of higher priced pharmaceutical products contributed by Masterlek. In the near term, our acquisition of Masterlek will, however, increase our operating costs and expenses principally as a result of a direct increase to cost of sales as we purchase the related API to produce Masterlek products and incur costs to outsource their production. Masterlek does not own any manufacturing facilities and currently outsources production to third-party providers. We intend to arrange for the termination of such outsourcing arrangements to coincide with the expected re-registration of such products by the Federal Service for Supervision of Health and Social Development, with a view to transferring production to our own facilities. We expect the State registration for all such products to be completed by the end of 2007 and expect to commence in-house production of Flucostat® by June 2007. We also expect to benefit from a reduction in general and administrative labour costs as a result of streamlining any duplication of labour, although this may be offset in part by the recruitment of additional sales and manufacturing personnel to support the increased product ranges. We have benefited from certain operating synergies through the integration of Masterlek into the Group. In particular, we negotiated with Masterlek's suppliers a discount in the API pricing for Arbidol® (representing, given the magnitude of Arbidol® API costs in comparison with other Masterlek products, a significant cost reduction in its overall API costs). We intend to continue to focus on such synergies — principally by integrating Masterlek production into our manufacturing facilities and otherwise leveraging our position as a larger pharmaceutical company (among other things, in our pricing negotiations with our suppliers, distributors and service providers). As a result of the foregoing factors, we expect our operating costs and expenses to decrease as a percentage of sales in the future.

Seasonality of sales of our products

Our business is subject to seasonal fluctuations in the sales of our pharmaceutical products. In particular, we usually experience the lowest sales during the months of June, July and August, whilst we usually experience our highest sales during the first and fourth calendar quarters of each year. For example, our cold and cough products and vitamins tend to have their highest sales during times of the year when flu and cold epidemics are most prevalent. In the first and fourth quarters of 2006, we had sales of Complivit® of RUR351.5 million compared to sales of RUR193.6 million in the second and third quarters of 2006.

Our medical equipment business is also subject to seasonal fluctuations. The majority of our sales in this segment are funded by the Russian State and, consequently, our highest sales reflect, to a certain extent, the State-driven tender processes. Our highest sales are generally in the second calendar quarter, when the results of the tender process (following the approval of the State budget in December) are announced, and the fourth quarter, when any remaining unallocated budget is generally allocated.

We have limited seasonality in our expenses. However, we have significantly higher marketing and advertising costs in the first and fourth quarter of each year resulting from our increased television and print advertising campaigns to leverage our higher sales opportunity at such times.

Expansion of sales force

In recent years, we have undertaken a significant expansion of our sales force as part of our ongoing strategic focus on maintaining strong relationships with key market participants. Our total sales force has grown from 69 at the end of 2004, to 106 at the end of 2005 and to 287 at 31 December 2006. We expect our sales force to number over 350 by the end of 2007. We also seek to ensure that our sales force is incentivised by offering them the opportunity to earn an additional percentage of their annual salary by meeting certain quarterly sales targets, which are reviewed and revised semi-annually. We currently offer up to an additional 33% of annual salary paid semi-annually. However, to remain competitive we expect to increase the amount of this bonus in the future. We plan to further incentivise our sales force by implementing new training programmes and a performance management programme and continuing to offer competitive compensation packages.

The increase in the number of our sales force, and the continued improvement of our product portfolio, have allowed us to increase our promotional activities targeted at pharmacists, specialist physicians and hospitals. We seek to convert this increased coverage into increased market share in a particular therapeutic area as soon as we receive State registration for a new product (see "Regulatory Matters"). The extent to which we are able to successfully capture market share upon launch of a new branded product, and to sustain or increase the market share of our promoted brands, has a significant impact on our results of operations because the margins for these new promoted products are typically higher than the margins for our aggregate product portfolio.

Results of Operations

Year ended 31 December 2006 compared to the year ended 31 December 2005

The following table sets forth our income statement line items for the years ended 31 December 2005 and 2006 in absolute terms and as a percentage of sales:

	Year ended 31 December 2005		Year ended 31 December 2006	
	(RUR in millions)	%	(RUR in millions)	%
Sale of goods	5,684.8	100	8,522.8	100
Pharmaceutical products	4,673.7	82	7,326.4	86
OTC products	3,901.9	69	6,031.5	71
Branded	3,275.0	58	5,340.6	63
Non-branded	626.9	11	690.9	8
Prescription products	733.1	13	1,198.5	14
Branded	440.1	8	899.3	11
Non-branded	293.0	5	299.2	4
Other sales	38.7	1	96.4	1
Medical equipment and disposables	1,011.1	18	1,196.4	14
Cost of sales	(2,507.1)	44	(3,581.2)	42
Gross profit	3,177.7	56	4,941.5	58
Selling and distribution costs	(1,069.5)	19	(1,268.2)	15
General and administrative expenses	(443.3)	8	(498.9)	6
Other expenses	(126.6)	2	(207.0)	2
Interest income	11.8	0	24.0	0
Interest expense	(106.4)	2	(291.4)	3
Profit before income tax	1,443.7	25	2,700.1	32
Income tax expense	(424.4)	7	(664.0)	8
Profit for the period	1,019.3	18	2,036.1	24
Attributable to participants of the Company	906.2	—	1,897.7	—
Attributable to minority interests	113.1	—	138.4	—

Sale of Goods

Our sale of goods increased by RUR2,838.0 million, or 50%, from RUR5,684.8 million in 2005 to RUR8,522.8 million in 2006. This increase was primarily attributable to an increase of RUR2,588.8 million in both prescription branded product sales and OTC branded and non-branded product sales, of which RUR1,441.3 million represented the aggregate contribution to these sales segments by Masterlek following its acquisition in August 2006. We generated the growth in Pharmstandard products primarily through increased sales volumes of our higher priced products, without growing our overall production volumes.

Pharmaceutical products

OTC product sales increased by RUR2,129.6 million, or 55%, from RUR3,901.9 million in 2005 to RUR6,031.5 million in 2006. This increase in OTC sales principally reflected the contribution to sales of OTC branded products of RUR1,240.0 million by Masterlek and an increase in Pharmstandard OTC branded products of RUR825.6 million. Our Pentalgin® brands (being Pentalgin-N® and Pentalgin-ICN®) generated an increase of RUR309.5 million, or 35%, in sales in 2006 as compared to 2005. This principally resulted from increased sales volumes and, to a much lesser extent, through small pricing increases resulting from increased sales in the commercial sector (in which we can charge higher prices than in the FRP sector). We also increased sales of Codelac® by RUR152.5 million, or 68%, in 2006 as compared to 2005 principally through increased sales volumes and, to a lesser extent, pricing increases. In addition we raised the price of Terpincod® with no significant changes in volumes sold. In 2006, as compared to 2005, we increased our production of Terpincod® by 1% but experienced a growth in sales of 19% (or RUR187.4 million). Our sales of Pharmstandard OTC non-branded products also increased by RUR63.9 million, or 10%, in 2006 from RUR626.9 million in 2005.

Prescription product sales increased by RUR465.4 million, or 63%, from RUR733.1 million in 2005 to RUR1,198.5 million in 2006. This increase was primarily attributable to the contribution to such sales in 2006 of our Masterlek prescription branded products (RUR201.3 million). In particular, sales of Ameksin® generated sales for such period of RUR136.5 million. To a lesser extent, the increase was attributable to a growth in our Pharmstandard prescription branded products resulting principally from our commencement of sales, primarily through the FRP, of Phosphogliv at the end of 2005 which generated sales of RUR253.5 million in 2006.

Medical equipment and disposables

Sales in our medical equipment and disposables segment increased by RUR185.3 million, or 18%, from RUR1,011.1 million for 2005 to RUR1,196.4 million for 2006. This increase was primarily attributable to our ability to achieve higher prices for our sterilisers.

Cost of Sales

Our costs of sales increased by RUR1,074.1 million, or 43%, from RUR2,507.2 million in 2005 to RUR3,581.2 million in 2006. This increase resulted primarily from an increase in materials and components. Materials and components increased by RUR786.5 million, or 50%, from RUR1,574.1 million in 2005 to RUR2,360.7 million in 2006. RUR476.1 million of this increase was attributable to the cost of Masterlek products and the balance to an increase in volumes of Pharmstandard products that required more expensive API input. We also experienced an increase in production overheads of RUR139.6 million of which substantially all resulted from the processing fee payable to the third party manufacturer of Masterlek products. In addition we experienced an increase in depreciation and amortisation by RUR101.6 million, or 64%, from RUR158.7 million in 2005 to RUR260.3 million in 2006 resulting from the amortisation of intangible assets owned by Masterlek. As a percentage of sales, our cost of sales decreased from 44.1% in 2005 to 42.0% in 2006 as sales grew at a faster rate than our cost of sales between the two periods.

Gross Profit

As a result of the foregoing factors, gross profit increased by RUR1,763.8 million, or 55%, from RUR3,177.7 million in 2005 to RUR4,941.5 million in 2006. As a percentage of sales, gross profit increased from 56% in 2005 to 58.0% in 2006.

Operating costs and expenses

Our operating costs increased by RUR254.3 million, or 17%, to RUR1,767.1 million in 2006, compared to RUR1,512.8 million in 2005. Our operating costs and expenses were 20.7% of sales in 2006 compared to 26.6% of sales in 2005.

Our selling and distribution costs increased by RUR198.7 million, or 19%, to RUR1,268.2 million in 2006, compared to RUR1,069.5 million in 2005. This increase primarily consisted of marketing and advertising costs of RUR142.4 million incurred by us in relation to Masterlek products following acquisition. This cost was partially off-set by a reduction, compared to 2005, in marketing and advertising costs incurred by us in relation to Pharmstandard products during 2006. This reduction reflected the increased advertising campaigns promoting all of our products in 2005 (as we attempted to promote our corporate brand generally) as compared to our targeted

campaigns in 2006 and thereafter. We also experienced an increase in labour costs (RUR110.1 million). Our labour costs increased as a result of our recruitment of additional sales representatives during the period and, to a lesser extent, an increase in salaries of our sales force. These increases were offset partially by a decrease in inventory insurance expenses of RUR76.6 million, as a result of changing our inventory insurance providers from insurance brokers to our freight providers, and a decrease in utilities and services of RUR9.5 million.

Our general and administrative expenses increased by RUR55.6 million, or 13%, to RUR498.9 million in 2006, compared to RUR443.3 million in 2005. This increase in general and administrative expenses primarily resulted from an increase in labour costs by RUR126.3 million from RUR161.7 million in 2005 to RUR288.0 million in 2006 principally resulting from an increase in salary and bonuses and an accrual for holiday leave. This increase was partially off-set by a decrease in utilities and services following the completion of certain projects in 2005 (for example, the implementation of our ERP financial accounting system).

Operating profit

As a result of the foregoing factors, our operating profit increased by RUR1,509.6 million, or 90.7%, from RUR1,664.9 million in 2005 to RUR3,174.5 million in 2006. Our operating profit was 37% of sales in 2006, compared to 29% of sales in 2005.

Other expenses

Our other expenses increased by RUR80.4 million, or 63%, from RUR126.6 million in 2005 to RUR207.0 million in 2006. The increase in other expenses in 2006 principally resulted from the loss on disposal of property, plant and equipment at our facilities at Tyumen and at St. Petersburg (as part of our closure of these facilities).

Interest expense, net

Our interest expense, net increased by RUR172.7 million, or 183%, from RUR94.6 million in 2005 to RUR267.4 million in 2006. The increase in interest expense was principally attributable to interest payments under the shareholder loan in order to finance the Masterlek acquisition and to the arrangement fees payable under the Citibank Loan Agreement drawn down in December 2006 for the purpose of repaying in full the shareholder loan.

Income Tax Expense

The statutory income tax rate for Russia was 24% for the years ended 31 December 2005 and 2006. We had tax expenses of RUR664.0 million in 2006, which reflected an effective tax rate of 24.6%, compared to a tax expense of RUR424.4 million in 2005, which reflected an effective tax rate of 29.4%. We had additional tax expense in both periods in excess of the statutory rate as a result of the incurrence of non-tax deductible expenses comprising primarily the excess of advertising expenses over that allowable under Russian tax law. Our high advertising expenses decreased as a percentage of sales in 2006 (as a result of the Masterlek acquisition) resulting in the deductibility of a larger proportion of our advertising expenses and consequently a decrease of our effective tax rate in 2006.

Minority interests

Our minority interests increased by RUR25.3 million in 2006 compared to RUR113.1 million in 2005. The increase in minority interests was primarily attributable to the increase in profitability of the Group partially off-set by our purchase of an increased holding in Ufavita in April 2006 and additional shares in TZMOI in June 2006.

Profit

As a result of the foregoing factors, profit attributable to our shareholders increased by RUR991.5 million, or 109%, from RUR906.2 million in 2005 to RUR1,897.7 million in 2006.

Year ended 31 December 2005 compared to the year ended 31 December 2004

The following table sets forth our principal income statement line items for the year ended 31 December 2005 and 2004 in absolute terms and as a percentage of sales:

	Year ended 31 December 2004		Year ended 31 December 2005	
	(RUR in millions)	%	(RUR in millions)	%
Sale of goods	3,945.7	100	5,684.8	100
Pharmaceutical products	3,945.7	100	4,673.7	82
OTC products	3,346.7	85	3,901.9	69
Branded	2,766.2	70	3,275.0	58
Non-branded	580.5	15	626.9	11
Prescription products	555.2	14	733.1	13
Branded	294.4	7	440.1	8
Non-branded	260.8	7	293.0	5
Other sales	43.8	1	38.7	1
Medical equipment and disposables	0	0	1,011.1	18
Cost of sales	(2,220.0)	56	(2,507.1)	44
Gross profit	1,725.7	44	3,177.7	56
Selling and distribution costs	(531.6)	13	(1,069.5)	19
General and administrative expenses	(522.0)	13	(443.3)	8
Other expenses	(160.7)	4	(126.6)	2
Interest income	3.7	0	11.8	0
Interest expense	(77.8)	2	(106.4)	2
Profit before income tax	437.3	11	1,443.7	25
Income tax expense	(117.7)	3	(424.4)	7
Profit for the period	319.6	8	1,019.3	18
Attributable to participants of the Company	305.1	8	906.2	16
Attributable to minority interests	14.5	0	113.1	2

Sale of Goods

Our sale of goods increased by RUR1,739.1 million, or 44.1%, from RUR3,945.7 million in 2004 to RUR5,684.8 million in 2005. The increase in sale of goods was primarily attributable to our entry into the medical devices market following our acquisition of TZMOI, the first year of operations of which was reflected in our Consolidated Financial Statements in 2005. Our sale of goods also benefited from substantial growth (RUR654.5 million) in our major branded pharmaceutical products resulting from our increased sales effort for our higher priced product ranges. This growth in sales was primarily attributable to increased sales volumes of higher priced products, without growing our overall production volumes. The year ended 31 December 2005 represented the first full year in which the Group benefited from management's strategy, implemented in 2004, to actively promote our higher priced products, having been implemented in 2004. Given the progressive build-up of brand loyalty and awareness, the implementation of this strategy positively impacted sales in 2005.

Pharmaceutical products

OTC product sales increased by RUR555.2 million, or 17%, from RUR3,346.7 million in 2004 to RUR3,901.9 million in 2005. This increase largely comprised a substantial increase in sales of branded products as a result of our focus on active promotion of our more highly priced product ranges. Sales of OTC branded products increased by RUR508.8 million in 2005 from RUR2,766.2 million in 2004. We experienced a sales increase in our major brands (such as Complivit® and Codelac® and in particular Terpincod® and Pentalgin®). During 2005 we identified an opportunity in the consumer market to strategically increase the pricing of our Terpincod® products, which contributed RUR371.4 million in sales. The RUR423.5 million sales growth in Pentalgin® resulted from increased sales volumes. During the period, we also experienced a decline in sales of our bulk OTC branded products which partially offset the overall OTC sales growth. Whilst we experienced an increase of our sales of non-branded products (RUR626.9 million in 2005 from RUR580.5 million in 2004) resulting from an increase in pricing and volume, as a percentage of sales this segment decreased from 15% in 2004 to 11% in 2005. This reflected our decrease in emphasis and reliance on our less expensive brands.

Our prescription product sales increased by RUR177.9 million, or 32%, from RUR555.2 million in 2004 to RUR733.1 million in 2005. Sales of prescription branded generics increased by RUR145.7 million in 2005 from

RUR294.4 million in 2004. We experienced an increase in sales of our actively promoted products (in particular Gastrozol, Nitrospray, Renipril HT and Azitrox) resulting from volume growth and, to a lesser extent, with respect to Nitrospray and Azitrox, some pricing increases. In addition to the impact in 2005 of our newly implemented strategy during the course of 2004 to actively promote higher priced products, the increase in prescription sales was also attributable to the commencement of our sales through the FRP. This overall growth was offset partially by a decrease in sales of a non-branded prescription product that we do not promote. Sales of our non-branded generics increased by RUR32.2 million in 2005 from RUR260.8 million in 2004 resulting from an increase both in pricing and sales volume of Levomitcetin, Digoksin and Kokarboksilasiy. This segment decreased, however, as a percentage of sales by 2% from 7% in 2004 to 5% in 2005.

Medical equipment and disposables

The year ended 31 December 2005 was the first year in which the results of operations of TZMOI, which we acquired on 1 January 2005, were reflected in our Consolidated Financial Statements. This resulted in our recognition of revenues of RUR 1,011.1 million during 2005, which represented 18% of our sales in 2005.

Cost of sales

Our cost of sales increased by RUR287.1 million, or 13%, from RUR2,220.0 million in 2004 to RUR2,507.1 million in 2005 as a result of an increase of RUR185.9 million in the cost of materials and components, an increase of RUR108.2 million in depreciation expense and an increase of RUR100.9 million in labour costs. These increases resulted primarily from the effect of the first time consolidation of TZMOI. With respect to materials and components, there was no significant increase in production or pricing of pharmaceutical API in 2005 as compared to 2004. To a lesser extent higher depreciation expense resulted from the start-up of our manufacturing facilities at Ufa. With respect to labour costs, we added 1,900 employees upon the acquisition of TZMOI. These increases were partially offset by a decrease in production overheads of RUR107.8 million as a result of the restructuring of the pharmaceutical business.

Gross Profit

Gross profit increased by RUR1,452.0 million, or 84.1%, from RUR1,725.7 million in 2004 to RUR3,177.7 million in 2005. As a percentage of sales, gross profit increased from 43.7% in 2004 to 55.9% in 2005.

Operating costs and expenses

Our operating costs and expenses increased by RUR459.2 million, or 43.6%, from RUR1,053.6 million in 2004 to RUR1,512.8 million in 2005. Our operating costs and expenses were 26.6% of sales in 2005, compared to 26.7% in 2004.

Our sales and distribution expenses increased by RUR537.8 million, or 101%, from RUR531.6 million in 2004 to RUR1,069.5 million in 2005. This increase was primarily generated by an increase in marketing and advertising expenses of RUR471.2 million which reflected our aggressive marketing strategy to promote our higher priced branded products. In particular, in 2005 we launched advertising campaigns for Complivit® and Codelac®. Our inventory insurance expenses also increased by RUR46.5 million as a result of a larger sales value of our pharmaceutical product portfolio reflecting an increased focus on our higher priced product ranges.

Our general and administrative expenses decreased by RUR78.7 million, or 15.1%, from RUR522.0 million in 2004 to RUR443.3 million in 2005, principally as a result of a decrease of RUR123.5 million in property insurance expense due to our change of insurance provider in April 2005. This decrease was partially off-set by an increase in labour costs which resulted from the salary expense of additional employees from TZMOI and a salary increase for managerial and administrative personnel.

Operating profit

As a result of the foregoing factors, our operating profit increased by RUR992.8 million, or 147.7%, from RUR672.1 million in 2004 to RUR1,664.9 million in 2005. Our operating profit was 29% of sales in 2005, compared to 17% of sales in 2004.

Other expenses

Our other expenses decreased by RUR34.1 million, or 27%, from RUR160.7 million for 2004 to RUR126.6 million for 2005. The decrease of RUR34.1 million resulted primarily from differences in exchange rates, as the dollar, the currency in which we incur a proportion of our expenses, strengthened against the rouble, our functional currency in 2007 whereas in 2005 the dollar generally weakened against the rouble. Other expenses (income) in 2005 also included banking services (for the maintenance of bank accounts) and expenses incurred for “non-profit” or social assets (such as kindergarten) partially off-set by other non-operating income from TZMOI comprising rental income and income from other services, such as delivery of goods.

Interest expense, net

Our interest expense, net increased by RUR20.5 million, or 28%, from RUR74.1 million in 2004 to RUR94.6 million in 2005. The increase was principally due to a larger amount of short-term borrowings outstanding in 2005 as compared to 2004 borrowed for the purpose of funding working capital and capital expenditure to build and start up our new manufacturing facilities at Ufavita and Kursk.

Tax expense

The enacted statutory income tax rate for Russia was 24% in each of the years ended 31 December 2004 and 2005. We had tax expense of RUR424.4 million in 2005, which reflected an effective tax rate of 29%, compared to a tax expense of RUR117.7 million in 2004, which was an effective tax rate of 27%. We have additional tax expense in excess of the statutory rate because of our incurrence of expenses that are not deductible for tax purposes primarily reflecting the high level of advertising expenses which, in excess of certain tax thresholds, are not deductible.

Profit Attributable to Minority interests

Our profit attributable to minority interests increased by RUR98.6 million in the first half of 2006 compared to RUR14.5 million in the first half of 2005. The increase in minority interests was primarily attributable to the increase in profitability of the Group and our acquisition of TZMOI.

Profit

As a result of the foregoing factors, profit attributable to our shareholder increased by RUR601.1 million in 2005, or 197%, from RUR305.1 million in 2004 to RUR906.2 million in 2005.

Liquidity and Capital Resources

Overview

Our liquidity requirements arise primarily from the need to fund our working capital, our capital expenditure programme and the development and expansion of our product portfolio through selective acquisitions. During the periods covered by our Consolidated Financial Statements, we have primarily financed our operations and investments through free cash flow and short-term borrowings from banks and related parties. We intend to fund future acquisitions, if any, through free cash flow and borrowings.

The following table summarises our cash flows during the years ended 31 December 2004, 2005 and 2006.

	Year ended 31 December		
	2004	2005	2006
	(RUR in millions)		
Net cash from operating activities	417.3	1,367.4	1,261.3
Net cash from (used in) investing activities	(821.1)	(733.2)	(4,522.3)
Net cash from (used in) financing activities	434.8	(455.8)	3,209.9
Cash and cash equivalents, end of period	65.6	244.0	193.0

Citibank Loan Agreement

On 15 December 2006, we entered into a loan agreement (the "Citibank Loan Agreement") with Citibank, N.A. and ZAO Raiffeisenbank Austria (together, the "Arrangers"), pursuant to which the Arrangers agreed to provide a loan of up to $146 million (the "Loan") to the Company. The purpose of the borrowings under the Citibank Loan Agreement was to refinance the loan dated 24 July 2006 in an amount of $146.2 million from Augment Investments Ltd., our shareholder, to the Company. We repaid such shareholder loan in full using the drawdown proceeds under the Citibank Loan Agreement, and other free cashflow, on 18 December 2006.

The Citibank Loan Agreement is divided into two tranches of $91.0 million (the "A Loan") and $55 million (the "B Loan"), respectively. We paid a commitment fee of 0.6% under the A Loan and 0.76% under the B Loan, each for a period of 30 days following signing. We additionally paid an arrangement fee in the amount of RUR1.9 million and an annual agency fee in the amount of RUR15,000.0.

The interest payable under the Citibank Loan Agreement is the percentage rate per annum which is the aggregate of the applicable (i) margin (i.e., 1.5% per annum and 1.9% per annum in respect of the A Loan and B Loan, respectively), (ii) LIBOR and (iii) certain mandatory costs. The outstanding principal amount of the A Loan and B Loan is repayable in nine and 17 consecutive quarterly instalments, respectively, commencing on 18 December 2006 for full repayment by 18 December 2009 and 18 December 2011, respectively. We are entitled to prepay, without penalty, the Loan in full or in part, provided that 10 days' prior notice is provided.

Our obligations under the Citibank Loan Agreement are guaranteed pursuant to a guarantee issued by each of Pharmstandard LLC, JSC PHS-Leksredstva, JSC PHS-Tomskhimpharm, JSC TZMOI, Pharmstandard-Phitopharm-NN LLC, JSC Pharmstandard-UfaVita, and JSC Masterlek.

The Citibank Loan Agreement requires us to comply with certain customary covenants, including, but not limited to, covenants that restrict our ability to dispose of certain assets, make certain acquisitions, enter into mergers and incur additional indebtedness. We are required to comply with certain financial covenants, including a requirement to ensure that the ratio of "consolidated net debt" to "consolidated EBITDA" is no more than 2.5:1, that the ratio of "consolidated EBITDA" to "consolidated cash interest" is at least 4:1 and that we ensure that our "consolidated minimum net worth" does not fall below $200 million before the end of 2007 and $250 million from 1 January 2008 onwards. In particular the Citibank Loan Agreement requires us not to pay dividends to our shareholders, without the prior written consent of the Arrangers, in an amount exceeding 75% of the aggregate annual amount available for distribution.

The Citibank Loan Agreement contains a number of events of default, including: failure to pay, misrepresentation, cross default, insolvency and changes in our ownership of the Guarantors.

Net cash from operating activities

Substantially all of our cash flows generated from operating activities for the periods covered by our Consolidated Financial Statements were generated from sales of pharmaceutical products and medical devices. Our standard commercial contract with distributors includes credit terms ranging from 60 to 90 days. Delivery terms to distributors under the FRP are regulated by the Russian Government and involve deferred payment of up to 180 days from the shipment date. The exact credit terms depend on our credit policy with respect to a particular customer (see "— Quantitative and Qualitative Disclosures About Market Risk — Credit Risk").

Net cash from operating activities was RUR1,261.3 million and RUR1,367.4 million in the year ended 31 December 2006 and 2005, respectively. The decrease was due principally to a significant increase in trade receivables resulting from a significant contribution to accounts receivables by Masterlek following its acquisition. To a lesser extent, we also experienced an increase in taxes payable other than income tax due to a change in Russian law in 2006. Under the law in effect prior to 1 January 2006, we accounted for VAT only upon receipt of payment for goods sold whilst, after, we accounted for VAT on dispatch of goods.

Net cash from operating activities was RUR1,367.4 million and RUR417.3 million in the years ended 31 December 2005 and 2004, respectively. Working capital changes increased operating cash flows by RUR7.1 million in the year ended 31 December 2005 as a result of an increase in trade payables due to a significant increase in marketing and advertising expenses and a smaller increase, as compared to 2006, in inventories resulting from the sale of remaining ICN products. These changes were partially offset by an increase in VAT recoverable due to significant capital expenditure and the roll-out of new production lines at our manufacturing facilities in Kursk and Ufa.

Net cash from investing activities

Net cash used in investing activities was RUR4,522.3 million, RUR733.2 million and RUR821.1 million in the years ended 31 December 2006, 2005 and 2004, respectively. Our most significant investing activities for the periods consisted of the acquisition of property, plant and equipment and intangible assets, cash used to buy subsidiaries and cash paid to purchase TZMOI.

With respect to the acquisition of property, plant and equipment, we paid RUR889.9 million, RUR889.1 million and RUR188.9 million in the years ended 31 December 2006, 2005 and 2004, respectively. These acquisitions were primarily attributable to capital investments in new production capacity at our manufacturing facility in Kursk, including a new central manufacturing laboratory and new production lines for tablets, capsules and sprays, and at our manufacturing facility at Ufa, including new production lines for solutions, human growth hormone and tablets.

In 2006, we paid RUR3,912.4 million for the acquisition of Masterlek and RUR707.0 million, to settle the deferred portion of the purchase price, for the acquisition of TZMOI which we acquired in 2005. Also during this period, we sold our minority holdings in several companies for an aggregate consideration of RUR370.5 million to a related party and, following the closure of our manufacturing operations in St. Petersburg, sold the related buildings to a related party for RUR103.0 million. We also experienced an increase in realisation of short term investments due to payment on promissory notes owed by our distributors in the amount of RUR117.6 million.

We have planned capital expenditures for 2007 of up to RUR550.0 million. These capital expenditures are intended for new equipment for the production of Arbidol® and of different formulations of existing products (such as Phosphogliv®). We have no plans, nor do we believe that we have any need for other significant capital expenditures in the near term. We expect to fund our capital expenditure requirements for 2007 and the near term from cash flow generated by our operations.

Net cash from financing activities

Net cash from financing activities was RUR3,209.9 million in the year ended 31 December 2006. This was principally attributable to the drawdown of RUR3,844.3 million under the Citibank Loan Agreement. We applied the proceeds of the drawdown under the Citibank Loan Agreement, during 2006, together with an insignificant amount from free cash flow, to repay in full the shareholder loan that we had borrowed in August 2006 for the acquisition of Masterlek. We also repaid in full a loan to International Moscow Bank in an amount of RUR425.6 million and a loan to related parties in an amount of RUR157.9 million.

Cash used in financing activities was RUR455.8 million in the year ended 31 December 2005. This was principally attributable to the repayment in full of loans to Sberbank (RUR279.0 million) and to Expobank (RUR75.0 million), to the repayment of loans from related parties (RUR499.2 million), to finance lease liabilities (RUR109.0 million) and the payment of a dividend to shareholders (RUR249.0 million). These payments were partially offset by cash received as an advance for the subsequent share issue of Ufavita in an amount of RUR814.4 million and the drawdown under a loan in an amount of RUR286.2 million to fund the share purchases from minority investors of Ufavita.

In the year ended 31 December 2004, we received cash from financing activities in an amount of RUR434.8 million. In 2004, our most significant financing activities were the drawdown under various loans from related parties and commercial banks in an aggregate amount of RUR1,907.5 million, the repayment of loans in the amount of RUR933.7 million and the payment of a dividend to shareholders in an amount of RUR576.4 million.

We believe that we are currently able to finance our operating needs (other than significant future acquisitions) and debt service requirements as they become due from our cash flows from operations.

Contractual obligations and other commitments

As of 31 December 2006, we had no material contractual obligations, other than capital expenditure, certain other liabilities incurred in the ordinary course of business, such as trade payables, wages and tax expenses and the remaining amount payable with respect to our acquisition of TZMOI. We are required to pay RUR824.7 million on or prior to 31 December 2007 to the vendors of TZMOI. This amount owed does not bear interest or any other financing charge.

In December 2006, we drew down US$146 million under the Citibank Loan Agreement (see "Liquidity and Capital Resources — Overview" for a description of our repayment terms under the Citibank Loan Agreement).

We do not engage in any significant off-balance sheet financing.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks with respect to foreign currency exchange rates, interest rates, the creditworthiness of the counterparties with whom we expect payments under normal commercial conditions and fluctuations in the prices we pay for our raw materials. We centrally manage and monitor our exposure to these risks in accordance with our treasury policies by seeking to minimise external financial risks whenever it is possible without using derivative financial instruments, which we believe are not developed in Russia to the point of being sufficiently cost-effective for mitigating currency and interest rate risk. We do not hold or issue derivative financial instruments for trading purposes.

Credit risk

Our principal credit risk is the risk that a distributor fails to fulfil its payment obligations under a sales contract. Under the general terms on which we transact business, all of our sales are made on credit terms depending on our credit policy with respect to a particular customer (see "— Liquidity and Capital Resources — Cash Generated from Operating Activities" for a further description of our credit terms). We manage our exposure in this respect by having policies in place to ensure that sales of products are made to customers with an appropriate credit history. Our credit committee, comprising our CEO, CFO and Director of Commercial Operations sets a credit policy, which is revised when particular circumstances require, which generally divides customers into three categories: those with a maximum credit limit, those for whom the credit committee will set a credit limit and those who are required to make prepayments. The majority of our sales are to customers who fall into the first category (44% of our sales in 2006 were made to our five largest customers). The carrying amount of accounts receivable, net of provisions, represents the maximum amount of exposure to credit risk at the end of each quarter. We believe we have no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, our management believes that there is no significant risk of loss beyond the provision already made.

Currency Risk

A proportion of our expenses is in currencies other than the rouble (the measurement and presentation currency of our Consolidated Financial Statements). We incur currency risk whenever we enter into transactions denominated in a currency other than our measurement currency. Generally, our foreign currency transactions are settled in roubles but linked to the US dollar or euro and include a substantial proportion of our raw material expenses and borrowings (and the related interest payments thereon). Therefore our cost of sales and operating costs and expenses as presented in our Consolidated Financial Statements, as well as the amount of payables and borrowings shown in the balance sheet, could be impacted by changes in the US dollar-rouble or euro-rouble exchange rate. Our principal method for minimising currency risks is to maintain a proportion of our transactions denominated in roubles in order to avoid exposure to currency fluctuations. We do not expect the level of our exposure to currency risk to change throughout the remainder of 2007.

Commodity price risk

We do not believe we are subject to material risk due to movements in raw material commodity prices for the production of our products because we do not rely on any one commodity to a significant extent and the prices of the raw materials we purchase do not generally increase or decrease in tandem with each other.

Current Trading and Prospects

We have performed in line with our expectations during the period since 31 December 2006 and we expect this performance to continue during the remainder of 2007. We believe that our financial and trading prospects remain favourable based on the continued improvement of our sales and marketing of existing products.

MARKET OVERVIEW

The Russian Pharmaceutical Market

According to Pharmexpert, the Russian pharmaceutical market amounted to $10.7 billion in 2006, an increase of 27% compared to 2005, and is expected to reach up to $15.5 billion by 2008. Also according to Pharmexpert, the Russian pharmaceutical market was the fastest growing pharmaceutical market in the world in 2006.

Market Structure

The Russian pharmaceutical market comprises three major segments, namely the commercial market, the FRP and the hospital market. According to Pharmexpert, on a volume basis, generics accounted for 92% of the commercial segment, 83% of the hospital segment and 60% of the FRP segment in 2006. Generic products are more widely utilised than original products in Russia since they are more affordable to both consumers and the Government, which bears a large portion of the expense.

The following table illustrates the breakdown of sales in Russia in 2006 by pharmaceutical segments:

Segment	Sales for the year ended 31 December 2006
	(US$ in millions)
Commercial(1)	9,700
FRP	2,500
Hospital	1,500
Total	**10,700**

Source: Pharmexpert
(1) Private payor market

In terms of product origin, domestically manufactured pharmaceutical products historically have exceeded imported products in volume terms. Domestic manufacturers have to date focused primarily on generic products, as they require lower initial investment than original products and address the demand for more affordable drugs for end users and payors. According to Pharmexpert, in 2006, domestic products accounted for 68% of total sales volumes and 22% of total sales by value, whilst imported products accounted for the remaining 32% and 78%, respectively. The total volume of imported pharmaceutical products in Russia increased by 31% in 2006 and the value of imported products amounted to $8.3 billion, according to Pharmexpert.

All pharmaceutical products sold in the Russian market can be broadly categorised as prescription or OTC products. According to Pharmexpert, in 2006, prescription products accounted for 65% of the market in sales value terms and 34% of the market in volume terms.

The leading European Marketing Research Association first level Anatomical Therapeutic Chemical ("ATC") categories in the Russian pharmaceutical market are products for the digestive tract, central nervous system, respiratory system and cardiovascular system.

The following table illustrates the breakdown by ATC 1 category in Russia.

ATC 1 Category	Sales Value (%)		Volume (%)	
	2005	2006	2005	2006
A: Alimentary tract	19	17	21	20
C: Cardiovascular system	15	14	13	13
N: Central nervous system	12	12	20	20
R: Respiratory system	12	11	14	14
L: Antineoplastic and Immunomodulating agents	7	10	1	1
J: General Anti-infectives	10	10	9	9
G: Genito urinary	7	6	2	2
Others	18	20	20	21
Total	**100**	**100**	**100**	**100**

Source: DSM Group

Market Trends

According to Pharmexpert, in 2006, sales in the commercial segment of the Russian pharmaceutical market accounted for 63% of the total market, by sales value. We believe that growth in the commercial segment has been, and will continue to be, driven by the following trends:

- ***Increased real disposable income per capita***. According to the Economist Intelligence Unit, real disposable income per capita in Russia is expected to grow at a compound annual growth rate of 13.9% from 2005 to 2010. Generally, an increase in disposable income raises demand for pharmaceutical products after a considerable time lag, whereas a fall in disposable income has an immediate negative effect. According to Pharmexpert, per capita spending on pharmaceutical products in Russia grew from $27 in 2001 to $75 in 2006.
- ***Broadening availability of generic products***. Both private and governmental entities in Russia are seeking to find ways to reduce or contain healthcare costs. The broadening availability of generic products, which are typically priced lower than original products, has met this increasing demand for affordable pharmaceutical products.
- ***Continued improvement in health awareness***. We expect that continuing improvement in health awareness and diagnostic capabilities will give rise to greater utilisation of preventive and curative pharmaceutical products, and thus greater healthcare expenditures.
- ***Aging Population***. Along with the rest of Europe, Russia has an aging population. The percentage of Russians aged 60 or over grew from 16.5% in 1990 to 17.3% in 2004. We expect that the health problems associated with an aging population will help drive demand for curative pharmaceutical products and medical technologies, and thus lead to greater healthcare expenditures.
- ***New trends in pharmacotherapy***. New trends in pharmacotherapy include the discovery of additional therapeutic effects of existing generic pharmaceutical products and increased access to new generations of pharmaceutical substances.

Supply Chain

Wholesale distributors form the central part of the pharmaceutical market supply chain. The extensive territory of the country, the special requirements for a pharmaceutical logistical infrastructure, including licensing, and the large number of hospitals and retail outlets to which the products must be delivered, give rise to the need for wholesalers. Wholesale distributors supply pharmaceutical products to retail chains, stand-alone pharmacies and hospitals, and also participate in tenders held by the local state and municipal health care departments to supply products to the FRP.

Consequently, most pharmaceutical sales in Russia are made through a number of national, regional and local wholesale distributors who operate as intermediaries between manufacturers and retail and hospital segments. According to Pharmexpert, in 2006, there were approximately 1,000 pharmaceutical distributors in Russia, with the five largest, namely Protek, SIA International, ROSTA, Biotec, and Katren, accounting for 72% of the market.

The customer base in the Russian pharmaceutical market is broad, comprising approximately 10,000 hospitals and 20,000 clinics, according to the Russian Federal Service of State Statistics. The commercial segment comprises pharmacy chains and stand-alone outlets. According to Pharmexpert, in 2006, there were over 40,000 pharmacy outlets in Russia. Whilst the sector remains largely unconsolidated, the share of large retail chains is gradually increasing.

Federal Reimbursement Programme

Since its introduction in 2005, the FRP has become a key element of Russia's pharmaceutical market structure. The FRP was introduced as a plan of reimbursement of pharmaceutical expenses for certain socio-economic demographic groups. In particular, the plan applies to disabled people and veterans, and also covers medicine-related expenses for treatment of chronic illnesses, such as HIV/AIDS, tuberculosis and diabetes. Consequently, the FRP plays a significant role in creating market demand for prescription products. According to Pharmexpert, in 2006, prescription products accounted for 91% of FRP expenditure.

According to Pharmexpert, in 2006, there were approximately 14 million patients eligible for FRP benefits. Eligible citizens may choose to receive either pharmaceutical products through the FRP or financial compensation of RUR450 per month. In 2006, approximately 40% of eligible citizens elected to receive financial compensation. The Russian government defines the reference list of eligible drugs, as well as the criteria for eligibility. The list of drugs for 2006 included approximately 1,600 drugs.

According to Pharmexpert, sales by value through the FRP exceeded RUR65 billion in 2006, a 79% increase compared to 2005. Growth in the FRP has largely come at the expense of the hospital market, sales through which increased at just 7% in 2006. Also according to Pharmexpert, international companies accounted for 89% of sales by value in the FRP in 2006, with Janssen-Cilag, Roche, Novartis, Sanofi-Aventis and Novo-Nordisk accounting for the largest proportion. The federal budget for FRP spending increased from RUR29.6 billion in 2006 to approximately RUR35 billion in 2007.

In 2006, government expenditure exceeded the FRP budget by approximately RUR37 billion resulting in severe delays in supplies of FRP drugs to pharmacies, government accusations of potential mismanagement, dismissals of officials within the Russian ministry responsible for the FRP and informal requests that distributors and manufacturers assist in remedying the deficit by discounting the price of products sold into the FRP in 2006. It is unclear to what extent, or on what grounds, the State might impose any such discounts on past sales and what effect the deficit of 2006 may have on current or future levels of the FRP. See "Regulatory Overview" and "Risk Factors — Risks Related to our Business and Industry — We may not realise the anticipated long-term benefits from our participation in the Federal Reimbursement Programme ("FRP")."

Priority National Health Project

The PNHP was launched on 1 January 2006 as an initiative to improve the provision of medical care in Russia. The PNHP has three principal objectives, namely to enhance the priority of the primary health care system, to reinforce the preventative focus of health care, and to make state-of-the-art medical care more accessible. The PNHP focuses on strengthening the primary care segment, including district hospitals, through various initiatives, such as equipping hospitals with modern equipment and raising the wages of district doctors and nurses. A total of RUR88.4 billion was budgeted for the PNHP in 2006 and the federal budget for 2007 calls for spending of RUR107.5 billion.

BUSINESS

Overview

We are the leading domestic pharmaceutical company in Russia, by sales value, and the fourth largest pharmaceutical company operating in Russia overall, also by sales value. We develop, manufacture, market and sell generic and, to a lesser extent, original pharmaceutical products in various formulations, primarily in Russia. Our product portfolio includes market-leading brands, such as Arbidol® (antiviral for systemic use), Pentalgin® (analgesics), Terpincod® (cough and cold), Complivit® (vitamins) and Flucostat® (antifungal). In 2006, we ranked second, by sales value, in the commercial segment of the Russian pharmaceutical market, and Arbidol® was the leading brand, by sales value, in this segment.

Our pharmaceutical product portfolio includes products that do not require a medical prescription ("over-the-counter" or "OTC" products), as well as prescription products. OTC products accounted for 82% of our pharmaceutical product sales in 2006 and, on a pro forma basis (including the sales of Masterlek products, which we acquired in August 2006), 82% of our pharmaceutical product sales in 2006. Our pharmaceutical product portfolio covers a wide range of therapeutic segments. In 2006, sales of products within our five core therapeutic segments, namely analgesics, cough and cold, vitamins, antiviral for systemic use and antifungal (the "Core Therapeutic Segments"), accounted for 71% of our pharmaceutical product sales and, on a pro forma basis, 73% of our pharmaceutical product sales. Our pharmaceutical product portfolio consists of both branded generics, which may be trademarked and which we promote through our direct sales force, and non-branded, or "pure," generics, which are older products that have demonstrated sustainable demand from consumers without the need for continued active promotion. Pharmaceutical products accounted for 86% of our sale of goods in 2006 and, on a pro forma basis, 87% of our sale of goods in 2006.

In August 2006, we acquired Masterlek, a Russian pharmaceutical company focused on the antiviral for systemic use and antifungal therapeutic segments, for a total cash consideration of RUR3,912.4 million. In line with our strategy to expand our market position in Russia through acquisitions that complement our product portfolio, Masterlek contributed approximately 30 products to our product portfolio, including market-leading brands such as Arbidol® and Flucostat®, which had sales of RUR1,484.8 million and RUR434.8 million, respectively, in 2006.

In addition to our pharmaceutical business, we also develop, manufacture, market and sell medical equipment, such as sterilising and distilling machines, and disposable medical products, such as syringes. Medical equipment and disposables accounted for 14% of our sale of goods in 2006 (compared to 18% in 2005) and, on a pro forma basis, 13% of our sale of goods in 2006.

We generated sale of goods and profit of RUR8,522.8 million and RUR2,036.1 million, respectively, in 2006 and, on a pro forma basis, RUR9,374.2 million and RUR2,006.3 million, respectively, in 2006. Our EBITDA and our pro forma EBITDA (each as defined in "Presentation of Financial and Other Information") was RUR3,252.3 million and RUR3,497.2, respectively for the same period. We believe we were one of the fastest growing pharmaceutical companies in Russia in 2006.

The key elements of our business operations are as follows:

Sales and marketing

Our sales and marketing activities form an integral part of our strategic focus. We believe we maintain one of the largest sales forces in Russia among domestic pharmaceutical companies. As of 31 December 2006, our sales force comprised 287 members, all of whom have either a medical degree or previous work experience in the pharmaceutical industry. Our trained and incentivised sales force is divided into two groups that focus on promoting either OTC products or prescription products. Our sales force maintains strong relationships with key market participants, particularly pharmacists and specialist doctors, with the aim of developing brand loyalty and awareness. Our corporate sales and marketing department is based in Moscow and supports our sales force with brand and sales management and customer support initiatives. We recently launched an Electronic Territory Management System ("ETMS") software system to further integrate our sales and marketing function with our overall business processes.

Manufacturing

Our production capacity of 1,070.4 million packs as at 31 December 2006 is one of the largest among domestic pharmaceutical companies in Russia and has allowed us to become one of the largest domestic

pharmaceutical companies in Russia by volume of products sold. We produce a wide variety of product formulations (for example, capsules and tablets) and packaging, each of which represents a unique stock keeping unit ("SKU"), which allows us to target different customer segments with the same well-recognised umbrella brands. Each of our five modern manufacturing facilities is certified to be compliant with Russian good manufacturing practice ("GMP") standards. Through new capital investments, we have achieved EU GMP certification for solid (tablets) and liquid (syrups) dosage forms at our manufacturing facility in Kursk, and are pursuing EU GMP certification for insulin production at our manufacturing facility in Ufa. We review our cost efficiency at each manufacturing facility on a monthly basis to help to ensure a controlled cost environment, and aim to leverage our most cost-efficient facilities by concentrating production at those sites wherever possible.

Competitive Strengths

We believe that we are well positioned to maximise our growth opportunities in the Russian pharmaceutical market because of the following competitive strengths:

- ***Market-leading brands in Core Therapeutic Segments***. Our product portfolio includes market-leading brands, such as Arbidol®, Pentalgin®, Terpincod®, Complivit® and Flucostat®. Our five market-leading brands were among the top-15 domestic brands by sales in the commercial segment in Russia in 2006, with Arbidol® ranking first. We believe these are trusted and established brands, with each having a market presence of over 10 years, and that these brands occupy a "top-of-mind" position for pharmacists, specialist doctors and consumers in their respective therapeutic segments. We believe that our market-leading position in our Core Therapeutic Segments and our market-leading brands provide us with a competitive advantage in growing our business and promoting both our current and new products.
- ***Modern and efficient manufacturing facilities***. Our manufacturing facilities are modern and efficient. We have invested approximately RUR1.6 billion in capital investments in our manufacturing facilities since the start of 2004, which has allowed us to modernise and upgrade our manufacturing facilities in Kursk and Ufa and achieve EU GMP certification for solid (tablets) and liquid (syrups) dosage forms at our manufacturing facility in Kursk. These capital investments have also allowed us to rationalise our manufacturing operations by closing our St. Petersburg facility in 2006. Our manufacturing facilities allow us to produce a wide variety of product formulations, which allows us to target different customer segments with the same well-recognised umbrella brands. Our production capacity of 1,070.4 million packs as at 31 December 2006 has enabled us to become one of the largest domestic pharmaceutical companies in Russia by volume of products sold. Our flexible production capacity distinguishes us from our competitors by allowing us to quickly and efficiently adjust production based on input from our distributors and sales force.
- ***Experienced sales force***. We believe that our experienced sales force provides a strong channel for growing sales of our existing products and for any new product launches and has significantly contributed to the growth of our pharmaceutical business. Each member of our sales force has either a medical degree or previous work experience in the pharmaceutical industry and regularly attends intensive sales and product training, which we believe strengthens the product knowledge of individual members of our sales force and allows them to more efficiently and effectively market our products. Our sales force focuses on customer relationship management and each member makes regular visits to key market participants, particularly pharmacists, general practitioners and specialist doctors.
- ***Proven product development strategy***. We concentrate on developing those generic pharmaceutical compounds that have proven successful for the major originator pharmaceutical companies and which we believe we can successfully introduce in the Russian market. Since the beginning of 2004, we have introduced 16 new generic products (10 OTC products and six prescription products), which accounted for 7% of our pharmaceutical product sales in 2006. As of 31 March 2007, we had 29 product registration applications pending for 48 different formulations of generic products, the majority of which we anticipate will be reviewed for final regulatory approval during the remainder of 2007. We have also recently developed and launched biogeneric versions of insulin and human growth hormone.
- ***Highly experienced management team***. We have a highly experienced management team, with an average of 15 years of experience in the local and international pharmaceutical industry. All of our senior managers, including our regional managers, have work experience at major international companies, such as Eli Lilly, Aventis and Glaxo Wellcome. Our management team has a strong record of identifying acquisition targets and successfully integrating these businesses into our operations. For example, since our acquisition of Masterlek, we have realised significant cost savings by leveraging our position as a large volume purchaser of active pharmaceutical ingredients ("API") and our portfolio of

market-leading brands to negotiate decreases in the price paid for the API used to manufacture Arbidol® and the discount given to distributors of Arbidol®. Our highly experienced management team has enabled us to significantly increase our sale of goods and gross profit from RUR3,945.7 million and RUR1,725.7 million, respectively, in 2004 to RUR8,522.8 million and RUR4,941.5 million, respectively, in 2006.

Strategy

Our goal is to further strengthen our position as the leading domestic pharmaceutical company in Russia by sales and become one of the top-3 pharmaceutical companies operating in Russia overall. The key elements of our strategy are as follows:

- ***Promote our market-leading brands to drive sales growth and profitability***. We intend to strengthen our market position in Russia by continuing to leverage our strong brand loyalty and brand awareness through effective sales and marketing of our market-leading brands. We will continue promoting these brands by introducing line extensions of trusted and established products, such as our well-known branded product ranges Pentalgin®, Codelac®, Complivit®, Arbidol® and Flucostat®. We will also continue to focus on promoting those brands for which we can charge higher prices.
- ***Launch new pharmaceutical products in a timely manner to capture market share***. We intend to maintain strong growth and capture market share by leveraging the brand loyalty and brand awareness of our market-leading brands to develop and launch new products in our Core Therapeutic Segments. We will continue to focus on developing pharmaceutical compounds that have been successful for major originator pharmaceutical companies and which we believe we can successfully introduce in the Russian market. Specifically, we intend to:
  - focus on the timely identification and development of new generic OTC products, including the development of line-extensions of current brands, such as new formulations of current analgesics and cough and cold products and new specialised vitamin products;
  - focus on the timely identification and development of new generic prescription products that complement our Core Therapeutic Segments and develop products to penetrate new therapeutic areas;
  - launch these new pharmaceutical products in a timely manner to capture significant market share; and
  - leverage our sales and marketing infrastructure to promote our new product launches and achieve a leading market position for each of our new branded products.
- ***Maintain our focus on cost control***. Our focus and ability to control costs is an important element of both our operating and financial performance. We will continue to evaluate and react to manufacturing and distribution cost inefficiencies. For example, we expect to continue to realise cost savings from the closure of our manufacturing facility in St. Petersburg in 2006 and from the reorganisation of our internal supply chain structure in 2005, which involved the consolidation of 10 distribution centres into a single centralised warehouse in the Moscow area. We also plan to further rationalise our manufacturing costs to maximise gross profit margins by managing our product mix based on the demand for our pharmaceutical products at our manufacturing facilities.
- ***Expand our sales and marketing capabilities***. Our sales team has more than doubled in the last two years and we expect our sales force to number over 350 by the end of 2007. We also expect that our sales force will be further specialised by therapeutic area in 2007. We believe an expanded, and more specialised, sales and marketing team will facilitate our increased calling efforts on medical practitioners, regional and national distributors and other customers, thereby increasing their awareness of our product portfolio and driving further sales growth. We also expect to strengthen our ability to manage customer relationships and react to the demands of our customers more rapidly and efficiently by utilising our recently launched ETMS software system, which enables real-time reporting by our sales force.
- ***Grow through acquisitions and realise synergies***. We intend to complement our organic growth by continuing to assess acquisition opportunities, including for specific brands, trademarks and patents. For example, in 2006, we acquired Masterlek, which contributed approximately 30 products to our product portfolio, including market-leading brands, such as Arbidol® and Flucostat®, which collectively had sales of RUR1,228.9 million in 2006. We expect to realise cost savings by switching the manufacturing of these products from third-party facilities to our own modern and efficient facilities and expect sales of these products to benefit from being sold and distributed by our experienced sales force.

- ***Exploit opportunities from government healthcare expenditure as they arise.*** Whilst our growth strategy does not depend on government healthcare expenditure, we believe we are well positioned to benefit from potential changes in the administration of the FRP as they arise. Due to the 2006 FRP deficit, the State is examining ways to reduce FRP spending, potentially through encouraging greater participation by domestic pharmaceutical manufacturers, whose drugs typically cost less than those made by foreign manufacturers. We believe we would be able to leverage our position as the leading domestic manufacturer of generic phamaceuticals to benefit from this opportunity. In addition, we expect growth in the market for sterilising machines due to the launch of the Priority National Health Project ("PNHP"), which aims, in part, to equip Russian hospitals with modern equipment, where we believe our products have a cost-competitive advantage.

History of the Company

Since 2003 the Group has evolved from a collection of independent OTC pharmaceutical companies to become the leading domestic pharmaceutical company in Russia. The following sets out the significant milestones in the Group's history.

2003 During 2003, the Group consisted of two manufacturing facilities, at Ufa and Nizhny Novgorod, and operated under the name OOO Biovit. The Group in its current form was launched at the end of 2003 with the acquisition of the Russian assets of US-based ICN Pharmaceuticals Inc., which added five manufacturing facilities and a tradehouse. To concentrate on our core focus as a pharmaceutical company, we immediately divested certain distribution affiliates of the tradehouse and commenced a restructuring process beginning with the disposal of one of the acquired manufacturing facilities. In late 2003, we appointed a new senior management team with international pharmaceutical experience.

2004 In the beginning of 2004, our new management team adopted Western-style sales and marketing techniques. We adopted our strategy of actively promoting our brands where we thought we could significantly grow sales as a result of our comprehensive marketing efforts, we formed new sales teams with centralised procurement, sales and managerial operations and we centralised our distribution and sales and marketing function in relation to the various manufacturing facilities. We also diversified our product portfolio by entering the prescription pharmaceutical product market.

2005 In January, we acquired TZMOI, which specialises in manufacturing medical equipment and disposables, to take advantage of the anticipated increases in federal funding for hospitals. To achieve more focused customer relationship management, we divided our sales and marketing force into OTC and prescription coverage with separate training and promotion methods. In May, we reorganised our internal supply chain by centralising our internal warehousing in the Moscow area. We disposed of a further manufacturing facility in August and commenced an upgrade of our remaining facilities and equipment, achieving EU GMP certification for solid (tablets) and liquid (syrups) dosage forms at our manufacturing facility in Kursk. In December, we completed a legal restructuring whereby we adopted a holding company corporate structure. As at 31 December 2005, our sales team had grown to 260.

2006 In May, the name OOO Biovit was changed to OJSC Pharmstandard as part of our rebranding. In July, we ceased production at our manufacturing facility in St. Petersburg and shifted its production to other facilities that we had identified as being more cost efficient. Also in August, we acquired Masterlek, capturing further market share and further diversifying our product portfolio. During 2006, we implemented new workshops for tablets, sprays, sachets and capsules at our manufacturing facility in Kursk and new workshops for tablets, insulin and solutions at our manufacturing facility in Ufa. To increase the effectiveness of our sales and marketing activities, we grew the headcount of our sales and marketing team to 287 as at 31 December 2006 and formed a specialised sales force for endocrinology.

Products

Our products are divided into pharmaceuticals, which primarily comprise generic products sold either in the OTC market or with a prescription, and medical equipment and disposables. Our pharmaceutical product portfolio covers a wide range of therapeutic segments, but focuses on our Core Therapeutic Segments.

The following table shows our sales and percentage of total sales for these product areas for the periods indicated:

	Year ended 31 December					
	2004		2005		2006	
	(RUR in millions (apart from %))					
	Sales	%	Sales	%	Sales	%
Pharmaceutical products	3,945.7	100	4,673.7	82	7,326.4	86
Of which:						
OTC products	3,346.7	85	3,901.9	69	6,031.5	71
Branded	2,766.2	70	3,275.0	58	5,340.6	63
Non-branded	580.5	15	626.9	11	690.8	8
Prescription products	555.2	14	733.1	13	1,198.5	14
Branded	294.4	7	440.1	8	899.2	11
Non-branded	260.8	7	293.0	5	299.2	4
Other	43.8	1	38.7	1	96.4	1
Medical equipment and disposables	—	—	1,011.1	18	1,196.4	14
Total sales	**3,945.7**	**100**	**5,684.8**	**100**	**8,522.8**	**100**

Pharmaceutical products

We were the leading domestic pharmaceutical company, by sales value, in Russia in 2006 and the fourth largest pharmaceutical company operating in Russia overall, by sales value. We develop, manufacture, market and sell more than 230 generic pharmaceutical products in various formulations, and two original pharmaceutical products, Arbidol® and Phosphogliv®. Original pharmaceutical products refer to products that typically result from the research and development of a new drug chemical entity or molecule.

The Russian pharmaceutical market comprises three segments: the commercial market, the hospital market and the FRP. According to Pharmexpert, in 2006, the commercial segment accounted for 63% of overall market sales value, whilst the FRP and hospital market accounted for 23% and 14%, respectively. OTC products accounted for 49% of sales value in the commercial segment and 35% of the market overall in 2006. Prescription pharmaceutical products accounted for 91% of sales value in the FRP segment and 92% of sales value in the hospital segment in 2006. See "Market Overview."

Pharmaceutical products accounted for 86% of our sale of goods in 2006 and, on a pro forma basis, 87% of our sale of goods in 2006. Our pharmaceutical product portfolio consists of both OTC products and prescription products. OTC products accounted for 82% of our pharmaceutical product sales in 2006 and, on a pro forma basis, 82% of our pharmaceutical product sales in 2006. Within each of these categories, we develop, manufacture, market and sell branded generic products, which may be trademarked and which we promote through our direct sales force, and non-branded generics, which are older products that have demonstrated sustainable sales without promotion. We use product branding as a means of distinguishing our products from similar products offered by our competitors. The awareness of a pharmaceutical product by pharmacists, specialist doctors and consumers is crucial to such product's lifecycle, demand and profitability. Each brand relates to a specific active ingredient in one of our therapeutic areas and may include a range of products. In particular, each dosage strength and/or form that we market under that brand is classified as a different SKU. Sales of branded products accounted for 85% of our pharmaceutical product sales in 2006 and, on a pro forma basis, 86% of our pharmaceutical product sales in 2006.

Our product portfolio of non-branded generics includes OTC and prescription products that continue to be in demand and generate sales without active promotion, such as Analgin. We call these "bulk" products. These are often legacy pharmaceutical products which have been sold in Russia since Soviet Union times. Our sales of non-branded generics accounted for RUR990.0 million, or 14% of our pharmaceutical product sales, in 2006. We monitor the market for these products and align our prices with those of our competitors and would discontinue the production of a particular product, for example, if our alignment to competitors' prices resulted in such product ceasing to be profitable.

Each of our pharmaceutical products may be classified under one of the European Marketing Research Association's first level Anatomical Therapeutic Chemical ("ATC") categories, including the central nervous system ("CNS"), respiratory systems ("respiratory"), alimentary tract and metabolism ("alimentary"), the cardiovascular system ("cardiovascular") and dermatologicals ("dermatology"). The European Marketing Research Association further sub-divides the ATC categories into second-, third- and fourth-level therapeutic categories. Each increase in ATC category level corresponds to a more narrow sub-set within the particular

therapeutic category. We believe that the ATC 2 (for OTC products) and the ATC 4 (for prescription products) categories correspond most closely to the groups of pharmaceutical products we produce and reflect most closely the treatment and usage areas. Therefore, in the tables and text that follow, we have presented the market position for our products based on the ATC 2 and ATC 4 categories, respectively, within which each of our products falls.

Our pharmaceutical product portfolio focuses on our Core Therapeutic Segments, which together accounted for 71% of our pharmaceutical product sales in 2006 and, on a pro forma basis, 73% of our pharmaceutical product sales in 2006.

The following table sets forth certain information concerning our pharmaceutical products within the ATC 2 therapeutic category for the periods specified. Products within the following ATC 2 categories accounted for 84% of our pharmaceutical product sales in 2006. Our cough and cold segment generated the highest sales in 2006, accounting for 22%, of our pharmaceutical product sales.

ATC 2 Category	Sales for the year ended 31 December 2005		Sales for the year ended 31 December 2006	
	Value (RUR in millions)	Volume (packs in thousands)	Value (RUR in millions)	Volume (packs in thousands)
R05 — Cough and cold	1,267.5	58,092	1,608.2	52,506
N02 — Analgesics	1,094.8	149,911	1,408.1	142,621
J05 — Antivirals for systemic use[1]	0.4	32	1,035.6	12,045
A11 — Vitamins	793.8	45,867	963.9	44,768
A05 — Cholagogues and hepatic protectors	55.1	24,955	286.9	20,570
N05 — Psycholeptics	219.0	87,670	269.8	81,286
C01 — Cardiac therapy	204.1	49,739	188.2	55,479
J02 — Systemic agents for fungal infections[1]	18.9	99	220.0	2,003
L03 — Immunostimulating agents[1]	7.2	460	138.7	451

(1) Includes sales of Masterlek products from August 2006.

OTC pharmaceutical products

Our OTC business consists of branded and non-branded pharmaceutical products which do not require a medical prescription. These products are purchased either in a pharmacy or other retail outlet selling OTC medications. In 2006, OTC pharmaceutical products accounted for 82% and, on a pro forma basis, 82% of our pharmaceutical product sales.

The following table sets forth our top-15 OTC pharmaceutical products for the periods specified.

Product	ATC 2 therapeutic segment	Sales for the year ended 31 December 2005		Sales for the year ended 31 December 2006	
		Value (RUR in millions)	Volume (packs in millions)	Value (RUR in millions)	Volume (packs in millions)
Arbidol®[1]	Antiviral	—	—	1,031.5	11.7
Terpincod®	Cough and cold	975.2	17.3	1,162.6	17.5
Pentalgin — N®	Analgesics	585.9	13.9	795.7	17.9
Complivit® (excluding Mama® and Active®)	Vitamins	393.6	8.1	545.0	10.5
Flucostat®[1]	Anti-fungal	—	—	197.3	1.9
Pentalgin — ICN®	Analgesics	313.2	7.7	410.2	9.7
Codelac®	Cough and cold	221.9	5.4	375.3	8.7
Corvalol®	Psycholeptics	147.6	35.5	154.8	39.8
Askophen®	Analgesics	81.8	27.1	79.8	24.9
Validol®	Cardiac therapy	54.1	29.7	68.5	36.9
Complivit Active®	Vitamins	45.6	.9	67.9	1.3
Oligovit®	Vitamins	57.2	1.1	60.2	1.2
Citramon P®	Analgesics	40.6	53.6	51.4	52.6
Ferrogematogen®	Anti-anaemic preparations	44.1	11.2	51.2	11.9
Pustyrnik®	Psycholeptics	38.8	11.4	50.8	13.6
Total		**2,999.6**	**222.9**	**5,102.2**	**260.1**

(1) Sales only formed part of our consolidated sales from August 2006.

We actively promoted 12 of our OTC brands in 2006, which together accounted for 39% of our total OTC product sales in 2006. We are currently actively promoting 14 of our OTC brands, including Arbidol® and Flucostat®, which we acquired from Masterlek.

Our OTC product portfolio includes well-known brands, such as Arbidol®, Pentalgin®, Terpincod®, Complivit® and Flucostat®. We believe these products, as a result of strong brand recognition and our active promotion, occupy a "top-of-mind" position among pharmacists, specialist doctors and consumers which, in turn, strengthens the Pharmstandard brand. Our well-known brands Complivit®, Pentalgin® and Codelac® are also major umbrella brands under which we seek to regularly introduce new formulations to widen the customer segments we target. The following briefly summarises information concerning our key OTC products.

Arbidol®. We acquired our Arbidol® brand from Masterlek in 2006. Arbidol®, which is indicated for the treatment of acute respiratory viral infections and is recommended for children over two years of age and adults, was developed in 1987 and launched in 2000. Arbidol® is an original product.

Pentalgin®. Our Pentalgin® brand, which is indicated for the treatment of pain relief in adults and children over the age of 12, was launched in 1996. Pentalgin-N®, for the treatment of pain relief in adults, was introduced in 1996 and Pentalgin-ICN®, for the treatment of temperature and pain relief in adults, was introduced in 1999. We intend to further strengthen the Pentalgin brand by introducing a new formulation by the end of 2007.

Terpincod®. Our Terpincod® brand, which is indicated for the treatment of cough symptoms in different respiratory diseases, was launched in 1996. Terpincod® was our best selling brand in 2005. This product is well known among Russian consumers and enjoys significant brand loyalty and recognition. Based on stable consumption and market position, Terpincod® has been excluded from active promotion since 2005.

Complivit®. Our Complivit® brand of vitamin and mineral supplements was launched in 1986. In 2004, we leveraged Complivit®'s strong brand recognition to launch Complivit® Active for children and Complivit "Mama" for pregnant women. We intend to further leverage the brand awareness of Complivit® by introducing Complivit® R for adults and Complivit® Calcium D3 for the prevention and treatment of calcium deficiency during the second half of 2007.

Flucostat®. We acquired our Flucostat® brand from Masterlek in 2006. Our Flucostat® brand was launched in 2000 and is indicated for the treatment of systemic fungal infection.

Codelac®. Our Codelac® brand, which is indicated for the treatment of cough symptoms of different respiratory diseases, including acute respiratory viral infections, was launched in 1996. We launched Codelac® phyto syrup for the treatment of cough symptoms in children in 2004 to complement the then existing tablet range.

Prescription pharmaceutical products

Our prescription pharmaceutical business consists of branded and non-branded pharmaceutical products that are only available for purchase with a medical prescription and that are sold to patients in finished form. We began building our prescription product business in 2004 and have continued building this segment of our business through the introduction of new branded products. For example, 18 of our 29 pending registration applications as of 31 December 2006 are prescription products, including 14 branded prescription products. See "— Near-term pipeline of pharmaceutical products." Prescription pharmaceutical products accounted for 16% and, on a pro forma basis, 16% of our pharmaceutical product sales in 2006. Our prescription product sales grew by 63% from 2005 to 2006 primarily due to our participation in the FRP.

Prescription pharmaceutical products accounted for 91% of sales in the FRP in 2006. Our main current prescription products participating in the FRP are Phosphogliv® (hepatic protector), Gastrozol® (acid pump inhibitor), Liptonorm® (atorvastatine) and Renipril HT® (combined ACE inhibitor). In October 2006, our biogeneric product of insulin was accepted for the FRP list for 2007 and we aim to have our biogeneric product of human growth hormone accepted to the list as well. Our pricing of these products is not heavily influenced by the FRP approval process. Typically the FRP requires us to align our prices with those of equivalent products sold by other pharmaceutical companies through the FRP, but we are not so constrained with respect to treatments that we singularly supply.

Whilst our growth strategy does not depend on government healthcare expenditure, we believe we are well positioned to benefit from potential changes in the administration of the FRP as they arise. For example, it is

possible that, in reaction to the 2006 FRP deficit, the Government may amend the parameters for including products into the approved FRP list with an emphasis on cheaper, non-branded generics produced by local manufacturers. The central Russian region of Sverdlovsk announced in January 2007 revised rules concerning FRP procurement, whereby at least 30% of subsidised drugs obtained in pharmacies must be sourced from Russian pharmaceutical companies. The FRP is dominated by international manufacturers and, if other Russian regions follow this example or if similar rules were adopted on a national basis, we believe we would be able to leverage our position as the leading domestic manufacturer of generic phamaceuticals to benefit from this opportunity. See "Market Overview." This strategy may not succeed, in part, due to the uncertainty of Government funding of the FRP. See "Risk Factors — Risks Related to our Business and Industry — We may not realise the anticipated long-term benefits from our participation in the Federal Reimbursement Programme ("FRP")."

Our portfolio of prescription products focuses on four core ATC 4 therapeutic segments: nitrites and nitrates, acid pump inhibitors, ACE inhibitors, and hepatic protectors and lipotropics products. Products within these core segments accounted for 34.0% of our prescription product sales in 2006 and, on a pro forma basis, 30.6% of our prescription product sales in 2006. Our hepatic protectors and lipotropics products include Phosphogliv®, which is an original product that is patent protected until 2018. We launched Phosphogliv® in 2005 and actively promote it to general practitioners and specialist doctors. Our portfolio of prescription drugs is also well represented in the local anesthetics, macrolides and neurotoxins therapeutic segments.

The following table sets forth our top-15 prescription pharmaceutical products for the periods specified.

Product	ATC 2 therapeutic segment	Sales for the year ended 31 December 2005		Sales for the year ended 31 December 2006	
		Value (RUR in millions)	Volume (packs in millions)	Value (RUR in millions)	Volume (packs in millions)
Phosphogliv®	Cholagogues	5.8	0.02	253.5	0.8
Amixin®(1)	Immunostimulating agents	—	0	136.5	0.3
Gastrozol®	Antacids	57.9	0.8	51.2	0.8
Bioinsulin®	Endo	14.3	0.03	50.1	0.1
Afobazol®	Psycholeptics	—	0	38.5	0.3
Levomicetin®	Anti-bacterial	15.5	3.0	37.8	5.9
Sul'fokamfokain®	Other respiratory	17.3	1.5	37.5	2.3
Cocarboksilaza®	Vitamins	40.9	2.2	35.9	1.7
Renipril®	Cardiovascular	28.1	0.6	35.6	0.7
Termikon®	Anti-fungal	14.3	0.1	35.1	0.3
Nitrokor®	Cardiac therapy	48.7	4.5	34.9	3.25
Pikamilon®	Psychoanaleptics	24.9	1.3	34.0	1.8
Azitrox®	Anti-bacterial	27.9	0.2	34.0	0.2
Nitrosprey®	Cardiac therapy	30.7	0.6	27.6	0.6
Liptonorm®	Hypolipidaemics/Anti-Atheroma preparations	4.0	0.01	26.7	0.1
Total		**330.2**	**14.9**	**868.8**	**19.2**

(1) Sales only formed part of our consolidated sales from August 2006.

Near-term pipeline of pharmaceutical products

The innovative nature of the pharmaceutical industry generally requires the regular introduction of new products to maintain sales growth. We leverage our existing market share by extending product lines of established products in response to monitored customer product preferences. Since the beginning of 2004, the Company has introduced 16 new products (10 OTC products and six prescription products), which accounted for 7% of our pharmaceutical product sales in 2006. We base our selection process on market demand, cost of market penetration, patent status and, for our prescription drugs, treatment guidelines. We also focus on therapeutic segments that we expect to be less susceptible to price competition for a significant time after launch and products that will complement, broaden or capitalise on our existing product lines. As of 31 March 2007, we had 29 product registration applications pending for 48 different formulations of generic products, the majority of which we anticipate will be reviewed for final regulatory approval during the remainder of 2007.

We have recently developed two biogeneric products. Our biogeneric product of insulin is included on the FRP list for 2007, while our biogeneric version of human growth hormone was first launched in January 2007.

We believe we are the first Russian pharmaceutical company to develop and implement production of rDNA (gene-engineering) pharmaceutical products of human insulin and human growth hormone.

The following table sets forth certain information concerning our registration applications by therapeutic segment for both OTC products and prescription products, as of 31 December 2006. See "— Research and Development" for more information concerning our development capabilities.

ATC 2 therapeutic segment	Applications	Formulations	Registered trademarks
OTC			
Vitamins	4	8	4
Mineral Supplements	2	3	2
Wound healing agents	1	1	—
Immunostimulating agents	1	1	1
Analgesics	2	2	1
Cough and cold preparations	1	2	1
Total	**11**	**17**	**9**

ATC 2 therapeutic segment			
Prescription			
Functional gastro-intestinal disorder drugs	1	1	1
Antiemetics and antinauseants	1	2	1
Cholagogues and hepatic protectors	2	4	2
Drugs used to treat diabetes	3	9	2
Vitamins	2	4	2
Cardiac therapy	2	2	1
Agents acting on the rennin-angiotensin system	1	1	1
Hypolipidaemics/anti-atheroma	1	2	—
Topical corticosteroids	1	2	—
Pituitary and hypothalamic hormones	1	1	1
Immunostimulating agents	1	1	1
Analgesics	1	1	1
Psycholeptics	1	1	1
Total	**18**	**31**	**14**

Medical equipment and disposables

We develop, manufacture, market and sell medical equipment, including sterilising and distilling machines, and disposables, such as syringes, at our Tyumen manufacturing facility. We acquired TZMOI on 1 January 2005. Medical equipment and disposables accounted for 14% and, on a pro forma basis, 13% of our sale of goods in 2006.

The following table sets forth the sales of our principal medical equipment and disposables products for the periods specified.

Product	Sales for the year ended 31 December 2005		Sales for the year ended 31 December 2006	
	Value (RUR in thousands)	% of Sales	Value (RUR in thousands)	% of Sales
Medical equipment	544.9	53.9	616.7	51.5
Syringes and disposable systems	362.0	35.8	550.0	46.0
Spare parts	104.2	10.3	29.7	2.5
Total	**1,011.1**	**100**	**1,196.4**	**100**

Medical equipment

We believe we are the largest domestic manufacturer of medical equipment in Russia by sales. We produce two types of medical equipment: sterilising machines and distilling machines. Sterilising machines are used by

medical hospitals and other healthcare clinics to disinfect various medical products, medical gowns and other instruments. Our portfolio of sterilisers has a capacity range of 10 to 400 litres, and we believe we are the only domestic manufacturer of sterilising machines with a volume of up to 400 litres, which provides us with significant competitive advantages when dealing with our distributors and hospital clients.

We believe the market size for sterilising machines in Russia in 2006 exceeded RUR700 million. We expect significant growth in the market for sterilising machines due to increased Government funding of hospitals in Russia. In particular, the PNHP, which was launched in 2006, aims to strengthen the primary care segment, which includes district hospitals, through initiatives such as equipping hospitals with modern equipment. We believe that sterilising equipment is an area where hospitals will make significant investments to improve safety and compliance. See "Market Overview." A total of RUR88.4 billion was spent on the PNHP in 2006 and the budget for 2007 is RUR107.5 billion. See "Market Overview."

Syringes and disposable systems

We believe the market size for syringes in Russia in 2006 exceeded RUR3,000 million. We believe we are the largest domestic manufacturer of syringes in Russia by sales. We hold an ISO 9001 international certification and believe we are currently the only domestic manufacturer of syringes that has this certification. The market for syringes and disposable systems is highly competitive. We plan to continue deemphasising this product line going forward and to focus more on higher — margin medical equipment.

Sales and Marketing

Our sales and marketing structure reflects our business model by combining decentralised responsibility for sales and marketing activities with the central coordination of strategy and support functions. The primary activities of our central sales and marketing department include branding, product portfolio management, cooperation with key medical opinion leaders, such as physicians, planning standards setting, budgeting, forecasting and overall management of sales and marketing operations. Our sales and marketing department policy is determined by reference to our product portfolio and is reviewed and updated annually in accordance with market conditions, product strategies and short and long-term business targets.

We attach great importance to the training and education of our employees. Each member of our sales force has either a medical degree or previous work experience in the pharmaceutical industry and receives intensive sales and product training. Newly hired members of our sales force are given both sales and product training, and are thereafter required to receive semi-annual product training updates by our product managers, which we believe strengthens the product knowledge of members of our sales force and allows them to more efficiently and effectively market our products. We also attempt to ensure that our sales force is incentivised by offering an annual bonus based on sales targets, which are reviewed and revised semi-annually. We plan to further incentivise our sales force by implementing new training programmes and a performance management programme and continuing to revise our compensation packages to remain competitive.

As at 31 December 2006, our sales and marketing staff included a sales force of 287 individuals, who cover territory comprising more than 75% of the Russian pharmaceutical business, as well as 20 regional managers. Our regional managers supervise our sales force and report to three national sales managers, who are responsible for overall coordination of our sales effort and for processing sales orders. Our sales effort depends, in part, on the ability of our staff to engage medical practitioners and pharmacists, hospitals and other medical institutions directly and forging and maintaining good customer relations, which we believe is assisted by concentrating our sales effort on a regional basis. We expect to further integrate our sales and marketing function with our overall business processes through our use of the ETMS software system, which we have recently implemented. We have provided members of our sales force with a pocket PC communication device that operates on the ETMS software system and, although ETMS was only recently launched, we expect this device will allow them to more effectively manage their territory and customers. For example, ETMS allows our sales force to send real-time electronic reports related to their marketing efforts, including information related to their visits with key market participants, product orders and competition, to our central marketing department, which will use this data to adjust our production levels to more closely reflect market demand. See "— Information Technology."

Our promotion activity is applied at several levels of the supply and information chain. Although we sell our products directly to wholesale distributors, we primarily build our relationships with key market participants, such as pharmacists, general practitioners, specialist physicians and hospitals, through regular visits by our sales force. Our sales force is divided into three groups, one of which focuses on promoting OTC products to pharmacies and

medical professionals, a second which focuses on promoting prescription products to general practitioners and specialist doctors and a third which focuses on promoting our endocrinology products. As of 31 December 2006, 117 members of our sales force were assigned to OTC product promotion and 147 were assigned to prescription product promotion. In 2006, we formed a specialised sales force for endocrinology. We intend to specialise further by therapeutic area in 2007, which we believe will allow our sales force to gain a more specialised understanding of our products. We also maintain a specialised sales force for our biogeneric products of insulin and human growth hormone, which we have promoted since May 2006 and January 2007, respectively.

Our sales force maintains relationships with local medical opinion leaders in Moscow and other regions together with medical practitioners who we depend on to prescribe our products, medical institutes (such as the Russian Federal Center of Preventative Medicine, the Federal Russian Center of Cardiology, the Russian Federal Institute of Gastroenterology, the Russian Federal Institute of Dermatology and the Russian Federal Institute of Endocrinology), local hospitals and national and regional distributors. Each member of our sales force makes regular visits to key market participants, particularly pharmacists, general practitioners and specialist doctors.

As part of our focus on brand building, we promote our branded pharmaceutical products with registered trademarks through television, radio and print media, as well as through the efforts of our sales force. Our marketing efforts for our OTC products target end-users and pharmacists. In January 2007, we launched our first advertising campaign for Arbidol® and Flucostat®, two products we acquired from Masterlek. Our prescription pharmaceutical products are marketed in medical journals, at trade conferences and through the efforts of our sales force, and target pharmacists and medical doctors.

We select our branded products for promotion based on their relevant market potential, expected and current sales dynamics, profitability and, with regard to prescription products, their position in treatment guidelines. We base our marketing strategy for any given product on our analysis of current brand awareness and current consumption rates, each of which is derived from market data sampling, as well as the current conversion index, which refers to our ability to convert brand awareness into consumption. For example, if a product exhibits low brand awareness and low consumption rates but a high conversion index, we might focus our marketing efforts on leveraging the high conversion index by increasing brand awareness. Conversely, if a product exhibits high brand awareness and a low consumption rate (for example because of a lack of awareness of the ability to treat a complaint), and therefore a low conversion index, we would focus on improving the conversion index through targeted marketing.

Exports accounted for 2% of our pharmaceutical product sales in 2006. We export our pharmaceutical products to countries in the Commonwealth of Independent States, as well as the Baltic countries. Our exported goods are sold directly to distributors in the importing country without the involvement of our sales force.

Manufacturing and Facilities

Sourcing raw materials

The majority of the raw materials used to manufacture our pharmaceutical products are supplied from a variety of external sources, primarily brokers. As of 31 December 2006, we had more than 500 suppliers of raw materials, and we obtained approximately 53% of our raw material requirements from our top-10 suppliers in 2006. We import the majority of our raw materials for our pharmaceutical products since certain types of raw materials are not produced in Russia, fail to meet quality standards or are produced in insufficient quantities. We import our raw materials from a number of countries, including China, Hungary and India. Components for our medical equipment and disposables business are supplied by 20 primary suppliers.

Our central procurement department analyses a consolidated database showing raw material levels at each of our manufacturing facilities and supervises the purchase of raw materials for these facilities. Our central procurement department determines the list of key suppliers and negotiates discounts, terms of payment and delivery to our manufacturing facilities. We adopt a plan for raw material purchases annually and make adjustments on a monthly basis to reflect changes in sales and production plans. Purchase agreements are entered into between our suppliers and each individual manufacturing facility, generally on a monthly basis. However, for our strategic raw materials (i.e., those which are not readily available in the Russian market or are used to produce our top-selling products) we make purchases on a quarterly basis to create safety stocks. We maintain safety stock amounts of raw materials in our facilities to cover approximately 30 days of production requirements for non-strategic products and about 60 days for strategic products. Our stock of strategic raw materials includes metamizol sodium, codeine phosphate, paracetamol and phenobarbital, which are used to produce Pentalgin®, codeine base and terpin hydrate, which are used to produce Terpincod®, and codeine base, thermopsidis herbal

and natrium hydrocarbonicum, which are used in the manufacture of Codelac®. Raw materials for generic products are generally available from multiple sources, but raw materials for original products (i.e., new chemical formulations) are often only available from a single supplier or a limited number of suppliers. We typically seek to obtain the approval of at least two suppliers for each of our API requirements to ensure that any delays in obtaining a further supplier approval will not have a material adverse effect on our business, although this is not always possible. See "Risk Factors — Risks Related to our Business and Industry — If we are unable to obtain active pharmaceutical ingredients ("API") or other raw materials, or if the costs of API or other raw materials increase substantially, our operations could be seriously impaired."

As part of our cost control strategy, our central procurement department reviews the prices and conditions from alternative, registered suppliers of raw materials on a monthly basis. If we identify a lower price from an alternative supplier, we either arrange to receive the same price and terms from our current supplier or sign a new contract with the alternative supplier provided quality requirements are satisfied. Following our acquisition of Masterlek, we secured a decrease in the price of API for Arbidol® by switching suppliers.

Facilities

We operate five manufacturing facilities in Russia and maintain, with a production capacity of 1,070.4 million packs as at 31 December 2006, one of the largest production capacities among domestic pharmaceutical companies in Russia. Our manufacturing facilities at Kursk, Tomsk, Ufa and Nizhny Novgorod produce finished pharmaceutical products and allow us to produce products in various formulations, including tablets, soluble tablets, pills, powder, gelatin capsules, sachets, ampules, ointments, sprays, syrups, injections and solutions. Our manufacturing facility at Tyumen produces medical equipment and disposables. We equip our manufacturing facilities with equipment made by foreign suppliers, such as Bosch, Ima, Keleant and Markezini, and typically collaborate with foreign partners, such as Bosch, Favia and Block, when launching new production workshops.

All of our manufacturing facilities comply with Russian GMP standards. Through capital investments of approximately RUR1.6 billion since the start of 2004 we have achieved EU GMP certification for solid (tablets) and liquid (syrups) dosage forms at our manufacturing facility in Kursk. We are also pursuing EU GMP certification for insulin production at our manufacturing facility in Ufa.

In January 2007, we established a production planning department that issues monthly production plans for all of our manufacturing facilities and performs internal audits of API usage. We review our cost efficiency at each manufacturing facility on a monthly basis to ensure a controlled cost environment and aim to leverage our most cost-efficient facilities by concentrating production at those sites where possible. For example, we ceased production at our St. Petersburg manufacturing facility in July 2006 and moved its production to our more cost-effective manufacturing facilities at Kursk and Ufa. Our subsidiary in St. Petersburg continues to distribute a single product for us, Oligovit®, which accounted for 1% of our pharmaceutical sales in 2006.

The following table sets forth information relating to our principal manufacturing facilities for finished pharmaceutical products.

Location	Approximate size (sq m)	Land owned/leased	Formulations	Shifts	As at and for the year ended 31 December 2006	
					Capacity (packs in thousands) [1]	Utilisation (%)[2]
Leksredstva (Kursk)	14,900	Lease	syrups and liquid forms	3	52,644	74
			tablets	3	564,406	52
			sprays	2	10,368	0
			powders	2	1,260	0
			capsules	3	16,200	0
Tomskhimpharm (Tomsk)	29,000	Own	syrups and liquid forms	1	1,200	14
			tablets	3	206,856	71
Ufavita (Ufa)	5,850	Lease	ampules	2	8,595	89
			frozen-dried preparation	3	2,640	0
			syrups and liquid forms	1	6,360	41
			tablets	2	109,973	83
			vitamin bars	2	22,680	60
			insulin	2	14,400	1
			saline infusin	2	4,500	0
Phytopharm (N. Novgorod)	1,200	Lease	ointments	2	1,200	100
			powders	1	10,280	0
			syrups and liquid forms	2	24,000	98
			tablets	2	12,850	55
Total					**1,070,412**	**59**

(1) Based on one, two or three daily shifts (8 hours each) and 7 working days per week.
(2) Total production divided by capacity.

Kursk. Production at our manufacturing facility in Kursk accounted for 60% of our pharmaceutical sales in 2006 measured in terms of packs. Our manufacturing facility at Kursk specialises in the development of tablets, syrups and liquid forms and develops a number of pharmaceutical products, including Pentalgin-ICN®, which is produced in pill form. Through capital investments of approximately RUR600 million since the start of 2004 we achieved EU GMP certification for solid (tablets) and liquid (syrups) dosage forms at our manufacturing facility in Kursk. Flucostat® is currently manufactured by the Russian Cardiological Scientific and Manufacture Centre and by JSC Dalhimpharm. We expect to commence production of Flucostat® at our facility in Kursk by mid-2007.

Tomsk. Production at our manufacturing facility in Tomsk accounted for 19% of our pharmaceutical sales in 2006 measured in terms of packs. Our facility in Tomsk specialises in the development of tablets, syrups and liquid forms, and holds a licence, issued by the Ministry of Health and Social Development, to carry out operations involving narcotic drugs. We manufacture a number of pharmaceutical products at our facility in Tomsk, including Pentalgin-N®, Codelac® and Terpincod®. Arbidol® is currently manufactured by JSC Shelkovo and JSC Dalhimpharm. We expect to commence production of Arbidol® at our facility in Tomsk by the end of 2007.

Ufa. We operate two manufacturing facilities in Ufa. These facilities collectively accounted for 16% of our pharmaceutical sales in 2006 measured in terms of packs. Our manufacturing facilities at Ufa specialise in the production of tablets (particularly vitamins), ampules, syrups and liquid forms and vitamin bars, and are also capable of producing rDNA (gene-engineering) pharmaceutical products of insulin and human growth hormone. We manufacture a number of pharmaceutical products at our facility in Ufa, including Complivit®. We have invested approximately RUR730 million since the start of 2004 in our facility in Ufa, and are pursuing EU GMP certification for insulin production.

Nizhny Novgorod. Production at our manufacturing facility in Nizhny Novgorod accounted for 5% of our pharmaceutical sales in 2006 measured in terms of packs. Our manufacturing facility at Nizhny Novgorod specialises in the production of ointments, powders, syrups and liquid forms and tablets. We believe we are the first Russian manufacturer to produce soluble tablets.

The following table sets forth information relating to our manufacturing facility for medical equipment and disposables in Tyumen, which encompasses approximately 239,000 square metres.

Production Form	Capacity [1] As at 31 December 2006
Syringes	295 million
Needles for syringes	624 million
Sterilising machines (up to 100 litres)	24,250
Sterilising machines (greater than 100 litres)	319
Distilling machines	7,320

(1) Based on one, two or three daily shifts (8 hours each) and 7 working days per week.

Distribution

We distribute our pharmaceutical products primarily through 15 wholesale distributors that collectively accounted for 81% of our pharmaceutical sales in 2006. Our headquarters in Moscow coordinates our activities to ensure efficient product distribution. Key account managers are responsible for the performance of particular groups of distributors and report to a commercial manager.

In 2005, we reorganised our internal supply chain by centralising our internal warehousing in the Moscow area. Our pharmaceutical products are transported from our manufacturing facilities to our centralised warehouse, which encompasses approximately 6,000 square metres. Our manufacturing facilities also include a total of more than 10,000 square metres of warehouse space, which is used to store raw materials and for the interim storage of ready products before delivery to our centralised warehouse in Moscow. We expect to continue to realise cost savings and greater efficiency from the consolidation of warehouse spacing, since 95% of our distributors are located in the Moscow area. This arrangement typically allows us to deliver our products to our distributors within four days from the time an order is placed. National distributors deliver our products to their final point of sale either directly or through regional or other sub-distributors, or through distribution centres.

The following table provides the share of our commercial pharmaceutical product sales (excluding our exports) in 2006 attributable to our five largest distributors.

Distributor	% of sales
Genesis	17
Protek	13
SIA International	11
Katren	5
Infarma Pro	5
Total	**51**

We offer volume-based discounts to our national distributors. Our standard commercial contract with distributors is for a term of one year with an option for renewal and includes payment terms ranging from 60 to 90 days. Delivery terms to distributors under the FRP are regulated by the Government and involve deferred payment of up to 180 days from the shipment date. The deferred payment we expect to receive for sales through the FRP often extend to more than 200 days and some distributors under the FRP have experienced between 12 and 24 month payment delays due to the 2006 FRP budget deficit. See "Risk Factors — Risks Related to our Business and Industry — We are exposed to credit risk on accounts receivable from our distributors." Following our acquisition of Masterlek, we leveraged our position as a larger supplier to reduce the discount given to distributors of Arbidol®.

The following table sets forth the share of our sales in 2006 by distributor type and standard contract payment terms.

Distributor Type	% of sales	Payment terms	Federal programme
Distributors:	99	30-90 days	180 days
National	59	60-90 days	180 days
Regional	37	30-60 days	180 days
Export	2	30-60 days	—
State organisations	1	30-60 days	180 days

The primary goal of our supply chain management programme is ensuring the uninterrupted, timely and cost-effective supply of products. To achieve this objective, we have improved our supply chain management by using a computer-based budgeting process with inputs from our distributors and sales force to attempt to ensure the timely availability of our pharmaceutical products. We have agreements with more than 20 distributors to provide us with monthly inventory and sales reports that allow us to monitor their inventory levels. This data, along with information provided by our sales force, as well as from Pharmexpert, is collected and analysed by managers at our headquarters who then adjust our production levels accordingly. We believe we are one of the few domestic pharmaceutical companies in Russia that is able to collect and utilise information in this fashion. We also believe that our product portfolio of market-leading brands makes us a preferred supplier for distributors that prefer to minimise their number of suppliers.

Our medical equipment and disposables products are distributed through our TZMOI affiliates located in Kostroma, Kazan, St. Petersburg and Kiev (Ukraine). We generally sell our medical equipment, syringes and disposable systems through distributors, and sell our spare parts directly to customers. The term of these distribution contracts is typically one year and the standard credit policy is between 30 and 45 days.

Research and Development

We are highly focused on our development activities in order to maintain our new product pipeline, including line extensions to our established brands. Our development activities include developing product formulations, process validation and gathering other data needed to prepare a drug for regulatory filing. See "Regulatory Matters." Since the beginning of 2004, we have introduced 16 new products (10 OTC products and six prescription products), which accounted for 7% of our pharmaceutical product sales in 2006. As of 31 March 2007, we had 29 product registration applications pending (18 prescription products and 11 OTC products) for 48 different formulations, the majority of which we anticipate will be reviewed for final regulatory approval during the remainder of 2007. In addition, we have 18 pharmaceutical products in development.

The following table sets forth the number of new products we have under development as of 31 March 2007 by product type.

ATC 2	Products
OTC	
Vitamins	8
Analgesics	1
Cough and cold preparations	1
Laxatives	1
Total	**11**
Prescription	
Immunostimulating agents	2
Psychoanaleptics (excluding anti-obesity preparations)	1
Pituitary and hypothalamic hormones	1
Urologicals	1
Anti-asthma and COPD products	1
Anti-thrombotic agents	1
Total	**7**

In selecting new pharmaceutical products for manufacture, we focus on products in therapeutic areas that we expect to be less susceptible to price competition for a significant amount of time after launch and that complement or broaden our existing product lines. We seek to develop OTC products, including new formulations or API of products in our Core Therapeutic Segments that provide customers alternatives to more costly prescription drugs. We seek to develop prescription products that compete with alternative treatment options in accordance with current treatment guidelines. We also evaluate opportunities to introduce prescription drugs in new therapeutic segments based on our analysis of market dynamics, competition, cost of market penetration, pharmacological and clinical treatment options and related national and local guidelines.

The development and launch of new products involves interaction between our sales and marketing, finance, production testing, research and development and intellectual property departments, as well as outside assistance from scientific institutes. A typical development cycle begins with a marketing request from our sales and marketing department. Once the patent status of a potential product candidate is analysed by our intellectual

property department, we check for supplies of the active ingredient and our chemists commence testing. The staff at our manufacturing facilities includes a total of approximately 100 chemists, analysts and technicians. Our analysts collect data from the testing and prepare a master file that is sent to our registration office in Moscow, which makes the filing with the appropriate registration body. It takes at least two years from the time a new pharmaceutical product is included in the development plan, until the time of its launch, including one year for registration.

Intellectual Property

We have registered 173 trademarks and 30 patents for inventions in Russia and have 26 registered trademarks that are effective outside of Russia, primarily in CIS countries. As of 31 March 2007, we also have 10 pending applications to register trademarks. Of the 29 new products in 48 different formulations that we had filed for marketing authorisation as of 31 March 2007, we expect to launch 23 as branded products with registered trademarks. Sales of branded products with registered trademarks accounted for 77% of our pharmaceutical product sales in 2006 and, on a pro forma basis, 79% of our pharmaceutical product sales in 2006.

Our principal trademarks are Pharmstandard and the trademarks for our 24 actively promoted brands. Our trademarked products Pentalgin®, Arbidol® and Terpincod® each ranked by Pharmexpert in the top-10 trademarks in the Russian market by sales value in 2006, and Flucostat® and Complivit® ranked among the top-20. Most of our patents cover product formulations. We believe that our trademarks and patents are important to our success and our competitive position. See "Risk Factors — Risks Related to our Business and Industry — We depend on our trademarks and patents," and "Risk Factors — Risks Related to our Business and Industry — The Russian pharmaceutical market is characterised by high levels of counterfeit reproduction of products."

Information Technology

We implemented our self-developed Enterprise Resource Planning ("ERP") system in 2003, which we use in combination with the "ERA Financials" accounting application to assist us with managing all key business processes. These systems are installed at each of our manufacturing facilities to allow us to consolidate all of our finance and business information from our Moscow headquarters. We periodically update our ERP system and develop new extended modules. Our ERP system supports the following key business functions: monthly rolling sales forecasts split by packs, distributor and supply chain; inventories and safety stocks level; production planning; procurement planning based on models; budgeting planning and controls; cash-flow planning and controls; debt control; daily stock operations; and daily accounting and payment operations. This single platform furnishes our managers with daily and monthly reports.

We have recently implemented our ETMS software system to integrate our sales and marketing function further with our overall business processes. We have provided members of our sales force with a pocket PC communication device and, although ETMS was only recently launched, we expect that this device will allow them to manage their territory and customers more effectively. For example, ETMS allows them to send real-time reports related to their marketing efforts and product orders to our strategists at headquarters who use this data to rapidly adjust our production plans to more closely reflect market demand. We believe we are one of the few Russian companies in the pharmaceutical market able to collect and utilise information in this fashion. However, our further roll-out and use of ETMS involves risks. See "Risk Factors — Risks Related to our Business and Industry — We may not realise the anticipated benefits from the implementation of the Electronic Territory Management System ("ETMS") software system."

We maintain regular back-ups at our Moscow headquarters for all of our information technology data.

Competition

The market for pharmaceutical products, and in particular generic pharmaceutical products, is highly competitive. The market in Russia is highly fragmented and in 2006 included 470 international pharmaceutical companies and 600 domestic pharmaceutical companies. According to Pharmexpert, the ten largest pharmaceutical companies in Russia by sales value in 2006 held approximately 31% of the market by sales value, with the leading company, Sanofi-Aventis, holding a 5.2% market share in 2006. We ranked fourth with a 3.1% market share in 2006, according to Pharmexpert and ranked second in the commercial segment with a 4.2% market share.

We face substantial competition from a number of companies, including major originator pharmaceutical companies and generic pharmaceutical manufacturers in both the OTC and prescription pharmaceutical product markets. See "Risk Factors — Risks Related to our Business and Industry — We face intense competition in the Russian pharmaceutical market." We compete on the basis of price, the timing of product launches, sales,

marketing and distribution capabilities, financial strength, product availability, the availability of new competing products, product range and the variety of formulations. Our primary competitors in the OTC market are Novartis, GSK, BMS, Boehringer Ingelheim and Sopharma, and our primary competitors in the prescription market are Sanofi-Aventis, Berlin-CH/Menarini, Pfizer, Servier, Gedeon Richter and Krka. Our primary competitors in the sterilising machines market are Melag, JSC Trans-Signal and DGM, and our primary competitors in the distilling machines market are JSC Electromedoborudovanie and JSC Medoborudovanie. Our primary competitor in the syringes market is Becton, Dickinson & Company.

The following table lists our primary competitors in our Core Therapeutic Segments.

Therapeutic Segment	Primary Competitors
Analgesics	Sopharma, BMS, Reckitt Benckiser, Sanofi-Aventis, Ranbaxy Laboratories
Cough and Cold	Boehringer Ingelheim, Berlin-Ch/Menarini, Hexal, Ratiopharm International, Krewel Meuselbach GmbH
Vitamins	Unipharm, Wyeth, Bayer, Ferrosan, Krka
Antiviral for systemic use	GSK, Roche, Flora I fauna, Farmsintez Zao
Antifungal	Pfizer, Gedeon Richter, Novartis, Veropharm, Dr. Reddy's

Employees

As of 31 December 2006, we had 5,266 full-time employees, of whom 57% were represented by trade unions. We have not experienced any business interruption as a result of labour disputes and we consider our relationship with our employees to be good.

The following table shows our headcount as at the years ended 31 December 2004, 2005 and 2006.

	As at 31 December		
Staff	2004	2005	2006
Production/Logistics	4,548	4,167	3,929
Research and development	264	219	102
Sales and marketing	194	260	347
Management and administrative	936	947	888
Total	**5,942**	**5,593**	**5,266**

Although we ceased production at our St. Petersburg facility in July 2006, we have retained management and administrative personnel at this facility to facilitate the closure of our operations in St. Petersburg. The following table shows our headcount as at 31 December 2006 at each of our manufacturing facilities and at our headquarters in Moscow.

Staff	Kursk	Ufa	Tomsk	N. Novgorod	Tyumen	St. Petersburg	HQ
Production/Logistics	1,037	970	383	260	1,279	—	—
Research and development	36	25	11	—	28	—	—
Sales and marketing	—	—	—	—	10	—	337
Management and administrative	126	184	112	49	141	31	245
Total	**1,199**	**1,179**	**506**	**311**	**1,458**	**31**	**582**

Insurance

We maintain loss and damage insurance for all of our equipment, property and inventory. We do not currently maintain insurance for product recalls, nor do we maintain insurance coverage for business interruption or product liability. See "Risk Factors — Risks Related to our Business and Industry — We do not carry the types of insurance coverage customary in other more developed countries for a business of our size and nature." We have not made any claims under any of our policies in the last three years. We believe the level of insurance we maintain is in line with industry practice in Russia.

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), during the 12 months prior to the date of this Prospectus which may have, or have had in the recent past, significant effects on the Company and/or the Group's financial position or profitability.

PRINCIPAL SHAREHOLDERS AND SELLING SHAREHOLDER

The following table sets forth information regarding the ownership of our shares as of the date of this Prospectus and as adjusted to reflect the Offering and the exercise of the Over-Allotment Option in full:

Owner	Shares owned before the Offering		Shares offered	Shares owned after the Offering		Shares offered pursuant to the Over-Allotment Option	Shares owned after the Offering assuming exercise of Over-Allotment Option in full	
	Number	%		Number	%		Number	%
Augment Investments Limited	37,747,102	99.9	15,117,041	22,630,061	59.9	1,232,367	21,397,694	56.6
Other	45,501	0.1	0	45,501	0.1	0	45,501	0.1
Public float	—	—	—	15,117,041	40.0	—	16,349,408	43.3
Total	**37,792,603**	**100**	**15,117,041**	**37,792,603**	**100**	**1,232,367**	**37,792,603**	**100**

Two members of our board of directors, Mr. Kharitonin and Mr. Kulkov, effectively control Augment Investments Limited and indirectly own 70% of our shares as of the date of this Prospectus. See the beneficial ownership table below. The business address of Augment Investments Limited is Arch. Makariou III, 284 Fortuna Court, Block B, 2nd Floor P.C. 3105, Limassol, Cyprus. Following the Offering, none of our shareholders will have voting rights different from any other holders of our shares.

The following table sets forth beneficial ownership information as of the date of this Prospectus regarding our major indirect shareholders and members of our board of directors as identified in "Management:"

Beneficial owner	Shares beneficially owned before the Offering		Shares beneficially owned after the Offering		Shares beneficially owned after the Offering assuming exercise of Over-Allotment Option	
	Number	%	Number	%	Number	%
V. Kharitonin[(1)]	18,496,080	49	11,088,730	29	10,484,870	28
E. Kulkov[(2)]	7,926,891	21	4,752,313	13	4,493,516	12
R. Abramovich[(3)]	6,417,007	17	3,847,110	10	3,637,608	10
E. Shvidler[(4)]	2,264,826	6	1,357,804	4	1,283,862	3
Other	2,687,799	7	1,629,605	4	1,543,339	4
Total	**37,792,603**	**100**	**22,675,562**	**60**	**21,443,195**	**57**

(1) Mr. Kharitonin is the chairman and a member of our board of directors. Kaspira Holdings Limited holds shares in Augment Investments Limited on trust for Mr. Kharitonin.

(2) Mr. Kulkov is a member of our board of directors. Kaspira Holdings Limited holds shares in Augment Investments Limited on trust for Mr. Kulkov.

(3) Mr. Abramovich owns shares directly in Augment Investments Limited.

(4) Mr. Shvidler owns shares directly in Augment Investments Limited.

MANAGEMENT

Board of Directors

Our board of directors comprises:

Name	Age	Position
Viktor Kharitonin	34	Chairman, Member of board of directors
Igor Krylov	42	Chief Executive Officer and member of board of directors
Egor Kulkov	35	Member of board of directors
Pavel Mileyko	34	Member of board of directors
Olga Pokrovskaya	37	Member of board of directors
Natalia Pavlova	33	Member of board of directors
Natalia Mamchenko	32	Member of board of directors
Alexander Melnikov	38	Member of board of directors
Ivan Tyryshkin	33	Member of board of directors

The business address of each of the members of our board of directors is Khudaiberdina Street 28, Ufa, Bashkortostan, Russia. The term of office for each member of our board of directors is annually renewable.

Viktor Kharitonin has served as chairman of our board of directors since May 2006. He served as general director of LLC Profit House from 1997 through 2003, and currently serves as an executive director of LLC Pharmstandard and as a director of Croydon Partners Limited and PHS Russian Holdings (Lux) S.ar.l. Mr. Kharitonin graduated from the Novosibirsk State University.

Igor Krylov has served as a member of our board of directors since May 2006. Mr. Krylov has more than 12 years experience working in the pharmaceutical industry and previously held positions with Eli Lilly and Aventis. He graduated with honours from the Kyrov Military Medical Academy.

Egor Kulkov has served as a member of our board of directors since May 2006. Mr. Kulkov has held a number of senior financial positions in various companies, and currently serves as head of the operational department at Commercial Bank Aresbank and as a general director at each of LLC Gloverton and Mellot Intertrade Corporation. He graduated from the Novosibirsk State University.

Pavel Mileyko has served as a member of our board of directors since May 2006. Prior to June 2005, he served as general director of LLC Maknetiktrans. Since January 2007, he served as an assistant to the executive director of LLC Pharmstandard. Mr. Mileyko graduated from the Novosibirsk State University.

Olga Pokrovskaya has served as a member of our board of directors since October 2006. She also serves as a member of the board of directors of Evraz Group S.A. She has more than 15 years of financial experience and previously served as Head of Corporate Finance of OJSC Sibneft from 1998 through 2006. She currently serves as Head of Corporate Finance of LLC Millhouse. Ms. Pokrovskaya graduated from the State Financial Academy and holds a certified public accountant's certificate.

Natalia Pavlova has served as a member of our board of directors since October 2006. She also serves as a member of the board of directors of OJSC Alpari and as Chairman of the board of directors of OJSC Registrator R.O.S.T. where, prior to joining LLC Millhouse in 2003, she served as Head of Issuer Services. She currently serves as Head of Corporate Department at LLC Millhouse. Ms. Pavlova graduated from the Moscow State University.

Natalia Mamchenko has served as a member of our board of directors since October 2006. She has previously held various managerial positions in the financial sector at OJSC Sibneft, with the government of Chukotka and at LLC Millhouse. Ms. Mamchenko serves as Vice Head of the Finance and Budget Department at LLC Millhouse. She graduated from the State Financial Academy.

Alexander Melnikov has served as a member of our board of directors since October 2006. He has previously held various managerial positions with OJSC Sibneft from 1999 through 2002. Since 2002, he has served as the Head of Assets and Investment Department of LLC Millhouse. Mr. Melnikov graduated from the Moscow State Technical University.

Ivan Tyryshkin has served as an independent member of our board of directors since October 2006. He also serves as a member of the board of directors of OJSC RTS. He previously served as President of NP RTS from 2001 to 2003 and as President of CJSC Russkoe Zerno from 2003 to 2004. Since 2006, he has served as both a managing director and a general director of LLC ATON. Mr. Tyryshkin graduated from the Russia Economic Academy.

Senior Management

The members of our senior management are:

Name	Age	Position
Igor Krylov	42	Chief Executive Officer
Elena Arkhangelskaya	36	Chief Financial Officer
Olga Mednikova	38	Chief Sales & Marketing Officer
Sergey Dushelikhinsky	35	Chief Commercial Officer
Sergey Pyltsyn	50	Chief Human Resources Officer
Igor Salistra	51	Chief Compliance & Technical Development
Viktor Fedlyuk	33	Head of Legal Department
Maxim Stetsuk	29	Head of Investor Relations
Olga Leschanskaya	33	Head of Public Relations

Igor Krylov, Chief Executive Officer. See above.

Elena Arkhangelskaya has served as our Chief Financial Officer since 2003. She has 10 years experience working in the pharmaceutical industry and previously held senior positions at Eli Lilly. Ms. Arkhangelskaya graduated from the State Financial Academy and has obtained a master of business administration degree from the American Institute of Business and Economics.

Olga Mednikova. Ms. Mednikova has served as our Chief Sales and Marketing Officer since 2004. She has 12 years experience working in the healthcare industry and previously held senior management positions in marketing and promotion at Glaxo Wellcome and IVAX. Ms. Mednikova graduated from the State Medical University in Samara and holds a MD PhD.

Sergey Dushelikhinsky. Mr. Dushelikhinsky has served as our Chief Commercial Officer since 2005. He has 10 years experience in sales and 9 years experience serving in supervising positions, and previously worked for CJSC Veropharm and FTK Vremya. Mr. Dushelikhinsky graduated from the Moscow Technical University.

Sergey Pyltsyn. Mr. Pyltsyn has served as our Chief Human Resources Officer since 2003. He has nine years experience in the pharmaceutical industry, and, from 1997 to 2000, worked for Eli Lilly where he held senior management positions. Mr. Pyltsyn graduated from the Rostov State Medical University.

Igor Salistra. Mr. Salistra has served as our Chief Compliance and Technical Development Officer since 2005. He has more than 13 years experience working in the healthcare industry and, from 1993 to 2004, he served as Senior Manager Metrology/Calibration & Senior Industrial Controls Engineer at Alza, a Johnson & Johnson company. Mr. Salistra graduated from the Kiev Polytechnic University.

Viktor Fedlyuk. Mr. Fedluk has served as our Head of Legal Department since 2003. He has nine years of experience in the legal profession, and worked for JSC Sibneft from 1996 to 2003. Mr. Fedluk graduated from the Ukraine National Legislation Academy.

Maxim Stetsuk. Mr. Stetsuk has served as our Head of Investor Relations since 2005. He has eight years of experience in the pharmaceutical industry, and previously worked for Abbott Labs and Eli Lilly. Mr. Stetsuk graduated from the State Academy of Management.

Olga Leschanskaya. Ms. Leschanskaya has served as our Head of Public Relations since September 2006. She has 10 years of experience, and previously worked for Unilever. Ms. Leschanskaya graduated from the Russian State Medical University and also earned a finance degree from the Plekhanov Russian Academy of Economics.

Save as set out above with respect to the directorships/partnerships referred to above held by members of our board of directors and members of management, none of the members of our board of directors or management has any business interests, nor performs any activities, outside our Group which are significant with respect to our Group.

None of the members of our board of directors or management has any family relationship for the purposes of the Prospectus Rules.

There are:

- no potential conflicts of interest between any duties to us, of the members of our board of directors and management and their private interests and/or other duties (other than with respect to the directorships/ partnerships referred to above held by members of the board of directors and members of management and other than as described in "Related Party Transactions"); and
- no arrangements or understandings with major shareholders, members, customers, suppliers or others, pursuant to which any of the members of our board of directors and management were selected.

Corporate Governance

We comply in all material respects with Russian corporate governance practices which are applicable to us. On 2 November 2006, our board of directors adopted a number of regulations relating to our corporate governance, including a corporate code and internal regulations determining the formation and operation of certain committees of our board of directors.

Audit Committee

Our audit committee consists of Mr. Tyryshkin, Mr. Mileyko and Ms. Pokrovskaya. The committee is chaired by an independent director, Mr. Tyryshkin. Our audit committee shall consist of not less than two members with such members' election requiring the affirmative vote of three quarters of our board of directors' members. The audit committee must be chaired by an independent director and shall convene as often as necessary, but in no instance shall such committee meet less than once every three months. The audit committee is authorised to carry out the following functions relating to the control of our financial and business operations:

- to evaluate our potential auditors and to prepare recommendations for our board of directors in connection with the election of the auditor;
- to draft the agreement to be entered into with auditors and to prepare recommendations for our board of directors on the fees of auditors;
- to review the scope and results of auditor procedures and their financial efficiency and assess the opinion of the auditors; and
- to review our financial statements and analyse all changes in accounting policies and practice or any material corrections made upon an audit and make appropriate reports and recommendations to our board of directors.

Remuneration and Nomination Committee

Our remuneration and nomination committee consists of Mr. Tyryshkin, Ms. Mamchenko and Mr. Kulkov. The committee is chaired by Mr. Tyryshkin. Our remuneration and nomination committee shall consist of not less than two members with such members' election requiring the affirmative vote of three quarters of our board of directors' members. The committee assists the board of directors with the development of our remuneration and benefits policies, elaborates the remuneration system for the members of the board of directors as well as our General Director, considers and interviews potential new members of the board of directors and a nominee for the General Director's position and makes recommendations to our board of directors with respect to these matters.

Corporate Code

We have also approved an internal corporate code (the "Corporate Code") which establishes a set of provisions relating to our corporate governance. Amongst other things, the corporate code sets out internal control procedures for our financial and business operations. The Corporate Code specifies the procedures for

(i) the internal control of our financial and business operations and (ii) the functions of, and procedures for, our internal audit service with respect to compliance with internal controls and (iii) the procedures for our internal audit service with respect to compliance with internal controls.

In addition, the Corporate Code regulates the use of insider information by our management and employees. Thus, the Corporate Code provides that members of our board of directors, General Director and our internal and external auditors shall use insider information (as such term is defined in the Corporate Code) only for our benefit, pursuant to applicable law and in accordance with the Corporate Code. The Corporate Code also provides for certain procedures that we can implement in order to ensure compliance by all relevant individuals with such regulation.

The Corporate Code also establishes a requirement for the members of our board of directors and the General Director to disclose any trading in our shares.

Remuneration of Members of Board of Directors and Management

The aggregate amount of remuneration paid by us to members of our board of directors and management as a group for services in all capacities provided to us during the year ended 31 December 2006 was RUR33.5 million in salary and in bonuses. None of the members of our board of directors and management are entitled to any benefit upon termination of their employment or duties.

Litigation Statement about Directors and Management

At the date of this Prospectus, for at least the previous five years, none of our directors or managers:

- has had any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior executive officer or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

REGULATORY MATTERS

The following is a summary of key Russian legislation that we believe is important to our business. This summary is general in nature and is based on the laws of the Russian Federation in effect as of the date of this Prospectus. This summary is not a complete analysis or listing of all Russian laws and regulations related to our business. In addition to the rules and regulations listed below, we are subject to various rules and regulations of the regional and local authorities and foreign jurisdictions in which we manufacture or sell our products.

The pharmaceutical sector in Russia is heavily regulated. There is a complex network of specific laws and regulations in place, as well as more general federal, regional and local legislation. The statutory framework for the regulation of pharmaceutical products in Russia is primarily based on the following legislation:

- Federal Law No. 86-FZ on Pharmaceutical Products, dated 22 June 1998;
- Regulation on Licensing of Production of Pharmaceutical Products approved by Russian Government Resolution No. 415, dated 6 July 2006;
- Regulation on Licensing of Pharmaceutical Activity approved by Russian Government Resolution No. 416, dated 6 July 2006;
- Rules on Import and Export of Pharmaceutical Products Registered in the Russian Federation approved by Russian Government Decision No. 438, dated 16 July 2005;
- Rules on State Registration of Pharmaceutical Products approved by the Ministry of Health and Social Development (formerly known as the Ministry of Health) No. 01/29-14, dated 1 December 1998;
- Administrative Regulations of the Federal Service for Supervision of Health and Social Development on Performance of State Functions on State Registration of Pharmaceutical Products approved by Order No. 736 of the Ministry of Health and Social Development dated 30 October 2006;
- Administrative Regulations of the Federal Service for Supervision of Health and Social Development on Performance of State Functions on Registration of Products with Medical Designations approved by Order of the Ministry of Health and Social Development No. 735, dated 30 October 2006;
- Industry Standard OST 42-510-98 Rules for Organisation of Production and Quality Control of Medicinal Products (GMP) approved by the Ministry of Health and Social Development on 25 February 1998 and given effect by Order of the Ministry of Health and Ministry of Economy of the Russian Federation No. 432/512, dated 3 December 1999;
- Industry Standards OST 91500.05.001.00 Standards of Quality of Pharmaceutical Products, Principal Provisions approved by Order of the Ministry of Health and Social Development No. 388, dated 1 November 2001;
- Rules on Certification in the System of Certification of Pharmaceutical Products of the System of Certification GOST R approved by Resolution of the State Committee for Standardisation No. 36, dated 24 May 2002; and
- Methodological Recommendations on Acceptance and Registration of Declaration of Pharmaceutical Products Compliance approved by Resolution of the Ministry of Industry and Energy No. 425, dated 26 December 2006.

There are additional laws and lower level legislative acts that set forth requirements for registration, licensing, pricing, production, pre-clinical and clinical studies of pharmaceutical products, quality control, efficacy and safety, and distribution, as well as various other activities.

The pharmaceutical sector is administrated and regulated by the Ministry of Health and Social Development, the Federal Service for Supervision of Health and Social Development (which reports to the Ministry of Health and Social Development), the Ministry of Industry and Energy of the Russian Federation and a number of other federal State agencies and commissions.

State Registration of Pharmaceutical Products

Pharmaceutical products, including substances and certain plasters, may be manufactured, sold or imported to Russia only after being registered by the Federal Service for Supervision of Health and Social Development (the "State registration"). Manufacturers are required to register all pharmaceutical products, including new forms of earlier registered pharmaceutical products, pharmaceutical products with new dosage or products with a

different composition of auxiliary substances, as well as generic versions of original pharmaceutical products (which are also referred to as "reproduced products" in Russian legislation).

The registration requirements for pharmaceutical products are complex and include, inter alia, pre-clinical and clinical trials.

Pre-clinical trials are mandatory for all pharmaceutical products and are conducted either by organisations which develop pharmaceutical products or by organisations specialising in pre-clinical trials. There is no statutory requirement for organisations conducting pre-clinical trials to be authorised or licensed by the Federal Service for Supervision of Health and Social Development. However, the Federal Service maintains a list of such organisations. Our pre-clinical trials are traditionally conducted by third party organisations included on this list. Pre-clinical trials are designed to prove the efficacy and safety of a pharmaceutical product. The results of pre-clinical trials are submitted to the Ministry of Health and Social Development which decides whether clinical trials of a pharmaceutical product are required. In our experience, clinical trials are required for most new products. The Federal Law on Pharmaceutical Products requires that organisations conducting clinical trials should be approved and accredited by the Federal Service for Supervision of Health and Social Development. However, implementing regulations regarding accreditation procedures have not yet been enacted.

Clinical trials are conducted to prove the efficacy and safety of pharmaceutical products for humans and to obtain information on the possible side effects of such products. Based on the results of clinical trials, the organisation that conducted the trials decides whether the product should be recommended for medical use. If the product is not recommended for medical use, it cannot be registered with the Federal Service for Supervision of Health and Social Development. In our experience, the trial period takes from several months to several years depending on the pharmaceutical product being tested.

The statutory limit for review of the registration document for the State registration of pharmaceutical products, including the results of the pre-clinical and clinical trials, is six months.

Generic versions of original products that were previously registered in Russia are subject to accelerated State registration procedures. A generic version of the pharmaceutical product is registered if the manufacturer is able to establish that such product is no less effective or safe than the original product that was previously registered in Russia and its quality conforms to that of the original product.

The statutory limit for review of the registration documents, including the results of the pre-clinical and clinical trials, for State registration pursuant to the accelerated procedure, is three months. The generic version of an existing product may not be registered prior to expiration of the patent rights of the original product.

After State registration of the pharmaceutical product, the pharmaceutical product is included into the State register of pharmaceutical products, at which time an applicant receives the registration certificate, official standards for the formula, components and characteristics, including packing, transportation and safety, other indicators and methods of quality control for the registered pharmaceutical product, and the instruction for use of the registered pharmaceutical product.

The statutory term for State registration is five years. Upon expiration of this term, the pharmaceutical product can be re-registered. An application for re-registration must be submitted three months prior to the expiration of the State registration.

Certain types of products with medical designations, including certain plasters, are also subject to State registration and should be tested to prove their safety for humans prior to State registration. The statutory limit for review of the documents for State registration of such products, including the results of the pre-clinical and medical trials, is 30 days. In our experience, the trial period for this sub-group may take from two to six months. Upon State registration, an applicant receives a State registration certificate for every such registered product.

Manufacturing Licences

Pharmaceutical products, including substances and certain plasters, may not be manufactured without a licence for production issued by the Federal Service for Supervision of Health and Social Development. To obtain a manufacturing licence, an applicant must have qualified specialists responsible for the manufacture, quality control and marking of pharmaceutical products under licence requirements and present documents demonstrating such qualification.

In addition, an applicant must obtain a decision from the Ministry of Health and Social Development confirming compliance of the manufacturing process of the pharmaceutical product to the requirements of the Federal Law On Pharmaceutical Products and, in particular, to the State quality standards of pharmaceutical products and their production. Prior to issuing such a decision, the Ministry of Health and Social Development, through various commissions and entities, conducts an examination of the applicant's production process and the quality of pharmaceutical products with respect to the State quality standards. For a discussion of the various quality standards, see "— Certification" and "— Good Manufacturing Practice — GMP."

In order to obtain a manufacturing licence, an applicant must also present a list of registered pharmaceutical products which the applicant intends to produce, a consent from local authorities with respect to the location of the production facilities and sanitary and epidemiological certification regarding compliance of the manufacturing of the registered pharmaceutical products with sanitary and epidemiological norms and rules.

A manufacturing licence is valid for five years. Upon expiration of this period, the licence may be re-issued on application of the licensee. A manufacturing licence must be amended to include new products launched by the manufacturer. Although there is no statutory requirement for a separate licence for storage or sale of products manufactured under the licence for pharmaceutical manufacturing, it is unclear whether such rights are covered by this licence.

Pharmaceutical Activity Licences

Wholesale and retail sales of pharmaceutical products and preparation of pharmaceutical products are subject to licensing by the Federal Service for Supervision of Health and Social Development.

To obtain a licence for a pharmaceutical activity, an applicant must confirm a certain level of professional qualification of the manager of a legal entity and the manager of the relevant division of the legal entity to the activity being licensed, by presenting certificates confirming such compliance, and must present documents confirming higher and secondary level of pharmaceutical education of the applicant's employees. The applicant must also present documents confirming the rights of an applicant to the premises for pharmaceutical activity and sanitary and epidemiological certification regarding the compliance of the premises with the requirements for the pharmaceutical activity.

The licence for the pharmaceutical activity is valid for five years. Upon expiration of this period, the licence may be re-issued on application of the licensee.

Import Licences

Import of pharmaceutical products, including substances and certain plasters, is subject to licensing by the Ministry of Economic Development and Trade of the Russian Federation. In addition to other required documents for an import licence, an applicant (the organisation importing such products) must submit to the Ministry of Economic Development and Trade a decision from the Federal Service for Supervision of Health and Social Development stating that the licensee complies with all required licensing and regulatory requirements. The licence is issued for a specified consignment of registered pharmaceutical products and is valid for one year.

Under current legislation, a licence for the export of pharmaceutical products from Russia is not required.

Certification

Each pharmaceutical product manufactured in or imported into the Russian Federation must comply with various quality standards applicable to such pharmaceutical product. Each pharmaceutical product is subject to a mandatory certification confirming its compliance with such quality standards.

At the industry level, Industry Standards OST 91500.05.001.00 Standards of Quality of Pharmaceutical Products Principal Provisions approved by Order of the Ministry of Health and Social Development No. 388, dated 1 November 2001, establish rules for the development of quality standards for pharmaceutical products. In the pharmaceutical industry, the standards with respect to specific pharmaceutical products produced by a specific pharmaceutical enterprise must be developed on the basis of Industry Standards OST 91500.05.001.00 and must be approved in the official standards (an official standard is a specific standard that contains formula, components and other characteristics, including packing, transportation and safety requirements, indicators and methods of quality control of the pharmaceutical product) by the Federal Service for Supervision of Health and Social Development specifically for the pharmaceutical enterprise.

Mandatory certification of a pharmaceutical product is conducted to verify compliance of the pharmaceutical product with the norms approved in the official standards by the Federal Service for Supervision of Health and Social Development specifically for the pharmaceutical enterprise.

There are special certification centres established in several Russian regions which test compliance of the product with the quality standards and issue compliance certificates.

Pharmaceutical products may not be imported to Russia without a certification confirming that the quality of such pharmaceutical products complies with the standards approved by the Federal Service for Supervision of Health and Social Development with respect to a specific manufacturer. The importer of pharmaceutical products must obtain such certificate for each consignment of goods from a Russian certification centre and present it for customs clearance.

As from 1 January 2007, the mandatory certification of pharmaceutical products is substituted by the declaration of pharmaceutical products compliance. The Russian Government has established a transition period as from 1 January 2007 through 1 April 2007 within which pharmaceutical manufacturers were entitled to choose a form of compliance with the quality standards — a mandatory certification or a compliance declaration. Since the expiration of this period, each pharmaceutical product manufactured in or imported into the Russian Federation has been subject to the declaration of pharmaceutical products compliance.

Good Manufacturing Practice ("GMP")

General

GMP is a set of principles, requirements and procedures for manufacturing pharmaceutical products to ensure the quality necessary for human consumption. GMP covers quality management and control, requirements regarding personnel, premises and equipment, documentation, product manufacturing, contracts for product manufacturing and analysis, reclamation, product withdrawal and self-monitoring. One of the basic underlying principles of GMP is that quality cannot be tested in the finished batch of production but must be built into all stages of the pharmaceutical manufacturing process.

Russian Federation

GMP rules are being steadily introduced in Russia. The GMP initiative is regulated by technical regulations and industry standards. Technical regulations contain mandatory requirements whereas standards can be complied with on a voluntary basis. Compliance with industry standards is also required for obtaining a licence to manufacture pharmaceutical products. For discussion of manufacturing licences, see "— Manufacturing Licences" above.

Technical Regulations. Technical regulations for pharmaceutical products are currently under development and are expected to be adopted in 2007. The technical regulations are expected to be based on the existing industry standards.

Industry Standards. Industry Standard OST 42-510-98 Rules for Organisation of Production and Quality Control of Medicinal Products (GMP) was approved by the Ministry of Health and Social Development on 25 February 1998 and has been in force since 1 July 2000.

On 10 March 2004, the State Committee of the Russian Federation for Standardisation and Metrology approved National Standard GOST R 52249-2004 Good Manufacturing Practice for Medicinal Products which was reported to be based on EC guidelines of Good Manufacturing Practice for Medicinal Products and Active Pharmaceutical Ingredients. However, the legal status of this standard is still unclear since it was not registered with the Ministry of Justice of the Russian Federation.

At present, the Federal Service for Supervision of Health and Social Development is entitled to issue a decision stating that the organisation and production of pharmaceutical products of a manufacturer complies with licensing requirements and conditions. Currently there is no State body in Russia that can issue a GMP certificate as such to a manufacturer.

European Union

In order to access the European pharmaceutical market, a Russian manufacturer needs to comply with GMP standards of the European Union.

WHO

Participation in programmes sponsored by the WHO requires additional certification in accordance with the WHO GMP standards.

Retail Sales of Pharmaceutical Products

According to applicable legislation, pharmaceutical products must be sold at pharmaceutical establishments (including pharmacies, drugstores, pharmacy stalls, pharmacy points). Certain types of products with medical designations, including certain plasters, can be sold at pharmaceutical establishments, as well as in shops and supermarkets.

Pricing Regulation

The regulatory framework for the pricing of pharmaceutical products is provided for in Regulations on State Regulation of Prices for Life-Saving and Essential Pharmaceutical Products approved by Russian Government Resolution No. 782, dated 9 November 2001. The Regulations set forth procedures for the State registration of maximum prices for pharmaceutical products included on Russia's List of Life-Saving and Essential Pharmaceutical Products and the procedure for establishing wholesale and retail margins with respect to the prices of such products. Order No. 321 of the Ministry of Health issued on 21 October 2002 defined "life saving" drugs as those without the use of which syndromes of disease progression and complication or death can occur.

Resolution No. 782 requires Russian and foreign manufacturers to submit an application for the State registration of the maximum price of a pharmaceutical product to the Federal Service for Supervision of Health and Social Development.

Once the Federal Service for Supervision of Health and Social Development agrees on the maximum price of a pharmaceutical product with the Federal Tariff Service, the price is included in the State Register of Prices for Life-Saving and Essential Pharmaceutical Products maintained by the Federal Service for Supervision of Health and Social Development. Price registration is valid for five years. The maximum price is subject to re-registration on application of the manufacturer if it changes due to price adjustments for raw materials, increase in salaries, overhead costs, change of market trends, production development needs or an increase of other expenses connected with the production and realisation of goods, works and services.

Regional State authorities in each region of the Russian Federation have the authority to establish wholesale and retail margins, thereby taking into account local market conditions. Wholesale and retail prices are then adjusted by adding the locally set margin to the maximum selling price of the product registered by the Federal Service for Supervision of Health and Social Development.

For example, the Moscow Government adopted Resolution No. 303-PP On State Regulation of Prices for Pharmaceutical Products, dated 23 April 2002, applicable to wholesalers and retailers selling pharmaceutical products in Moscow which are included on Russia's List of Life-Saving and Essential Pharmaceutical Products. In the resolution, the maximum trade margins were set as follows: 25% to the selling price of a foreign manufacturer in direct sales; 15% to the selling price of a Russian manufacturer in direct sales; 10% to the selling price of wholesalers obtaining their stocks of products from manufacturers; 35% to the selling price of a manufacturer for retailers whose stock comes through a manufacturer; 25% to the selling price of wholesaler for retailers whose stock comes through a wholesaler.

This practice varies across Russia due to the high degree of autonomy enjoyed by regional State authorities to set margins for pharmaceutical products.

Federal Reimbursement Programme

In 2004, the Russian Federation implemented a system of State support for pharmaceutical product procurement for certain categories of individuals in an effort to make medicine affordable for certain categories of citizens. From January 2005, these categories of Russian citizens were granted the right to receive necessary pharmaceutical products under the social programme of additional medicine procurement. Currently, eligible citizens have the choice to participate in the social programme of additional medicine procurement or instead to receive financial compensation. This programme is financed from the federal budget of the Russian Federation.

The pharmaceutical products are purchased on the basis of the list approved by the Ministry of Health and Social Development. Pharmaceutical products are included in the list based on their international branded names. After the list is approved by the Ministry of Health and Social Development, the Federal Service for Supervision of Health and Social Development accepts applications from manufacturers to register the trade names of the pharmaceutical products (based on their international branded names) and their prices and approves the list of the trade names and prices of such pharmaceutical products, as well as the manufacturers of these pharmaceutical products. Only approved manufacturers are eligible to participate.

The manufacturers sell the pharmaceutical products through distributors selected for participation in the programme in tenders conducted annually. In 2005, the Federal Fund for Mandatory Medical Insurance was authorised by the Russian Government to conduct tenders for the selection of such distributors. Distributors were selected based on numerous criteria, such as financial condition, transportation and storehouse networks of a distributor.

In January 2007, as a result of a severe deficit in FRP financing in 2006, the Ministry of Health and Social Development announced that it would be a priority to "prefer" domestic drug producers within the FRP. Also in January, the central Russian region of Sverdlovsk announced a new rule concerning FRP procurement, whereby at least 30% of subsidised drugs obtained by pharmacies pursuant to the FRP must be sourced from Russian pharmaceutical manufacturers.

Legislative Initiatives

Draft amendments to the Federal Law on Pharmaceutical Products were proposed and passed at the first reading in the Russian State Duma in 2005. Such amendments provide for, among other things, registration of pharmaceutical products, writing out prescriptions, as well as identification of pharmaceutical products in documentation for public procurement using INNs. The Ministry of Health and Social Development has already introduced in its Order No. 97, dated 17 February 2006, that prescriptions for medicines must be issued to patients under INNs within the social program of additional medicines procurement. However, other medicines are prescribed on the basis of their trade names. For a discussion of the social program of additional medicines procurement, see "Federal Reimbursement Programme."

In addition, the draft amendments to the Federal Law On Pharmaceutical Products provide for State price adjustments and purchase of pharmaceutical products by Russian wholesalers from foreign manufacturers and distributors under direct contracts only. The prospects for the adoption of such amendments are currently unclear, since in October 2005 the review of the draft amendments was postponed. If adopted, these amendments could have a material adverse effect on our business.

Counterfeiting

Counterfeiting can apply to both original and generic products, and counterfeit medicines may include products with the correct ingredients but fake packaging, with the wrong ingredients, without active ingredients or with insufficient active ingredients. According to the WHO, an estimated 25% of the medicines consumed in developing countries are believed to be counterfeit. The presence of fake pharmaceutical products is more prevalent in countries with weak drug regulation control and enforcement, such as Russia.

The Russian Federal Service for Supervision of Health and Social Development ("Roszdravnadzor") is charged with supervising the production and sale of pharmaceutical products in Russia. Regulation of the Russian Government No. 323, which was adopted on 30 June 2004, gave Roszdravnadzor various powers that enable Roszdravnadzor to combat counterfeiting in Russia, including the power to impose fines, confiscate counterfeit drugs and suspend the licences of pharmaceutical companies that engage in counterfeiting activities.

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

Introduction

Below is a description of the terms of the rights attaching to the shares, the material provisions of our charter in effect on the date of this Prospectus and certain requirements of Russian legislation. This description, however, is not complete and is qualified in its entirety by reference to the provisions of our charter and applicable Russian legislation.

General Matters

We are an open joint stock company incorporated under the laws of the Russian Federation. A Russian joint stock company's share capital is divided into shares. As a general rule, the shareholders are not liable for the company's obligations. Shareholders bear liability for the company's losses only to the extent of the value of the shares they own and bear joint and several liability for the company's obligations to the extent of the value of their unpaid contributions owed by a shareholder to the company. A Russian joint stock company may be either a closed joint stock company or an open joint stock company. The number of shareholders in a closed joint stock company is limited to 50, and if the number of shareholders in a closed joint stock company exceeds 50, it must be transformed into an open joint stock company. Shareholders in a Russian open joint stock company may transfer stock without obtaining consent from other shareholders or the company and there is no limitation on the number of shareholders that an open joint stock company may have. Shareholders in a Russian closed joint stock company are entitled to a right of pre-emption and no transfer of stock may be made without first offering the stock to each other shareholder and the company, if required so by the charter of the company. As an open joint stock company, we must publish certain corporate information, including an annual report and annual financial statements.

Pursuant to Article 3 of our charter, we are a commercial organisation with the primary goal of generating profit. Our charter authorises us to engage in all activities appropriate to this goal including, inter alia, production, sale and purchase of pharmaceutical products; research and development of new pharmaceutical processes and products, including insulin and substances for its production; development and production of medical equipment and instruments; development, acquisition and sale of patents, trademarks and know-how; provision of services in the area of healthcare and social sphere; and charity and sponsorship activity.

Pursuant to the Joint Stock Companies Law, we have the right to issue ordinary shares, preferred shares and other securities under the securities laws of the Russian Federation. We have no authorised share capital other than that which has been issued and is outstanding. Our issued share capital, which is fully paid-up, is comprised of 37,792,603 ordinary shares, each with a nominal value of RUR1 per share. We also authorised a further issuance of 11,337,780 ordinary shares but this decision was cancelled on 3 May 2007. Following consultations with the FSFM, this share issuance was never registered, the ordinary shares were not issued and our current share capital is comprised of 37,792,603 ordinary shares. As required by our charter, all of the ordinary shares are registered shares and have the same nominal value and grant identical rights to each holder. On 5 May 2006, our predecessor company, OOO Biovit, converted from a limited liability company into OJSC Pharmstandard, an open joint stock company, and, as a result of which, cancelled the participation interests held in the limited liability company and issued its current outstanding share capital in full consideration for such cancellation.

Rights of Shareholders

Each fully paid ordinary share gives its holder the right to:

- participate in our management as provided for by the Joint Stock Companies Law and our charter, and vote on all matters within the shareholders' competence;
- receive dividends and, upon the Company's liquidation, receive a pro rata amount of our property after fulfilment of our obligations, or its value, as provided by the relevant Russian legislation and our charter;
- participate in general shareholders' meetings and vote on all matters to be decided at such meetings including through a representative acting on the basis of a power of attorney;
- purchase shares by exercising pre-emptive rights that arise upon the issuance of new shares and securities convertible into shares on a pro rata basis to their existing holdings of shares, as provided by the Joint Stock Companies Law;
- transfer the shares without consent of other shareholders or us;
- have access to our documents, except for accounting documents and minutes of the collective executive body, as provided by the Joint Stock Companies Law and our charter;

- demand, under the following circumstances, the repurchase by us of all or some of the shares owned by such holder, in case such holder voted against or abstained from voting on any decision of the shareholders' meeting approving the following:
  - our reorganisation;
  - the conclusion of a major transaction by us, subject to the provisions of the Joint Stock Companies Law; and
  - any amendment to our charter that limits the shareholders' rights; and
- exercise any other rights of a shareholder provided by our charter or by the Joint Stock Companies Law.

In addition, shareholders holding, alone or with other holders, not less than 1% of the voting shares may obtain a list of persons entitled to participate in the general shareholders' meeting, and shareholders holding, alone or with other holders, not less than 2% of the voting shares may, not later than 60 days after the end of the relevant financial year, propose matters to the agenda of the annual shareholders' meeting and nominate candidates to the board of directors, vote counting commission, the internal audit commission and a chief executive officer candidate. Shareholders holding, alone or with others, not less than 10% of the voting shares may demand that the board of directors convene an extraordinary meeting of shareholders or an unscheduled audit by the internal audit commission. A shareholder holding, alone or with others, not less than 25% of the shares is to be given free access to accounting documents and minutes of the meetings of our executive body.

Shareholders holding, alone or with other holders, not less than 1% outstanding ordinary shares may bring a claim against the general director, a member of the management board, management company, sole manager or a member of the board of directors for their actions or inactions in exercising their corporate duties that resulted in the company's damage, unless other grounds for their liability are not provided by legislation.

Any shareholder may file a claim against the general director, a member of the management board, a management company, sole manager or a member of the board of directors for damages sustained by such shareholder as a result of violations by such person of the provisions relating to the protection of minority shareholders in the context of a squeeze-out or take-over.

Pre-emptive Rights

The Joint Stock Companies Law grants existing shareholders a pre-emptive right to purchase, pro rata to their existing holdings of shares, any shares of the same class, or securities convertible into such shares, that the company proposes to sell in an open subscription. Shareholders who vote against or do not participate in voting on the placement of such shares or securities in a closed subscription have a pre-emptive right to acquire an amount of such shares or securities pro rata to their existing holdings. This rule does not apply when the shares and securities convertible into shares are placed through a closed subscription solely among existing shareholders when all such existing shareholders are entitled to acquire a whole number of new shares and securities convertible into shares in an amount that is proportionate to their existing holdings of shares of the respective class. Shareholders may exercise their pre-emptive rights within a period of not less than 45 days from the date of notice of their pre-emptive right, unless the price for new shares is set following the expiration of the pre-emptive rights period, in which case such period shall be not less than 20 days.

Share Acquisition Above Certain Thresholds and Anti-takeover Protection

As of 1 July 2006, a person intending to purchase more than 30% of the voting shares (taking into account those it already holds together with its affiliates) will have the right to make a public offer to all the shareholders of the company (voluntary offer). Within 35 days after acquisition by any means of more than 30%, 50% or 75% of such shares, the acquirer will have an obligation to make a public offer to purchase the remaining shares from the shareholders (compulsory offer). The acquirer's payment obligations arising from both voluntary and compulsory offers shall be secured in each case by an irrevocable bank guarantee effective for at least six months after the expiration date of the relevant acceptance period.

At any time after the company receives a voluntary or a compulsory offer and until 25 days prior to the expiration of the relevant acceptance period, any person will have the right to make a competing offer (that satisfies the requirements for a voluntary or compulsory offer, as the case may be) to purchase the number of

shares and at the price that are greater than or equal to those offered in the respective voluntary or compulsory offer. Any shareholder may revoke its previous acceptance of the respective offer and accept the competing offer. A copy of the competing offer shall be sent to the person who made the respective voluntary or compulsory offer so that such person could amend its offer by increasing the purchase price and/or shortening the settlement period.

If as a result of either the voluntary or the compulsory offer the acquirer purchases more than 95% of the voting shares, it will have an obligation to (i) notify all the other shareholders (within 35 days after acquisition of shares above such threshold) of their right to sell their shares and other securities convertible into such shares, and (ii) purchase their shares upon request of each minority shareholder. Instead of giving such notice, the acquirer will have the right to deliver a buy-out demand, binding on the minority shareholders, that they sell their shares.

As a general rule, such new buy-out mechanisms became effective as of 1 July 2006 and are available to persons that acquired such shares pursuant to a voluntary or a compulsory offer after such date. In addition, one year after the introduction of a federal law on appraiser's liability insurance (which is not adopted yet) such mechanisms will be available to the majority shareholders that will own as of 1 July, 2006 more than (a) 95% of the voting shares or (b) 85% of such shares but will acquire more than 95% of the same through a voluntary offer made after such date. However, in each such case both a report of an independent appraiser and an expert opinion of a self-regulatory organisation of appraisers will be required to determine the purchase price.

Dividends and Dividend Rights

We may decide to pay interim dividends (based on the quarterly, semi-annual or nine-month results) and/or annual dividends (based on annual results). The board of directors recommends the amount of the interim and annual dividends to be paid to our shareholders, who approve such interim or annual dividends by a majority vote at the extraordinary or annual shareholders' meeting, respectively, unless otherwise provided by the Joint Stock Companies Law. A decision on quarterly, semi-annual and nine-month dividends may be taken within three months after the end of the respective period at the shareholders' meeting; and a decision on annual dividends must be taken at the annual general shareholders' meeting. The amount of the dividend approved at the shareholders' meeting may not be more than the amount recommended by the board of directors. Dividends are distributed to shareholders entitled to participate in the shareholders' meeting, which approved the dividends. When making recommendations about payment, and when paying dividends, we are required to follow the limitations established by the Joint Stock Companies Law.

Dividends may be paid through wire transfer or in cash in roubles, provided that cash payments under a single transaction between entities do not exceed RUR60,000. Dividends may also be paid in kind. Dividends to non-resident shareholders may be paid in foreign currencies through transfers from our bank accounts to the account of the non-resident shareholders. Each shareholder must provide the company with its bank account details if it wishes to receive dividends through wire transfer. Dividends to be paid in cash and not claimed may be deposited by us with a notary public. Dividends in cash not claimed within three years of the date of payment become barred by the statute of limitations.

Provided that dividends on preferred shares of certain classes may be paid from specially formed funds, the Joint Stock Companies Law provides as a general rule that dividends may only be paid to shareholders out of net profits calculated under Russian accounting standards and as long as the following conditions are met:

- the share capital has been paid in full;
- the value of our net assets, less the proposed dividend payment, is not less than, and would remain following the payment of dividends, not less than the sum of our share capital, reserve fund and the difference between the liquidation value and the par value of our issued and outstanding preferred shares;
- we have repurchased all shares from shareholders who have exercised their right to demand repurchase;
- we are not, and will not become as a result of the payment of dividends, insolvent; and
- other requirements of Russian legislation.

Distributions to Shareholders on Liquidation

Under Russian legislation, the liquidation of a company results in its ceasing to exist without the transfer of its rights and obligations to other persons as legal successors. We can be liquidated:

- by a three-quarters majority vote at a shareholders' meeting; or
- by a court order.

Following a decision to liquidate us, the right to manage our affairs would pass to a liquidation commission which, in the case of voluntary liquidation, is appointed by a shareholders' meeting by a three-fourths majority vote and, in an involuntary liquidation, is appointed by the court. Our creditors may file claims within a period to be determined by the liquidation commission, but which must be at least two months from the date of publication of the notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation:

- *First priority* — individuals owed compensation for injuries or deaths, or moral damages;
- *Second priority* — employees and copyright claims;
- *Third priority* — federal and local governmental authorities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- *Fourth priority* — other creditors in accordance with Russian legislation.

Claims of creditors in obligations secured by a pledge of the company's property are satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, save for the creditors of the first and second orders of priority, provided that claims of such creditors arose before the respective pledges have been entered into. Any residual claims of secured creditors that remain unsatisfied after the sale of the pledged property rank pari passu with claims of the fourth-priority creditors.

The remaining assets of the company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and
- payments to holders of ordinary and preferred shares on a pro rata basis.

Share Capital Increase

Our share capital may be increased by:

- issuing new shares, or
- increasing the nominal value of the outstanding shares.

According to the Joint Stock Companies Law, a decision to increase the share capital by either method requires a majority vote of a shareholders' meeting. In addition, new shares may only be issued if there are sufficient authorised but unissued shares provided for by our charter. Authorisation and issuance of shares above the number of authorised shares provided for by our charter necessitates an amendment to the charter, which requires a three-quarter majority vote at a general shareholders' meeting.

The Joint Stock Companies Law requires that newly issued shares be sold at their market value except where existing shareholders exercise pre-emptive rights to purchase shares at not less than 90% of their market value or the price paid by third parties for the shares. The total fees payable to intermediaries may not exceed 10% of the price of shares. The price of shares may not be set at a level less than their nominal value. The board of directors and an independent appraiser must value any in-kind contributions for new shares.

The Federal Law on Securities Market of 22 April 1996, as amended, and securities regulations set out detailed procedures for the registration and issuance of shares of a joint stock company, including:

- adopting a decision on increase of share capital by placement of additional shares;
- adopting a decision on an additional share issuance;
- registration of an additional share issuance;
- placement of the shares;
- registration of the placement report or placement notification with respect to additional share issuance; and
- public disclosures at the required stages of the issuance.

Share Capital Decrease

The Joint Stock Companies Law does not allow a company to reduce its share capital below the minimum level required by law, which is RUR100,000 for an open joint stock company. According to the Joint Stock Companies Law, the share capital of a joint stock company may be decreased by decreasing a nominal value of shares or by reducing the number of shares, including the repurchasing of the shares by the company. The Joint Stock Companies Law requires that any decision to reduce our share capital, whether through the repurchase and cancellation of shares or a reduction in the nominal value of the shares, is to be made by a majority vote of a shareholders' meeting. Additionally, within 30 days of a decision to reduce its share capital the company must publish this decision and issue written notice thereof, to our creditors. Creditors of the company would then have the right to demand, within 30 days of publication or receipt of such notice, repayment of all amounts due to them, as well as compensation for damages.

The Joint Stock Companies Law allows the company to reduce its share capital only if, at the time of such reduction:

- the company's share capital has been paid in full;
- the company is not insolvent, and would not become insolvent, as a result of the decrease;
- the value of the company's net assets is not less than, and following the decrease would not be less than, the sum of the company's share capital and the reserve fund and the nominal liquidation value of the outstanding preferred shares; and
- the company has repurchased all shares from shareholders who have exercised their right to demand repurchase of their shares (in case of reduction through repurchase of its shares) or from shareholders that have a right to demand repurchase of their shares (in case of reduction in the nominal value of shares); and
- the dividends that were declared are paid (in case of reduction in the nominal value of shares).

Russian legislation provides that any shareholder may demand repurchase of all or some of the ordinary shares owned by such shareholder, if this shareholder voted against or did not participate in the voting on any of the following events:

- the reorganisation of the company;
- the conclusion of a major transaction by the company, subject to the provisions of the Joint Stock Companies Law; and
- any amendment of the charter that limits the shareholders' rights.

The company shall repurchase the shares at the price stated by the board of directors, which shall not be less than the market value determined by the independent appraiser. The company may spend up to 10% of its net assets for share repurchases demanded by shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10% of the company's net assets, the company must repurchase from each shareholder exercising the right to demand repurchase a number of shares proportionate to the number of shares specified in the demand of such shareholder.

Approval of the Russian Federal Antimonopoly Service ("FAS")

As of October 26, 2006, the new Federal Law on the Protection of Competition (the "Competition Law") come into effect. A summary of the relevant provisions of the Competition Law are set out below, although you should note that it is still unclear how such provisions will be applied in practice.

Under the Competition Law, an investor or "a group of persons" (entities and/or individuals) should obtain FAS clearance, in particular:

(i) for the initial acquisition of more than 25% of the voting shares in a joint stock company, or 33.3% of the participation interest in a limited liability company, provided that the acquirer did not previously own any shares (or participation interest) in such company or had less than the above threshold before the acquisition;

(ii) for the subsequent acquisition of voting shares in a joint stock company or participation interest in a limited liability company such that after the mentioned acquisition the level of the acquirer's holding of

the company's shares (or participation interest) passes the threshold of 50% or 75% of the voting shares in a joint stock company or 50% or 66.6% of the participation interest in a limited liability company;

(iii) for the acquisition of fixed and/or intangible assets if the book value of such assets exceeds 20% of the fixed and intangible assets of the seller (transferor);

(iv) for the acquisition of rights to control the business decisions or performance of chief executive officer functions of another entity;

(v) for the merger of commercial companies (non-financial); or

(vi) for the merger of financial companies including banks.

Prior FAS clearance is required for non-financial companies if:

(i) either the aggregate value of assets under the latest financial statements of the acquirer and the target and the companies of their respective groups exceeds RUR3 billion, and the aggregate value of assets of the target and the companies of its group exceeds RUR150 million; or

(ii) the aggregate value of revenues of the acquirer and the target and the companies of their respective groups in the last calendar year exceeds RUR6 billion, and the aggregate value of assets under the latest financial statements of the target and the companies of its group exceeds RUR150 million; or

(iii) one of the entities mentioned above is entered in the Russian register of businesses with a market share exceeding 35%.

Prior FAS clearance is required for financial companies if the aggregate balance value of their assets under the latest financial statements exceeds the amount stipulated by the Russian Government.

Post-completion notification is also required in certain cases.

Intra-group transfers are no longer subject to prior approval by the FAS, but are subject to post-completion notifications, if one of the parties files a "list of its group members" with the FAS not later than one month prior to completion. The list should specify the reasons for including each of the group members in the group and should not be changed until the closing date.

Liability of Shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and only bear the risk of losing their investment.

This may not apply to companies or individuals who are capable of determining decisions and directing the business of a Russian joint stock company. The company or individual capable of determining such decisions and directing the business of another company is called an "effective parent." The company whose decisions are capable of being determined or whose business is capable of being directed is called an "effective subsidiary."

If the effective subsidiary is a joint stock company, the effective parent bears joint and several responsibility for a transaction concluded by an effective subsidiary if (i) the effective parent caused the effective subsidiary to conclude the transaction, and (ii) the ability of the effective parent to determine decisions made by the effective subsidiary is provided for in the charter of the effective subsidiary or in a contract with the effective subsidiary. If the effective subsidiary is a limited liability company, the effective parent bears joint and several responsibility if the effective parent caused the effective subsidiary to conclude the transaction (and without regard to how the effective parent's ability to determine decisions of the effective subsidiary arises).

In addition, an effective parent, a shareholder, member or other person that is capable of determining decisions made by an effective subsidiary may be held secondarily liable for such company's debts in the case of its insolvency or bankruptcy. If the effective subsidiary is a joint stock company, then the effective parent, shareholder or other person capable of making decisions will have secondary liability if (i) the effective subsidiary becomes insolvent or bankrupt as a result of the actions of the effective parent, shareholder or other person; and (ii) the effective parent, shareholder or other person knew that such actions would result in insolvency of the effective subsidiary. If the effective subsidiary is a limited liability company, then the effective parent, member or other person capable of determining decisions will be held secondarily liable if the effective subsidiary's insolvency or bankruptcy is caused by the wilful misconduct or negligence of such effective parent, member, or other person, as the case may be.

Shareholders of an effective subsidiary that is a joint stock company may claim compensation for the effective subsidiary's losses from the effective parent if (i) the effective parent caused the effective subsidiary to take any action or fail to take any action that resulted in a loss and (ii) the effective parent knew that such action or failure to take such action would result in an effective subsidiary's loss. Members of an effective subsidiary that is a limited liability company may claim compensation for the effective subsidiary's losses from the effective parent if the effective parent through its wilful misconduct or negligence caused the effective subsidiary to take any action that resulted in a loss.

Registration and Transfer of Shares

Russian legislation requires that a joint stock company provide for maintaining a register of its shareholders. A register of shareholders may be maintained by the company itself or by a specialised registrar. The Joint Stock Companies Law requires that a register of shareholders of a joint stock company with more than 50 shareholders be maintained by a registrar. Ownership of registered shares is evidenced by entries made in this register. Any shareholder may obtain an extract from our share register certifying the number of shares that such shareholder holds. Currently, OJSC Registrator R.O.S.T. maintains our shareholder register.

The purchase, sale or other transfer of shares is accomplished through registration in the share register or with a depositary if shares are held through a depositary. In the latter case, the depositary must appear as a nominal holder of shares in our register of shareholders. When making entries in the register, the registrar or depositary may not require any documents in addition to those required by Russian legislation. Any refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder is unlawful and may be disputed. We bear responsibility for maintenance of our register regardless of whether it is maintained by us or a specialised registrar.

General Meeting of Shareholders

The powers of the shareholders, acting through a shareholders' meeting, which is our highest managing body, are set forth in the Joint Stock Companies Law and in our charter. A shareholders' meeting may not decide issues that are beyond the scope of its authority as provided under the Joint Stock Companies Law. Issues that the shareholders have the exclusive power to decide are:

- amendments to our charter;
- our reorganisation;
- our liquidation, appointing a liquidation commission and approval of an interim and the final liquidation balance sheets;
- electing members of our board of directors and terminating their powers before due date;
- determining the quantity, face value, class (type) of authorised shares and the rights conferred by such shares;
- increasing our share capital by increasing the nominal value of shares; by placement of additional shares;
- decreasing our share capital by decreasing the nominal value of shares, by repurchase of a portion of shares in order to reduce the number of shares, and by termination of repurchased or bought-out shares;
- election of our internal audit committee (the controller) and termination of its powers;
- approval of our auditor;
- payment of dividends based on the results of the first quarter, half-year, nine months of the financial year;
- approval of our annual reports and annual accounting reporting, including the profits and losses statements (accounts of profits and losses), and also the distribution of the profit (including the payment (announcement) of our dividends, except the profit distributed as dividends based on the results of the first quarter, half-year, or nine months of the financial year) and of our losses based on the results of the financial year;
- setting out a procedure for holding the general meeting of shareholders;
- election of the members of the vote counting board and early termination of their powers;
- division and consolidation of shares;
- adopting decisions as to the approval of transactions in the cases specified in Article 83 of the Joint Stock Companies Law;

- adopting decisions as to the approval of major transactions in the cases specified in Article 79 of the Joint Stock Companies Law;
- approving decisions as to the repurchase of our shares;
- adopting decisions on participation in financial-industrial groups, associations and other unions of commercial organisations;
- approval of internal documents governing the operation of our management bodies; and
- other issues under the Joint Stock Companies Law.

The decisions on issues that fall within the competence of the general shareholders' meeting may not be made by the chief executive body of the company or by the board of directors, unless otherwise provided by the Joint Stock Companies Law.

Notice and Participation

All shareholders entitled to participate in a general shareholders' meeting must be notified of the meeting and whether the meeting is to be held in person or by absentee ballot no less than 30 days prior to the date of the meeting. However, if it is an extraordinary shareholders' meeting to elect the board of directors, shareholders must be notified at least 70 days prior to the date of the meeting. Only those items that were set out in the statutory notice to shareholders may be considered at a general shareholders' meeting.

The list of shareholders entitled to participate in a general shareholders' meeting is to be compiled on the basis of the data in our register of shareholders on the date specified by the board of directors. The date for the compilation of the list of shareholders entitled to participate in a general shareholders' meeting may not be earlier than the date of adopting the resolution to hold such general shareholders' meeting and not later than 50 days before the date of the meeting or, in the case of an extraordinary shareholders' meeting to elect the board of directors, not more than 65 days before the date of the meeting.

Generally, the right to participate in a general shareholders' meeting may be exercised by a shareholder as follows:

- by personal attendance;
- by attendance of a duly authorised representative;
- by absentee ballot; or
- by delegating the right to fill out the absentee ballot to an authorised representative.

Board of Directors

The Joint Stock Companies Law and our charter provide that our board of directors must be re-elected at each annual general meeting of shareholders and that the board of directors should be elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of voting shares held by such shareholder multiplied by the number of persons to be elected to the board of directors. Such shareholder may cast all such votes for one candidate or disperse them among multiple candidates. A majority vote of a general meeting of shareholders may remove the whole board of directors at any time without cause before the expiration of their terms. The Joint Stock Companies Law requires at least a five-member board of directors for an open joint stock company with less than 1,000 holders of ordinary shares, a seven-member board of directors for an open joint stock company with more than 1,000 holders of ordinary shares and at least a nine-member board of directors for an open joint stock company with more than 10,000 holders of ordinary shares. Only natural persons may serve on the board of directors.

Pursuant to Russian legislation and our charter, the board of directors performs our general management, except for the adoption of decisions that fall within the exclusive competence of the general shareholders' meeting. In accordance with our charter, the number of members of the board of directors is to be 11, with such members being determined by the decision of the general meeting of shareholders. The following issues are among those within the competence of the board of directors:

- set out priority guidelines for our development;
- approve the agenda of the general meeting of shareholders and specify the record date for determining eligible shareholders to attend;

- make recommendations regarding the amount of any dividend to be declared and the procedure for its payment;
- approve our internal documents, except for the internal documents which have to be approved by the general meeting of shareholders pursuant to the Joint Stock Companies Law and other internal documents which require the approval of our executive body under our charter;
- approve major transactions specified in Chapter X of the Joint Stock Companies Law;
- approve "interested parties" transactions as specified in the Joint Stock Companies Law;
- approve our quarterly, six-month and annual budget;
- give preliminary approval for annual reports; and
- appoint our sole executive body and decide upon the early termination of its powers;
- other issues, as provided by the Joint Stock Companies Law and our charter.

Executive Body

Pursuant to Russian legislation and our charter, our day-to-day activities are managed by the general director, who serves as our sole executive body. According to our charter, the general director is elected by the board of directors and reports to the board of directors and the general meeting of shareholders.

All issues of our day-to-day activity are within the authority of the general director, except for the matters which are subject to the approval of a general meeting of shareholders and our board of directors. The general director carries out the decisions of the general meeting of shareholders and the board of directors. Among other things, the general director may:

- dispose of our property for the purposes of our day-to-day activities within the limits established by our charter;
- enter into transactions on our behalf, except in cases specified under the Joint Stock Companies Law;
- execute our financial documents;
- open and operate bank accounts;
- issue orders and instructions binding upon our employees; and
- engage in any other issues of day-to-day activity subject to limitations under the Joint Stock Companies Law and our charter.

Major Transactions

The Joint Stock Companies Law defines a "major transaction" as a transaction or a number of interrelated transactions (including a loan, pledge or suretyship or series of transactions, not in the ordinary course of business and not in connection with the placement of ordinary shares of the company through a subscription or the placement of securities convertible into shares), involving the acquisition, disposal or possibility of disposal of assets, the value of which constitutes 25% or more of the balance sheet value of a company's assets as of the last reporting date in accordance with Russian accounting standards. Major transactions involving assets ranging from 25% to 50% of the balance sheet value of the assets of a company require the unanimous approval of all members of the board of directors or, in the absence of such approval, the affirmative vote of shareholders holding a majority of the shares present at a shareholders' meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the company's assets require a 75% affirmative vote of shareholders present at a shareholders' meeting.

In addition, our charter requires a 75% affirmative vote of shareholders present at a shareholder's meeting for approving (i) execution of a transaction (or a series of transactions), other than in the normal course of business where the value of such transaction(s) exceeds RUR135 million, (ii) execution of transactions with real estate title which belongs to us or which we lease where the value of such transactions exceeds RUR135 million, and (iii) borrowings and/or issuing loans and guarantees where the value of a transaction exceeds RUR135 million. If the value of transactions described above is between RUR2.5 million and RUR135 million, an approval of 3/4 of directors participating at the board meeting is required.

Interested Party Transactions

The Joint Stock Companies Law contains requirements in respect of transactions with interested parties. The definition of "interested parties" includes any person that (i) is a member of the board of directors or any management body (including the chief executive officer) of a company, management company or the sole manager of such company; or (ii) owns, together with any affiliates, 20% or more of such company's voting shares or that may give obligatory instructions to such company with which such company must comply if that person, or that person's close relatives or affiliates:

- is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- own, together with any close relatives or affiliates, at least 20% of the issued shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- is a member of any management body of the company (or of the management company of such company) that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary.

A management company is a company that has entered into a contract with a second company pursuant to which the management company manages the second company. The management company takes the place of a chief executive officer.

A company with 1,000 or less shareholders must obtain the approval of one of the following prior to entering into an interested party transaction:

- a majority of members of the board of directors of the company who are not "interested parties" in the transaction; or
- a majority of shareholders at a shareholders' meeting that are not "interested parties" in the transaction if (i) the value of such a transaction is at least 2% of the value of the company's assets according to its most recent balance sheet; (ii) the transaction or a number of interrelated transactions involve the issuance, by way of subscription, of ordinary shares or securities convertible into ordinary shares, or secondary market sale of such securities, in an amount exceeding 2% of the company's placed ordinary shares and ordinary shares in which the issued securities convertible into ordinary shares may be converted; (iii) the number of disinterested directors is not sufficient to constitute a quorum.

In a company with more than 1,000 shareholders the disinterested directors approving the transaction must be independent directors. A director is independent if it is not, and were not during the year preceding the date of approval (i) chief executive officer of the company, including its manager, member of collective executive body, or member of managing bodies of a management company; (ii) a person whose close relatives held positions on managing bodies of the company or of the management company, or were sole manager of the company; (iii) affiliate of the company (except for being its director).

The approval of interested party transactions is not required in the following cases:

- the company has only one shareholder that simultaneously performs the functions of the executive body of the company;
- all shareholders in the company are deemed interested in a transaction;
- the exercise of the pre-emptive rights to purchase newly issued shares of the company;
- the company's acquisition or repurchase of its issued shares;
- the company's merger or consolidation with another company; and
- entering into a transaction is obligatory for the company according to the Russian legislation and settlement with respect to which is carried out in accordance with the fixed prices and tariffs established by authorised regulatory authorities.

Reserve Fund

Russian legislation requires that each joint stock company establish a reserve fund to be used to cover company losses, to redeem company debt securities and to redeem such company's shares in cases where other funds are not available. Our charter provides for a reserve fund of 5% of our share capital, funded through annual transfers in an amount of not less than 5% of our net profits until the reserve fund has reached the 5% requirement.

Disclosure of Information

Russian securities regulations require us to periodically make the following public disclosures and filings:

- filing quarterly reports with the FSFM containing information about us, our shareholders and registrar, the structure of our corporate bodies, the members of our board of directors, our branches and representative offices, our shares, important developments during the reporting quarter and other information about our financial and business activities;
- filing with the FSFM and publishing in the FSFM's periodical publication as well as disclosing through other public media certain information about material changes in our financial and business activities, changes in the composition of our board of directors, a change of our general director and other material changes concerning us;
- disclosing information on our securities issues;
- disclosing our annual report and annual financial statements prepared in accordance with Russian accounting standards;
- filing with the FSFM on a quarterly basis a list of our affiliated persons; and
- other information as required by applicable Russian securities legislation.

Notification of Tax Authorities

Natural persons, including foreigners registered in Russia as individual entrepreneurs who acquire shares in a Russian joint stock company and other companies, including foreign companies, that acquire shares in a Russian joint stock company need to notify the Russian tax authorities within one month following such acquisition. Russian law is unclear as to the notification procedure for foreign companies that are not registered with the Russian tax authorities at the time of their share acquisitions.

Notification of the FSFM

Pursuant to Russian securities legislation, a person who acquires securities issued by a Russian issuer (other than non-convertible bonds) must notify the FSFM upon acquisition of 5% or more of an issuer's securities, as well as a subsequent increase or decrease in such person's holding of these securities above or below the thresholds of 5, 10, 15, 20, 25, 30, 50, 75%. Such acquirer should file the respective notification with the FSFM and send a notification to us (which should contain information with respect to the acquirer, type and quantity of the securities purchased, as well as our name) within five days after the transfer of securities is recorded on the securities account (or a depositary account) of the acquirer.

RELATED PARTY TRANSACTIONS

The following is a summary of our most significant transactions with related parties for years ended 31 December 2004, 2005 and 2006 and up to the date of this Prospectus.

General matters

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 operation decisions as defined in International Accounting Standards 24 "Related Party Disclosures." 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, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. We are, and have been, a party to various agreements and other arrangements with certain related parties, the most significant of which are described below.

Sale of trademarks

In October 2005, we sold 38 trademarks to a related party, LLC Unicell, for a total cash consideration of RUR94.8 million. The trademarks were obsolete for the purpose of our business.

Acquisition of OJSC TZMOI

On 29 June 2005, we entered into an agreement with LLC Gloverton, a party related to a member of our board of directors and an indirect shareholder, for the purchase of 55% of the equity interest in TZMOI for cash consideration of RUR1,096.8 million. We have signed amendments to this agreement pursuant to which the date by which final payment is due has been extended to 30 June 2007. As of 31 March 2007, we owed RUR115.8 million under this agreement. The 55% equity interest in TZMOI was acquired by LLC Gloverton from a Russian individual on 22 December 2004, for cash consideration of $37.5 million.

During the first half of 2006, our related parties acquired an additional 35% equity interest in TZMOI from a number of unrelated parties. In June 2006, we purchased this equity interest from our related parties in the following manner: (i) 8,546 shares of TZMOI from Artomic Trading Ltd. for the total cash consideration of RUR41.3 million; (ii)12,547 shares of TZMOI from Archer Consulting Corp. for the total cash consideration of RUR377.7 million; and (iii) 5,493 shares of TZMOI from Dean Import Corporation for the total cash consideration of RUR16.0 million. We are required to settle these payments in full on or prior to 31 December 2007. As of the date of this Prospectus, we own 90% of the share capital in the entity.

Additional share issuance of JSC Ufavita

In March 2006, we purchased 41% of the equity interest in our subsidiary, JSC Ufavita, from five related parties — Archer Consulting Corp., Darburg Commercial Corp., LLC Golden Link 2000, LLC Intercraft and LLC Gloverton. We acquired a total of 4,198,150 ordinary shares of JSC Ufavita for the purchase price of RUR190 per share (for the total cash consideration of RUR802.4 million which was offset against the repayment of a loan owed by such parties in the same amount). These shares were issued by JSC Ufavita to the related parties at the end of 2005 in a closed subscription at the price of RUR190 per share. The placement report on the additional share issuance was registered by the FSFM on 18 January 2006. As of the date of this Prospectus, we own 97% of the equity interest in JSC Ufavita.

Loan from the Selling Shareholder

On 24 July 2006, we entered into a loan facility (the "Loan Facility") with the Selling Shareholder pursuant to which the Selling Shareholder agreed to provide a loan of up to $146.2 million to us for general corporate purposes. We drew down $146.2 million under the Loan Facility on 26 July 2006. The loan bore interest at a rate of 12% per annum. The outstanding principal amount of the loan was repayable in full on 24 July 2007. The amount drawn down was applied in full payment of the purchase price due under the Masterlek Agreement. We repaid all amounts outstanding under the Loan Facility on 18 December 2006 using the proceeds of a draw down under the Citibank Loan Agreement (see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Overview").

Agreements with Aresbank

We have historically obtained short-term financing from LLC Aresbank, a related party. During the course of 2004 and 2005, our subsidiaries have entered into loan agreements with LLC Aresbank on a regular basis. The amount of such loan agreements varied from RUR15,000,000 to RUR100,000,000 bearing an interest rate of between 12% and 14.5%. As of 31 December 2006, we have no outstanding indebtedness to LLC Aresbank or loan agreements with Aresbank in force.

On 12 May 2005, we provided subordinated loans to Aresbank in an aggregate amount of RUR210,000,000 for a period of six years. The loan bore 2% interest rate. We terminated this agreement in June 2006 and all outstanding indebtedness under this loan was repaid by Aresbank.

We also maintain deposits and hold cash in Aresbank.

Sale of Oktyabr related buildings

In 2006, we sold the property at our St. Petersburg subsidiary through Archer Consulting Corp., a related party, for cash consideration of RUR103 million, the carrying value of the property.

Masterlek Agreement

Pursuant to a share purchase agreement among Deshawn International Limited (the "Deshawn") and Artomik, dated 3 August 2006, Artomik acquired 100% of the issued and outstanding share capital of Masterlek. The purchase price under the agreement was $146.2 million. The agreement contained warranties and indemnities in favour of Artomik that are customary for a transaction of this nature.

Pursuant to a share purchase agreement among Artomik, a party related to one of our shareholders, and the Company, dated 2 August 2006, the Company acquired 100% of the issued and outstanding capital of Masterlek. The purchase price under the agreement was equal to the price paid by Artomik. The agreement contains warranties and indemnities in favour of the Company that are customary for a transaction of this nature.

Sale of investments in non-core businesses

Pursuant to several share sale transactions during 2006, we disposed of minority shareholdings in several non-core businesses to parties related to our indirect shareholders. The aggregate sale price amounted to RUR370.5 million.

Property Insurance

During 2004 and the first quarter of 2005, we paid approximately RUR165.9 million in above market premiums for the provision of an insurance policy for certain of our real estate. The policy provider was related to one of our indirect shareholders who is also a member of our board of directors. We terminated these arrangements in April 2005.

Other

For further information regarding the related party transactions that we entered into over the course of the last three years, see note 7 to our Consolidated Financial Statements.

MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by a member of the Group within the two years immediately preceding the date of this document and are, or may be, material or have been entered into at any time by any member of the Group and contain provisions under which any member of the Group has an obligation or entitlement which is, or may be, material to the Group as at the date of this document:

Underwriting Agreement

The Underwriting Agreement dated 4 May 2007, among the Company, the Selling Shareholder and the Joint Global Coordinators providing for, inter alia, the underwriting of the Offering and described in "Plan of Distribution."

Deposit Agreement

The Deposit Agreement dated 30 April 2007, among the Company and the Depositary as described in "Terms and Conditions of the Global Depositary Receipts."

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:

The Global Depositary Receipts ("GDRs") represented by this certificate are issued with four GDRs representing an interest in one ordinary share of nominal value RUR1 each (a "Share") in OJSC Pharmstandard (the "Company") pursuant to and subject to an agreement dated 30 April 2007, and made between the Company and The Bank of New York in its capacity as depositary (the "Depositary") for the "Regulation S Facility" and for the Rule 144A Facility (such agreement, as amended from time to time, being hereinafter referred to as the "Deposit Agreement"). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed ING Bank (Eurasia) ZAO as Custodian (the "Custodian") to receive and hold on its behalf any relevant documentation respecting certain Shares (the "Deposited Shares") and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the "Deposited Property"). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the "Conditions"), references to the "Depositary" are to The Bank of New York and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the "Custodian" are to ING Bank (Eurasia) ZAO or any other custodian from time to time appointed under the Deposit Agreement and references to the "Main Office" mean, in relation to the relevant Custodian, its head office in the city of Moscow or such other location of the head office of the Custodian in Russia as may be designated by the Custodian with the approval of the Depositary (if outside the city of Moscow) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs. The GDRs are exchangeable in the circumstances set out in "Summary of Provisions Relating to the GDRs whilst in Master Form" for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.

References in these Conditions to the "Holder" of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the "Register") as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement (which specifically disallows application of the Contracts (Rights of Third Parties) Act 1999) and thus, under English Law, have no contractual rights against, or obligations to, the Company or the Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the "Depositary" in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

1. Withdrawal of Deposited Property and Further Issues of GDRs

1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:

(i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Russia of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;

(ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;

(iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and

(iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out either (a) in Schedule 3, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered during the Restricted Period (such term being defined as the 40 day period beginning on the latest of the commencement of the Offering, the original issue date of the GDRs, and the latest issue date with respect to the additional GDRs, if any, issued pursuant to the over-alotment option granted to the Managers pursuant to the Underwriting Agreement) in respect of surrendered Regulation S GDRs, or (b) in Schedule 4, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

(i) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book-entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or

(b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Russia of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3, Part A of the Deposit Agreement (which is described in the following paragraph) by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) Schedule 4, Part A of the Deposit Agreement *(which is described in the second following paragraph)* by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. However, the Depositary shall (unless otherwise notified by the Company), restrict acceptance of such deposit of Shares where the Company notifies the Depositary in writing that such deposit would result in the Company's incompliance with the securities laws in any jurisdiction. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of Schedule 3, Part A, of the Deposit Agreement certifies, among other things, that the person providing such certificate is located outside the United States and will comply with the restrictions on transfer set forth under "Selling and Transfer Restrictions."

The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies, among other things that the person providing such certificate is a qualified institutional buyer (as defined in Rule *144A under the Securities Act ("QIB")) or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under "Selling and Transfer Restrictions*."

The certificates to be provided in the forms of Schedule 3 and Schedule 4 of the Deposit Agreement may be modified in a manner not inconsistent with the provisions of the Deposit Agreement and as may be reasonably required by the Depositary in order for the Depositary to perform its duties under this Agreement, or to comply with any applicable law or with the rules and regulations of any securities exchange, market or automated quotation system upon which the GDRs issued hereunder may be listed or to conform with any usage with respect thereto or required by any book-entry system by which GDRs issued hereunder may be transferred, or to indicate any special limitations or restrictions to which any particular GDRs are subject by reason of the date of issuance of the underlying Deposited Property or otherwise.

1.5 Any further GDRs issued pursuant to Condition 1.4 which (i) correspond to Shares which have rights (whether dividend rights or otherwise) which are different from the rights attaching to the Shares corresponding to the outstanding GDRs, or (ii) are otherwise not fungible (or are to be treated as not fungible) with the outstanding GDRs, will be represented by a separate temporary Master Regulation S GDR and/or Rule 144A GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master Regulation S GDR and a Master Rule 144A GDR (by increasing the total number of GDRs evidenced by the relevant Master Regulation S GDR and the Master Rule 144A GDR by the number of such further GDRs, as applicable).

1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a "Pre-Release" as defined in Condition 1.7.

1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares (a "Pre-Release"). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the "Pre-Releasee") that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs then outstanding at any time as a result of Pre-Release will not normally exceed thirty per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations in connection with a Pre-Release transaction, including the Pre-Releasee's obligation to deliver Shares and/or other securities or GDRs upon termination of a Pre-Release transaction (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A of the Deposit Agreement. The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A of the Deposit Agreement.

2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to Shares are listed on a US securities exchange or quoted on a US automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A. If the Company makes a written request to the Depositary to refuse to accept Shares for deposit into a Facility in the circumstances set out in such request to facilitate the compliance by the Company with securities laws in the United States, the Depositary shall discuss with the Company the terms on which the Depositary may agree to comply with such request. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws, regulations or stock exchange requirements.

3. Transfer and Ownership

The GDRs are in registered form, with four GDRs corresponding to one Share. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Master Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act. Prior to expiration of the Restricted Period, no owner of Regulation S GDRs may transfer Regulation S GDRs or Shares represented thereby except in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act or to, or for the account of, a qualified institutional buyer as defined in Rule 144A under the Securities Act (each a "QIB") in a transaction meeting the requirements of Rule 144A. There shall be no transfer of Regulation S GDRs by an owner thereof to a QIB except as aforesaid and unless such owner (i) withdraws Regulation S Shares from the Regulation S Facility in accordance with Clause 3.5 of the Deposit Agreement and (ii) instructs the Depositary to deliver the Shares so withdrawn to the account of the Custodian to be deposited into the Rule 144A Facility for issuance thereunder of Rule 144A GDRs to, or for the account of, such QIB. Issuance of such Rule 144A GDRs shall be subject to the terms and conditions of the Deposit Agreement, including, with respect to the deposit of Shares and the issuance of Rule 144A GDRs, delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into US dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; PROVIDED THAT:

(a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges, or due to the fact that such Shares would have to be registered under the Securities Act to be distributed to Holders) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges or due to the fact that such Shares would have to be registered under the Securities Act to be distributed to Holders) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for

acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

(i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in US dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(ii) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or

(iii) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

(iv) (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the "Primary GDR Rights Offering"), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder's GDRs ("Additional GDR Rights") if at the date and time specified by the Depositary for the conclusion of the Primary GDR Offering (the "Instruction Date") instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder's instructions to subscribe for such Additional GDR Rights ("Additional GDR Rights Requests") shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the "Maximum Additional Subscription") and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto ("Unsubscribed Rights"), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in US dollars or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).

(b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated pro rata on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.

(c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from Russian counsel and US counsel to the Company as in its discretion it deems necessary which opinions shall be in a form and provided by counsel reasonably satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs or to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel to the Company reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and neither the Company nor the Depositary shall be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than US dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into US dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into US dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than US dollars is not convertible on a reasonable basis into US dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in US dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any Payments

9.1 Any distribution of cash under Condition 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in US dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Luxembourg and Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.

9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital Reorganisation

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding Taxes and Applicable Laws

Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Russian and other withholding taxes, if any, at the applicable rates.

If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Russia in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed that, to the extent permitted by applicable laws, it shall apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws (provided, however, for the avoidance of doubt, that nothing in this Condition 11.2 shall require the Company to register any Shares or other securities (including rights to subscribe or purchase Shares or securities convertible or exchangeable for Shares) under the Securities Act. In this connection, the Company has undertaken in the Deposit Agreement to take such action as may be required in obtaining or filing the same, to the extent that doing so is reasonably practicable and does not involve unreasonable expense to the Company. The Depositary shall not distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain (but shall, where assistance is reasonably requested by the Company, and such assistance does not require the Depositary to take any action in conflict with market practice, in the Depositary's sole discretion, at the expense of the Company make reasonable endeavours to assist the Company to obtain) any such authorisation, consent, registration or permit, or to file any such report.

12. Voting Rights

12.1 Holders will have the right to instruct the Depositary with respect to the exercise of voting rights with respect to the Deposited Shares subject to the terms of this Condition 12 and Clause 5 of the Deposit Agreement. Where two or more persons are registered as the Holder of a GDR, the Depositary will require instructions from each such person, each giving the same instructions, for the purposes of Condition 12. The Company has agreed to notify the Depositary of any resolution to be proposed at any General Meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefore as well as written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against each and any resolution specified in

the agenda for the meeting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date for the Shares set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23. The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to procure the appointment of a representative to attend the relevant meeting and vote on behalf of the registered owner of the Deposited Shares.

12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.

12.3 Subject as provided in this Condition 12 and in Clause 5 of the Deposit Agreement, the Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that the relevant portion of the Deposited Shares will be voted for and the relevant portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.

12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Russian law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Russian law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.

12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received. If no voting instructions are received by the Depositary from a Holder (either because no voting instructions are returned to the Depositary by such Holder or because the voting instructions are incomplete, illegible or unclear) with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, the Depositary shall have no obligation to, and shall not, exercise any voting rights attaching to such Deposited Shares.

12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Russian law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5 the Depositary shall have no obligation to and shall not vote or cause to be voted such Deposited Shares.

12.7 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above the Depositary shall appoint the Custodian or any other person designated by the Depositary as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depositary shall not be required to take any action required by Clause 5 of the Deposit Agreement if (i) it requests that the Company procure that the Depositary receives an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that such votes cast under the voting arrangements contemplated in Clause 5 of the Deposit Agreement and in this Condition 12 are valid and binding on the Company under Russian law and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of Clause 5 of the Deposit Agreement but that in doing so the Depositary will not be deemed to be exercising voting discretion, and (ii) it has not received that opinion.

12.8 By continuing to hold the GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition 12 and Clause 5 of the Deposit Agreement, as each may be amended from time to time in such manner as the Depositary and the Company determine is required in order to comply with applicable Russian law.

12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominee or nominees, if any, do not, vote or attempt to exercise any right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.

13. Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the "Charges") shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23.

14. Liability

14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.

14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Russia or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, the Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.

14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.

14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person with an interest in a GDR as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof. The Company shall, subject to all applicable laws, have no responsibility whatsoever to any Holders, or any owner of GDRs or any other person with an interest in a GDR as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.

14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.

14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.

14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and (subject to Condition 14.13 below) shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.

14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and (subject to Condition 14.13 below) the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.

14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by the general director of the Company or by a person duly authorised by the general director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.

14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company and provided that the Depositary shall exercise reasonable care in the selection of any delegate and any delegate shall exercise the same care in the selection of a sub-delegate. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition, which includes the

power to sub-delegate, shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.

14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.

14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.

14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.

14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Russian law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.

14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

(i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: US$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;

(ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of US$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;

(iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of US$0.02 or less per GDR for each such dividend or distribution;

(v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: US$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;

(vi) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of US$0.05 or less per GDR;

(vii) a fee of US$0.02 or less per GDR (or portion thereof) for depositary services, which shall accrue on the last day of each calendar year and shall be payable as provided in paragraph (viii) below; and

(viii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions,

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. Agents

17.1 The Depositary shall be entitled to appoint one or more agents (the "Agents") for the purpose, inter alia, of making distributions to the Holders.

17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18. Listing

The Company has undertaken in the Deposit Agreement, so long as any GDR is outstanding, and where the Company can no longer reasonably maintain a listing for the GDRs on the London Stock Exchange or it becomes unreasonably burdensome or impracticable to do so, and such listing is suspended, to use its reasonable efforts to obtain and maintain the quotation for, or listing of, the GDRs on such other EEA Regulated Market as it may decide. For that purpose, the Company will pay all fees and sign and deliver all undertakings required by the Financial Services Authority or the London Stock Exchange in connection therewith, or in the event of such listing being suspended as contemplated above, then as required by the relevant authority of such other EEA Regulated Market as the GDRs may become listed on pursuant to this Condition 18.

19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 90 days' prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Russia, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the

event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Russia, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 120 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the Financial Services Authority and the London Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use all reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the Financial Services Authority and the London Stock Exchange.

20.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the resigning Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21. Termination of Deposit Agreement

21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) of the Deposit Agreement for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, pro rata to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

21.4 Notwithstanding the foregoing, after the execution of the Deposit Agreement but prior to the first deposit of Shares into either Facility, the Depositary and the Company may agree to terminate the Deposit Agreement on such terms as they consider appropriate.

22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

23. Notices

23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.

23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after dispatch, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.

23.3 So long as GDRs are listed on the Official List and admitted for trading on the London Stock Exchange or another stock exchange, all notices to be given to Holders generally will also be published in accordance with the rules of the London Stock Exchange or such other stock exchange, as the case may be.

24. Reports and Information on the Company

24.1 The Company has undertaken in the Deposit Agreement, so long as any GDR is outstanding, to send the Depositary six copies in the English language by mail, or one copy in the English language by facsimile or electronic transmission as agreed between the Company and the Depositary (and shall make available to the Depositary, Custodian and any Agent as many further copies as they may reasonably require to satisfy requests from Holders) of any financial statements or accounts that it makes generally available to its shareholders, including but not limited to any financial statements or accounts that may be required by law or regulation or in order to maintain a listing for the GDRs on the London Stock Exchange, or any other EEA Regulated Market, in accordance with Clause 7.1 and Condition 18, as soon as practicable following the publication or availability of such communications.

24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

24.3 For so long as any of the GDRs remains outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered pursuant to Rule 144A(2)(4) to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the Securities Act to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary in English on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26. Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing Law

28.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Russian law. The Company has submitted in respect of the Deposit Agreement to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal court sitting in the Borough of Manhattan, New York City. The Company has submitted in respect of the Deed Poll to the jurisdiction of the English courts. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.

28.2 The Company has irrevocably appointed Law Debenture Corporate Services Limited with offices at Fifth Floor, 100 Wood Street, London EC2V 7EX, as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and appointed Corporation Services Company with offices at 1133 Avenue of the Americas, Suite 3100, New York, NY 10036, USA, as its agent in New York to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

28.3 The courts of England are to have jurisdiction to settle any disputes (each a "Dispute") which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs ("Proceedings") may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

28.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).

28.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.

28.6 The Depositary irrevocably appoints The Bank of New York, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILST IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Master Regulation S GDR in registered form and (ii) a single Master Rule 144A GDR in registered form. The Master Regulation S GDR will be deposited with The Bank of New York, London Branch, as common depository for Euroclear and Clearstream, Luxembourg and registered in the name of The Bank of New York Depository (Nominees) Limited. The Master Rule 144A GDR will be registered in the name of Cede & Co as nominee for DTC, and will be held by The Bank of New York in New York. The Master Regulation S GDR and the Master Rule 144A GDR (collectively the "Master GDRs") contain provisions which apply to the GDRs whilst they are in master form, some of which modify the effect of the "Terms and Conditions of the Global Depositary Receipts" set out in this Prospectus. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the "Terms and Conditions of the Global Depositary Receipts" shall have the same meaning herein.

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in (i), (ii), (iii) or (iv) below in whole but not in part. The Depositary will irrevocably undertake in the Master GDRs to deliver certificates evidencing GDRs in definitive registered form in exchange for the relevant Master GDR to the Holders within 60 calendar days in the event that:

(i) Euroclear or Clearstream, Luxembourg (in the case of the Master Regulation S GDR) or DTC, or any successor to DTC (in the case of the Master Rule 144A GDR) notifies the Depositary that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days;

(ii) Euroclear or Clearstream, Luxembourg (in the case of the Master Regulation S GDR) or DTC, or any successor to DTC (in the case of the Master Rule 144A GDR) is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and no alternative clearing system satisfactory to the Depositary is available within 45 calendar days; or

(iii) in the case of the Master Rule 144A GDR, DTC or any successor ceases to be a "clearing agency" registered under the Exchange Act; or

(iv) the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the expense (including printing costs) of the relevant GDR holder.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through DTC, Euroclear or Clearstream, Luxembourg.

Upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Master Rule 144A GDR and the Master Regulation S GDR pursuant to Clause 4 of the Deposit Agreement, or any distribution of GDRs pursuant to Conditions 5, 7 or 10 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by the Master GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the register, provided always that, if the number of GDRs represented by the Master GDR is reduced to zero, the Master GDR shall continue in existence until the Company's obligations under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs, represented by the Master Regulation S GDR, be made by the Depositary through Euroclear and Clearstream, Luxembourg and, in the case of GDRs represented by the Master Rule 144A GDR, will be made by the Depositary through DTC, on behalf of persons entitled thereto upon receipt of funds therefore from the Company. A free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the record maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders of GDRs will have voting rights as set out in the Terms and Conditions of the GDRs.

Surrender of GDRs

Any requirement in the Terms and Conditions of the GDRs relating to the surrender of a GDR represented by the Master Regulation S GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream, Luxembourg and relating to the surrender of a GDR represented by the Master Rule 144A GDR to the Depositary shall be satisfied by the production by DTC, on behalf of a person entitled to an interest therein, of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, in the case of the Master Regulation S GDR, or by DTC in the case of the Master Rule 144A GDR. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Master Regulation S GDR is registered in the name of the Bank of New York London Branch as common depositary or its nominee on behalf of Euroclear and Clearstream, Luxembourg and the Master Rule 144A GDR is registered in the name of DTC (or its nominee), notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg with respect to the Master Regulation S GDR and to DTC with respect to the Master Rule 144A GDR for communication to persons entitled thereto in substitution for publications required by Condition 23, except that for so long as the GDRs are listed on the London Stock Exchange and the London Stock Exchange so requires, notice shall also be published in a leading daily newspaper having general circulation in London (which is expected to be the Financial Times) or the website of the London Stock Exchange, www.londonstockexchange.com.

The Master GDRs shall be governed by and construed in accordance with English law.

TAXATION

The following summary of the principal United States federal income, United Kingdom and Russian tax consequences of ownership of the Shares and GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), published administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming. Any such changes or interpretations could affect the tax consequences to holders of the Shares or GDRs, possibly on a retroactive basis, and could alter or modify the statements and conclusions set forth herein. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the Shares or GDRs. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of the Shares or GDRs, including the applicability and effect of any other tax laws or tax treaties, of pending or proposed changes in applicable tax laws as of the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

United States Federal Income Tax Considerations

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a description of the principal U.S. federal income tax consequences that may be relevant to a U.S. Holder (as defined below) with respect to the acquisition, ownership and disposition of Shares or GDRs. This description addresses only the U.S. federal income tax considerations of holders that are initial purchasers of the Shares or GDRs pursuant to the Offering and that will hold the Shares or GDRs as capital assets. This description is for general information only, and does not purport to be a comprehensive description of all tax consequences of the acquisition, ownership and disposition of Shares or GDRs nor does it purport to address all aspects of U.S. federal income taxation that may be important to a particular investor in light of such investor's investment or tax circumstances, or to holders of the Shares or GDRs that may be subject to special tax rules, such as:

- dealers or traders in securities or currencies;
- tax-exempt entities;
- banks, financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- persons that received the Shares or GDRs as compensation for the performance of services;
- S corporations;
- holders who own, or are deemed to own, at least 10%, by voting power or value, of the Shares;
- persons that have a functional currency other than the US dollar;
- holders who hold the Shares or GDRs as part of a position in a straddle or as part of a hedging, conversion or other risk reduction transaction for U.S. federal income tax purposes; or
- certain former citizens or long-term residents of the United States.

Moreover, this description does not address the U.S. federal estate and gift or alternative minimum tax consequences, or any state, local, or foreign tax consequences relating to the ownership and disposition of the Shares or GDRs.

This description is based:

- on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed United States Treasury Regulations promulgated thereunder, and judicial and administrative interpretations thereof, in each case as in effect and available on the date of this Prospectus; and

- in part, on the representations of the Depositary and the assumption that each obligation in the Deposit Agreements and any related agreement will be performed in accordance with its terms.

The United States tax laws and the interpretation thereof are subject to change. These changes could apply retroactively and could affect the tax consequences described below.

For purposes of this description, a U.S. Holder is a beneficial owner of the Shares or GDRs that, for U.S. federal income tax purposes, is:

- an individual who is a citizen or resident of the United States;
- a corporation or other entity treated as a corporation for U.S. federal income tax purposes, created or organised in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if such trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the Shares or GDRs, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax adviser as to the tax considerations relevant to its particular circumstances.

Prospective holders should consult their own tax advisers with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning or disposing of the Shares or GDRs in light of their particular circumstances.

Ownership of GDRs in General

For United States federal income tax purposes, if you are a holder of GDRs, you generally will be treated as the owner of the Shares represented by such GDRs. As a consequence, no gain or loss will be recognised upon the exchange of Shares for GDRs or the exchange of GDRs for Shares.

Distributions

Subject to the discussion below under "— Passive Foreign Investment Company Considerations," the entire amount of any distribution paid with respect to the Shares or GDRs, other than any distributions of the Shares or GDRs made to all the Company's shareholders, will constitute dividends to the extent of the Company's current or accumulated earnings and profits as determined under U.S. federal income tax principles, and generally will be taxed as ordinary income at the time of the receipt of such amounts by the U.S. Holder.

To the extent amounts paid as distributions on Shares or GDRs exceed the Company's current and accumulated earnings and profits, these amounts will not be dividends, but instead will be treated first as a tax-free reduction of capital to the extent of the U.S. Holder's basis in the Shares or GDRs, and thereafter as capital gain. The Company does not intend to compute (or to provide U.S. Holders with the information necessary to compute) earnings and profits under U.S. federal income tax principles. Accordingly, U.S. Holders should expect to treat distributions as dividends.

Dividends will be foreign-source "passive category income," or in the case of certain U.S. Holders, "general category income" for U.S. foreign tax credit purposes and will not be eligible for the dividends-received deduction available to domestic corporations. For taxable years beginning on or before 31 December 2010, certain non-corporate U.S. Holders may be taxed on dividends from certain foreign corporations at the lower rates applicable to long-term capital gains (i.e., gains with respect to capital assets held for more than one year) if the dividends are "qualified dividends." Dividends received in respect of the Shares or GDRs will be qualified dividends if the Company:

- is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules; and

- was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company ("PFIC").

However, a U.S. Holder's eligibility for such preferential rate would be subject to certain holding period requirements and the non-existence of certain risk reduction transactions with respect to the Shares or GDRs. The U.S.-Russia Tax Treaty has been approved for the purposes of the qualified dividend rules, and the Company expects that it generally will be eligible for the benefits of that treaty. Additionally, the Company believes that it was not a PFIC for U.S. federal income tax purposes in respect of its 2006 taxable year and the Company does not anticipate becoming a PFIC in respect of its 2007 tax year or in the foreseeable future, although it can make no assurances in this regard. See " — Passive Foreign Investment Company Considerations."

Dividends paid in Russian roubles will be included in the gross income of a U.S. Holder in a US dollar amount calculated by reference to the prevailing spot market exchange rate in effect on the date that the dividends are received by the U.S. Holder (in the case of Shares) or by the Depositary (in the case of GDRs), regardless of whether such roubles are in fact converted into US dollars on such date. If such dividends are converted into US dollars on the date of receipt, a U.S. Holder generally should not be required to recognise foreign currency gain or loss in respect thereof. Such a holder will have a tax basis for U.S. federal income tax purposes in the Russian roubles received equal to that dollar value. U.S. Holders may be required to recognise ordinary income or loss on the receipt of a refund of Russian withholding tax to the extent the US dollar value of the refund differs from the US dollar equivalent of that amount on the date of receipt of the underlying dividend. U.S. Holders should consult their own tax advisers regarding the treatment of foreign currency gain or loss, if any, on (i) any roubles received by a U.S. Holder or by the Depositary that are converted into US dollars on a date subsequent to receipt, or (ii) any refund received under the U.S.-Russia double tax treaty.

The amount of the distribution that is subject to U.S. federal income taxation will not be reduced by the amount of any Russian tax withheld from the distribution. Russian tax withheld from dividends generally will be treated (up to the 5% or 10% rate, as applicable, provided under the U.S.-Russia Tax Treaty) as a foreign income tax that, subject to generally applicable limitations under U.S. tax law, is eligible for credit against the U.S. federal income tax liability of U.S. Holders or, if they have elected to deduct such taxes, may be deducted in computing taxable income; provided, in each case, that the amounts withheld and paid to the Russian tax authorities are treated as satisfying a U.S. holder's tax liability for purposes of the U.S. foreign tax credit rules. If Russian tax is withheld at a rate in excess of the applicable rate under the U.S.-Russian Tax Treaty, a U.S. Holder may not be entitled to credits for the excess amount because such amounts might be treated as recoverable by the U.S. Holder for U.S. federal income tax purposes, even though the procedures for claiming refunds and the practical likelihood that refunds will be made available in a timely fashion are uncertain. See "— Russian Tax Considerations — Taxation of Non-Resident Holders — Taxation of Dividends." Moreover, a U.S. Holder will only be entitled to claim a credit up to an amount that is not in excess of such U.S. Holder's U.S. income tax liability that would otherwise be imposed on the receipt of the dividend. New foreign tax credit regulations have been recently proposed by the U.S. Department of the Treasury and the IRS, and it is uncertain whether, if adopted in final form, they could affect U.S. Holders' ability to credit Russian tax withheld from dividends against their U.S. federal income tax liability. The rules relating to U.S. foreign tax credits and the timing thereof are extremely complex. Accordingly, U.S. Holders should consult their tax advisers with regard to the availability of a U.S. foreign tax credit and the application of the U.S. foreign tax credit limitations to their particular situations.

Sale or Exchange of the Shares or GDRs

Subject to the discussion below under "— Passive Foreign Investment Company Considerations," U.S. Holders will generally recognise capital gain or loss for U.S. federal income tax purposes as a consequence of a sale or exchange of the Shares or GDRs. The amount of gain or loss will be equal to the difference between the taxpayer's adjusted tax basis in the Shares or GDRs and the amount realised on their disposition. Noncorporate U.S. Holders will be eligible for preferential capital gains rates if the Shares or GDRs are held in excess of one year. The deductibility of capital losses is subject to limitations. Gain realised on the sale of Shares or GDRs will generally be treated as U.S. source income and therefore the use of foreign tax credits relating to any Russian taxes imposed upon such sale may be limited. If Russian taxes are withheld at a rate in excess of the applicable rate under the U.S.-Russia Tax Treaty, the amount of any such excess may not be creditable because such amounts might be treated as recoverable for U.S. federal income tax purposes, even though the procedures for claiming refunds and the practical likelihood that refunds will be made available in a timely fashion are uncertain. U.S. Holders are strongly urged to consult their own tax advisors as to the availability of tax credits for any Russian taxes withheld on the sale of Shares or GDRs.

The initial tax basis of the Shares or GDRs to a U.S. Holder is the US dollar value of the Russian rouble-denominated purchase price determined on the date of purchase. If the Shares or GDRs are treated as traded on an "established securities market," a cash basis U.S. Holder, or, if it elects, an accrual basis U.S. Holder, will determine the dollar value of the cost of such Shares or GDRs by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. The conversion of US dollars to Russian roubles and the immediate use of that currency to purchase the Shares or GDRs generally will not result in taxable gain or loss for a U.S. Holder.

With respect to the sale or exchange of the Shares or GDRs, the amount realised generally will be the US dollar value of the payment received determined on (1) the date of receipt of payment in the case of a cash basis U.S. Holder and (2) the date of disposition in the case of an accrual basis U.S. Holder. If the Shares or GDRs are treated as traded on an "established securities market," a cash basis taxpayer, or, if it elects, an accrual basis taxpayer, will determine the US dollar value of the amount realised by translating the amount received at the spot rate of exchange on the settlement date of the sale.

Passive Foreign Investment Company Considerations

A Non-U.S. corporation will be classified as a "passive foreign investment company," or a "PFIC," for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either (1) at least 75% of its gross income is "passive income" or (2) at least 50% of the average value of its gross assets is attributable to assets that produce "passive income" or that are held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions.

The Company believes that it was not a PFIC for its taxable year ending 31 December 2006. The Company's status in future years will depend on its assets and activities in those years. The Company has no reason to believe that its assets or activities will change in a manner that would cause it to be classified as a PFIC for the current taxable year or for any future year, but there can be no assurance that the Company will not be considered a PFIC for any taxable year.

If the Company were a PFIC, a U.S. Holder of the Shares or GDRs generally would be subject to imputed interest charges and other disadvantageous tax treatment with respect to any gain from the sale or exchange of, and certain distributions with respect to, the Shares or GDRs. Although a U.S. Holder of the Shares or GDRs could make one of several elections that may alleviate certain of the tax consequences referred to above, it is expected that the conditions necessary for making certain of such elections will not be available in all instances. U.S. Holders should consult their own tax advisors regarding the tax consequences that would arise if the Company were treated as a PFIC.

Information Reporting and Backup Withholding

U.S. backup withholding tax and information reporting requirements generally apply to certain payments to certain non-corporate holders of Shares or GDRs. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, the Shares or GDRs made within the United States or by a U.S. payor or U.S. middleman to a holder of the Shares or GDRs, other than an exempt recipient (such as a corporation, a payee that is not a U.S. person that provides an appropriate certification and certain other persons). Backup withholding tax will apply to any payments of dividends on, or the proceeds from the sale or redemption of, Shares or GDRs within the United States or by a U.S. payor or U.S. middleman to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. The backup withholding tax rate is 28% through 2010.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of the Shares or GDRs. Prospective investors should consult their own tax advisors concerning the tax considerations relevant to their particular situation.

United Kingdom Tax Considerations

The comments below are of a general nature and are based on current UK law and published HM Revenue & Customs practice at the date of this document. Except as otherwise stated, the summary only discusses certain UK tax consequences of holding the Shares or the GDRs for the absolute beneficial owners of

the Shares or the GDRs (1) who are resident (or, in the case of individuals only, ordinarily resident) in the UK for tax purposes; (2) who are not resident in Russia; and (3) who do not have a permanent establishment or fixed base in Russia with which the holding of the Shares or the GDRs is connected ("UK Holders"). In addition, the summary (1) only addresses the tax consequences for UK Holders who hold the Shares or the GDRs as capital assets (and who do not hold the Shares or GDRs as part of hedging or conversion transactions), and does not address the tax consequences which may be relevant to certain other categories of UK Holders, for example, dealers in securities, broker dealers, insurance companies and investment companies; (2) assumes that the UK Holder, either alone or together with one or more associated or connected persons, does not directly or indirectly control or hold 10% or more of the shares and/or voting power of the Company; (3) assumes that a holder of the GDRs is beneficially entitled to the underlying Shares and to the dividends on those Shares; (4) assumes that there will be no register in the UK in respect of the Shares or GDRs; (5) assumes that the Shares will not be held by, and that the GDRs will not be issued by, a depositary incorporated in the UK; (6) assumes that neither the Shares nor the GDRs will be paired with shares issued by a company incorporated in the UK; and (7) assumes that the UK Holders have not (and are not deemed to have) acquired the Shares or GDRs by virtue of an office or employment.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular UK Holder. Accordingly, potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under UK law and published HM Revenue & Customs practice, of the acquisition, ownership and disposal of the Shares or the GDRs in their own particular circumstances, by consulting their own tax advisers.

Withholding Tax

Assuming that the income received under the GDRs does not have a UK source, there should be no UK withholding tax on a payment of such income. Dividend payments in respect of the Shares will not be subject to UK withholding tax.

Effect of Russian withholding taxes

As discussed in "Taxation — Russian Tax Considerations — Taxation of Non-Resident Holders — Taxation of Dividends," when the Company pays a dividend to a UK Holder, generally it must act as a tax agent for Russian tax purposes and withhold Russian tax from a dividend. Any Russian withholding tax is generally allowed as a credit against the UK income tax or corporation tax liability of a UK Holder, but any excess of such Russian withholding tax over the UK tax payable on the aggregate amount of the dividend is not generally refundable. The amount of credit for Russian tax cannot exceed the credit that would have been allowed had all reasonable steps been taken under Russian domestic law and under the 1994 Income and Capital Gains Tax Convention between the United Kingdom and the Russian Federation to minimise the amount of tax payable in Russia, including obtaining relief at source and any available refunds.

Taxation of Dividends

A UK Holder who is an individual resident, ordinarily resident and domiciled in the UK will generally be subject to UK income tax on the gross dividend paid on the Shares or GDRs with a credit for Russian tax deducted at source as described above. For an individual UK Holder who is liable for UK tax on the dividend at the dividend ordinary rate (currently 10%) the credit for Russian tax deducted at source may equal or exceed UK income tax liability in respect of the dividend, in which case he will have no further UK tax to pay. For an individual UK Holder who is liable to UK tax on the dividend at the dividend upper rate (currently 32.5%), the UK tax will be chargeable on the gross dividend with credit for Russian tax deducted at source as described above. A UK Holder who is an individual resident but not domiciled or not ordinarily resident in the UK will generally be subject to UK income tax on the dividend paid on the Shares or the GDRs only to the extent that the dividend is remitted, or treated as remitted, to the UK.

A corporate UK Holder will generally be subject to UK corporation tax on the gross dividend paid on the Shares with a credit for Russian tax deducted at source as described above. A corporate holder of the Shares or the GDRs that is not resident in the UK will generally be subject to UK corporation tax on the dividend paid on the Shares or the GDRs where the Shares or the GDRs in question are attributable to a trade carried on by the holder in the UK through a permanent establishment in the UK.

Provision of information

It should be noted that persons in the United Kingdom paying "foreign dividends" to, or receiving "foreign dividends" on behalf of, another person may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or the person entitled to the "foreign dividend" and, in certain circumstances, such information may be exchanged with tax authorities in other countries. Certain payments on or under the Shares or the GDRs may constitute "foreign dividends" for this purpose.

Taxation of Disposals

The disposal by a UK Holder of interests in the Shares or the GDRs may give rise to a chargeable gain or allowable loss for the purposes of UK taxation of chargeable gains, depending on the UK Holder's circumstances and subject to any available exemption or relief.

A UK Holder who is an individual and domiciled in the UK will generally be liable to UK capital gains tax on chargeable gains made on the disposal of an interest in the Shares or the GDRs. A UK Holder who is an individual but not domiciled in the UK will generally be liable to UK capital gains tax to the extent that the chargeable gains made on the disposal of an interest in the Shares or the GDRs are remitted or treated as remitted to the UK. In particular, dealings in the GDRs on the London Stock Exchange may give rise to remitted profits that would, therefore, give rise to UK capital gains tax liability.

An individual holder of the Shares or the GDRs who is neither resident nor ordinarily resident in the UK for UK tax purposes for a period of less than five years, but who was previously resident or ordinarily resident in the UK, and who disposes of such Shares or GDRs during the period of non-residence may also be liable on returning to the UK for UK tax on capital gains despite the fact that the individual was not resident or ordinarily resident in the UK for UK tax purposes at the time of the disposal.

A corporate UK Holder will generally be subject to UK corporation tax on any chargeable gain arising from a disposal of the Shares or the GDRs.

Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

GDRs

No UK stamp duty or SDRT should be payable on (i) the issue of the GDRs (ii) the delivery of the GDRs into a clearance service, such as Euroclear or Clearstream or (iii) any dealings in the GDRs once they are delivered into the clearance service, where such dealings are effected in book-entry form in accordance with the procedures of the clearance service and not by written instrument of transfer.

Shares

Assuming that any document effecting a transfer of, or containing an agreement to transfer an equitable interest in, one or more of the Shares is neither (i) executed in the UK nor (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK (which may include involvement of UK bank accounts in payment mechanics), then no UK ad valorem stamp duty should be payable on such a document.

Even if a document effecting a transfer of, or containing an agreement to transfer an equitable interest in, one or more of the Shares or GDRs is (i) executed in the UK and/or (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK, in practice it should not be necessary to pay any UK ad valorem stamp duty on such a document unless the document is required for any purposes in the UK. If it is necessary to pay UK ad valorem stamp duty, it may also be necessary to pay interest and penalties.

No SDRT should be payable in respect of the issue of, or any agreement to transfer, the Shares.

Russian Tax Considerations

The following is a summary of certain Russian tax considerations relevant to payments to Non-Resident Holders of the GDRs and Shares and to Russian Resident Holders of Shares and GDRs and to the purchase, ownership and disposition of GDRs and Shares by their Non-Resident Holders and of Shares and GDRs by their Russian Resident Holders. The summary is based on the laws of Russia in effect on the date of this Prospectus. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the

regions, municipalities or other non-federal level authorities of the Russian Federation. The summary also does not seek to address the availability of double tax treaty relief; and even where such relief is available there may be practical difficulties involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Shares and GDRs, and no representation with respect to the Russian tax consequences to any particular holder is made hereby.

Russian tax law and procedures are not well developed, and local tax inspectors have considerable autonomy in tax law interpretation and often interpret tax rules inconsistently. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in jurisdictions with more developed capital markets. For example, from 1 January 2006, a number of amendments were introduced to the Profits Tax Chapter of the Tax Code of the Russian Federation with respect to securities transactions. There is little practical experience with respect to the application of these changes and there are few official clarifications. The interpretation and application of tax law provisions will, in practice, rest substantially with local tax inspectors.

For the purposes of this summary, a "Non-Resident Holder" means:

- an individual holder of the Shares or the GDRs who does not satisfy the criteria for being a Russian tax resident. By inference this means an individual, not actually present in the Russian Federation for an aggregate period of 183 days or more (excluding days of arrival into Russia but including days of departure from Russia) in any period consisting of 12 consecutive months. Presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education; or
- a legal person or organisation, in either case not organised under Russian law, that holds and disposes of the Shares or the GDRs otherwise than through a permanent establishment in Russia, or a "Non-Resident Holder-Legal Entity."

For the purposes of this summary, a "Russian Resident Holder" means:

- an individual holder of the Shares or the GDRs who is present in Russia for an aggregate period of 183 days or more (excluding days of arrival into Russia, but including days of departure from Russia) in any period consisting of 12 consecutive months. Presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education ,or
- a legal person organised under Russian law who holds the Shares or the GDRs; or
- a legal person or organisation, in either case organised under a foreign law, which holds and disposes of the Shares or the GDRs through its permanent establishment in Russia.

For the purposes of this summary, the definitions of "Resident Holder" and "Non-Resident Holder" in respect of individuals are taken at face value based on the wording of the tax law as currently written. In practice however the application of the above formal residency definition may differ based on the position of the tax authorities. The law is currently worded in a way that implies the potential for a split year residency for individuals. However, the tax authorities have expressed the view that an individual should be either resident or non-resident in Russia for the full year and, consequently, even where the travel pattern dictates differing residency status for a part of the tax year, the application of the residency tax rate may in practice be disallowed. This situation may be altered by amendments to other articles of the Tax Code of the Russian Federation (the "Tax Code") dealing with taxation of individuals.

The residency rules may be affected by an applicable double tax treaty.

For the purposes of this summary, a "Tax Agent" means (i) a legal person organised under Russian law or (ii) a legal person or organisation, in either case, organised under a foreign law and carrying on activities through a permanent establishment in Russia or, arguably, having any other registered presence in the Russian Federation, who are charged as described below with obligations associated with calculation, withholding from a taxpayer income and transfer to the revenue of taxes.

Taxation of Non-Resident Holders

Taxation of Dividends

Dividends paid to a Non-Resident Holder will generally be subject to Russian withholding income tax, which will be withheld by the Company acting as a Tax Agent. The applicable tax rate on dividends will depend on whether the dividend recipient is a legal entity (or organization) or an individual. Dividends paid to a

Non-Resident Holder-Legal Entity should generally be subject to Russian withholding income tax at a rate of 15%. Dividends paid to a Non-Resident Holder-Individual should be subject to withholding of Russian income tax at a rate of 30%. Currently, there is a draft law passed by the State Duma in three readings reducing this rate to 15%.

Income tax on dividends may be reduced under the terms of a double tax treaty between the Russian Federation and the country of tax residency of the Non-Resident Holders subject to tax treaty clearance requirements being met, as described below in "— Tax Treaty Procedures."

For example, the Convention Between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income and Capital (the "United States-Russia Tax Treaty") provides for reduced withholding rates on dividends paid to a Non-Resident Holder who qualifies as (i) a U.S. tax resident, and (ii) who is entitled to benefits under this treaty including limitation of benefits, and (iii) who is the beneficial owner of the dividends, or a "U.S. Holder." Under this treaty, a 5% rate applies to dividends paid to U.S. Holders that are companies that own 10% or more of the Company's voting stock, and a 10% rate applies to dividends paid to other U.S. Holders. The Convention Between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains, (the "United Kingdom-Russia Tax Treaty") also provides for a 10% withholding income tax rate on dividends paid to a Non-Resident Holder who qualifies as a U.K. tax resident entitled to benefits under this treaty and who is the beneficial owner of the dividends and is subject to taxation in respect of these dividends in the United Kingdom, or a "U.K. Holder."

Notwithstanding the foregoing, treaty relief may be unavailable to Non-Resident Holders on dividends received on GDRs. In particular, the beneficial ownership concept is not developed in Russian law, and as a result there is no certainty whether the Depositary (the legal title holder of the Shares) or a GDR holder (the beneficiary of dividend income) should be regarded as the dividend income recipient for the purpose of application of double taxation treaties. In 2005 and 2006, the Ministry of Finance of the Russian Federation (the "Ministry of Finance") expressed an opinion in its private responses that the non-resident holders of the GDRs (rather than a depositary) should be treated as the beneficial owners of dividends for the purposes of application of double taxation treaty provisions concerning taxation of dividend income. In its letter, the Ministry of Finance listed the following documents to be submitted by the depositary to the issuer for a reduced double taxation treaty rate to be available to a non-resident GDR holder:

- information on the GDR holders (name, address, tax identification number);
- information on the quantity of deposited shares attributable to each GDR holder (DEPO account statements);
- information on the amount of dividends payable to each GDR holder.

The above position was expressed by the Ministry of Finance in private responses to specific taxpayers' queries with respect to particular situations and, as such, does not represent a statement of tax law. Starting in 2007, the Tax Code provides that it is obligatory for the tax authorities to follow the position of the Ministry of Finance. This new Tax Code provision arguably applies only to letters, responses, guidelines, etc. issued by the Ministry of Finance starting 2007. It therefore cannot be concluded with absolute certainty whether the local tax inspectorates would follow the position of the Ministry of Finance set out in their responses in 2005 and 2006. It is not obligatory for the taxpayers to follow the position of the Ministry of Finance.

There may be certain practical difficulties in connection with the collection and timely submission of the above information by the Depositary to the Company. The Company may therefore not be in a position to apply income tax withholding at a reduced rate available for dividend income under the relevant double taxation treaty.

If the Depositary rather than the Russian Non-Resident Holders of the GDRs were to be viewed by the Company as the dividend income recipient and/or if the information on the beneficial owners of such dividends were not available or sufficient in the view of the Company by the dividend payment date, the Company should withhold income tax at a rate of 15% from dividend payments on the Shares represented by the GDRs.

Moreover, the Company may decide to deduct Russian withholding tax from dividends paid to the Depositary at a rate of 15%, regardless of whether the Depositary (the legal owner of the Shares) or a Non-Resident Holder of GDRs (the beneficial owner of the Shares) should be entitled to reduced rates of tax under the relevant double tax treaty.

There is a risk that Non-Resident Holders of the GDRs that are individuals nevertheless may have a filing obligation in respect of Russian source income, and may be liable for additional tax imposed at the Russian income tax rate applicable to dividends, depending on the approach taken by the tax authorities at the time when respective income is received. However, this tax may be reduced under an applicable double tax treaty subject to treaty clearance requirements being met. No assurance can be given that the Russian tax authorities would ultimately agree to such a reduction and/or refund of any tax withheld by the Company. It is advisable for Non-Resident Holders of the GDRs to consult their tax advisors in relation to their filing position in Russia at the time when respective income is received.

Taxation of Capital Gains

Legal entities and organisations

Under Russian tax legislation, gains arising from the sale, exchange or other disposition of the Shares or GDRs that are circulated (i.e., listed and traded) on foreign stock exchanges by Non-Resident Holders that are legal entities or organisations, otherwise than through their permanent establishment in Russia, fall outside the scope of Russian taxes. Therefore, so long as the GDRs remain listed and traded on the London Stock Exchange, gains arising from the sale, exchange or other disposition of GDRs on the London Stock Exchange by non-resident legal entities or organisations that have no permanent establishment in Russia to which such sale, exchange or disposition could be connected, should not be subject to Russian withholding income tax and, hence, to taxation in Russia.

The remainder of this sub-section applies only to the Shares and to GDRs that are sold, exchanged, or disposed by Non-Resident Holders otherwise than on foreign stock exchanges.

Capital gains arising from the sale, exchange or other disposition of the Shares or GDRs by Non-Resident Holders-Legal Entities should not be subject to tax in Russia if the Company's immovable property located in Russia constitutes 50% or less of its assets. The Company believes that its immovable property located in Russia does not currently, and will not, constitute more than 50% of its assets. However, because the determination of whether 50% or less of the Company's assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis, and because the relevant legislation and regulations are not entirely clear, there can be no assurance that the immovable property located in Russia does not currently, or will not in the future constitute more than 50% of the Company's assets. If more than 50% of the Company's assets were to consist of immovable property located in Russia, a Non-Resident Holder-Legal Entity may be subject to:

- a 24% withholding tax rate on capital gains realised from the sale, being the difference between the sales price and the sum of the acquisition and disposal costs (which need to be evidenced by proper supporting documents) of the Shares or GDRs; or
- a 20% withholding tax rate on the gross proceeds from the sale of the Shares or GDRs.

Some tax treaties entered into by the Russian Federation provide for elimination of taxation of capital gains in Russia for Non-Resident Holder-Legal Entities qualifying for the relevant treaty benefits.

Under the United States-Russia Tax Treaty, capital gains from the sale of Shares or GDRs by U.S. Holders should be exempt from taxation in Russia, unless 50% or more of the fixed assets of the Company were to consist of immovable property located in Russia.

Since the United States-Russia Tax Treaty does not allow for more beneficial tax treatment of capital gains on the Shares and/or the GDRs, it is unlikely that the need will arise for such Non-Resident Holders-Legal Entities to seek to obtain the benefit of the United States-Russia Tax Treaty in relation to capital gains resulting from the sale, exchange or other disposition of the Shares or GDRs.

Under the United Kingdom-Russia Tax Treaty, capital gains from the sale of shares by U.K. Holders should not be subject to tax in Russia, unless the value of shares or the greater part of their value is derived directly or indirectly from immovable property located in Russia and the shares are not quoted on an approved stock exchange. A similar approach may apply to the taxation of capital gains from the sale of GDRs.

There is a risk that the Tax Agents which are obligated to withhold tax on capital gains may not have sufficient information regarding the Company's assets to conclude what percentage consists of immovable property and could therefore conservatively seek to withhold tax on the consideration paid to the Non-Resident Holders — Legal Entities selling the Shares or GDRs. If there is an applicable double tax treaty, Non-Resident Holders — Legal Entities may apply for a refund of a portion of the withholding tax, but there is no assurance that such refund will be obtained. See "Tax Treaty Procedures."

Individuals

According to Russian tax legislation, taxation of capital gains realised on a sale, exchange or other disposition of Shares or GDRs by Non-Resident Holders-Individuals will depend on whether this income is considered as received from Russian or non-Russian sources. However, as there is no definition of what should be considered a "sale in Russia" or "sale outside Russia", the Russian tax authorities have a certain amount of freedom to conclude whether transactions take place inside or outside of Russia based on indicators which cannot be predicted with a sufficient level of certainty. Gains arising from the sale, exchange or other disposition of the Shares or GDRs in Russia by holders who are individuals not resident in Russia for tax purposes should be subject to tax either at source in Russia or based on a tax return, which they may be required to submit to the Russian tax authorities. If gains from the sale, exchange or other disposition of the Shares or GDRs by a Non-Resident Holder-Individual is considered Russian source income, a tax will be imposed in an amount equal to 30% at the source of payment if the sale is made by a Non-Resident Holder through or to a licensed broker or an asset manager that is a Russian legal entity or an organization, or any other person, including a foreign company with a permanent establishment or arguably any registered presence in Russia or an individual entrepreneur located in Russia, who carry out operations under an agency agreement, a commission agreement or another similar agreement. Such person should act as a Tax Agent and should withhold the applicable tax. The amount of tax withheld should be calculated after deducting the acquisition value and related expenses. The Tax Agent should report to the Russian tax authorities the income realised by the individual and tax withheld upon the sale of the securities by 1 April of the year following the reporting year. When a sale is made to other legal entities or individuals, generally no withholding of tax needs to be made and the Non-Resident Holder should file a tax return, report his income realised and apply for a deduction of acquisition expenses, based on the provision of supporting documentation.

Some tax treaties entered into by the Russian Federation provide for a reduction or elimination of taxation of capital gains in Russia for Non-Resident Holders-Individuals qualifying for the relevant treaty benefits.

U.S. or U.K. Non-Resident Holders-Individuals whose income from the sale, exchange or other disposition of the Shares or GDRs is taxed at source by withholding at a 30% rate may technically claim a refund of the tax withheld under the relevant treaty provisions. However, in practice these procedures are very time-consuming and more complicated than those for corporate holders, and a successful outcome for individuals is less likely. Under the United States-Russia Tax Treaty, capital gains from the sale of Shares or GDRs by U.S. Holders should be exempt from taxation in Russia, unless more than 50% of the fixed assets of the Company were to consist of immovable property located in Russia. Thus, with respect to an individual U.S. Holder the treatment provided by the United States-Russia Tax Treaty may be more beneficial than that under Russian domestic law in cases where the immovable property does not make up more than 50% of the Company's fixed assets. Under the United Kingdom-Russia Tax Treaty, capital gains from the sale of shares by U.K. Holders should not be subject to tax in Russia, unless the value of shares or the greater part of their value is derived directly or indirectly from immovable property located in Russia and the shares are not quoted on an approved stock exchange. A similar approach may apply to the taxation of capital gains from the sale of GDRs.

With respect to a U.K. Holder (individual), the treatment provided by the United Kingdom-Russia Tax Treaty may therefore be more beneficial than the treatment under domestic Russian tax law in circumstances where gains are derived from the disposition of the Shares or GDRs quoted on an approved stock exchange or in cases where the Company's shares are not quoted on any approved stock exchange but do not derive their value or greater part of their value directly or indirectly from immovable property situated in Russia.

Advance treaty clearance is not provided for by current Russian legislation and individuals wishing to make a treaty claim would be required to submit a tax return to the tax authorities as described below in "Tax Treaty Procedures" to claim the refund of tax.

Tax Treaty Procedures

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These tax treaties may contain provisions that reduce or eliminate Russian tax due with respect to income received from a source within Russia by a Non-Resident Holder on the Shares and/or GDRs.

In order to obtain the benefit of such tax treaty provisions, a Non-Resident Holder must comply with the certification, information, and reporting requirements that are in force in Russia. These requirements differ in respect of dividend income and gains from the sale, exchange and the disposition of the Shares and/or GDRs, to the extent such gains are subject to taxation under Russian tax law.

A Non-Resident Holder-Legal Entity seeking to obtain relief from or reduction of Russian withholding income tax under a tax treaty must provide the Tax Agent with a confirmation of its tax residency for the purposes of the applicable double tax treaty, legalised or apostilled with a notarised Russian translation attached to it. The tax residency confirmation needs to be renewed on an annual basis, and provided to the payer of income before the first payment of income in each calendar year.

In their guidance (the Methodological Recommendations "Concerning Special Considerations Relating to the Taxation of Foreign Legal Entities" adopted by Order of the Ministry of the Russian Federation of Taxes and Levies No. BG-3-23/150 of 28 March 2003), the tax authorities state that a Non-Resident Holder of the Shares that is a legal entity or an organisation should confirm that it has the actual right (legal title) to receive dividend income in order to obtain double taxation treaty benefits in respect of dividend income on the Shares. Depending on the applicable double tax treaties, a Non-Resident Holder of the Shares may be required to provide additional information, for instance on the amount of the investment made and/or the percentage of holding in the capital of the Company.

In accordance with the Russian Tax Code, a Non-Resident Holder-Individual must present to the tax authorities a tax residency certificate issued by the competent authorities in his/her country of residence for tax purposes and a confirmation of the income received and the tax paid in such foreign jurisdiction, as confirmed by the relevant foreign tax authorities. Technically, such requirements mean that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her tax residency. For example, a U.S. Holder may obtain the appropriate certification by mailing completed Form 8802, Application for United States Residency Certification, together with any additional information required to: Internal Revenue Service, P.O. Box 42530, Philadelphia, PA 19101-2530. Obtaining the required certification from the Internal Revenue Service may take six to eight weeks. If the U.S. Non-Resident Holder is eligible for certification, he/she will receive a Form 6166, Certification of United States Residency, upon filing a completed Form 8802 with the Internal Revenue Service.

A U.K. Non-Resident Holder may obtain the appropriate certification from his/her local Inspector of Taxes. As obtaining this certification may take some time, a U.K. Non-Resident Holder should apply for such certification in advance.

For individuals, advance relief from or reduction of withholding income taxes will generally be impossible to obtain as it is unlikely that the supporting documentation for the treaty relief will be provided to the Russian tax authorities and approval from the latter obtained before the receipt of dividends or sales proceeds occurs.

If a Non-Resident Holder does not obtain double tax treaty relief at the time that income or gains are realised and tax is withheld by a Russian payer, the Non-Resident Holder may apply within three years from the end of the year in which the tax was withheld, if the recipient is a legal entity or organisation, or within one year from the end of the tax year in which the tax was withheld for a refund of such tax, if the recipient is an individual. To process a claim for a refund, the Russian tax authorities require: (1) an apostilled or legalised confirmation of the foreign tax residency of the Non-Resident Holder at the time the income was paid, as required by an applicable tax treaty; (2) an application for a refund of the tax withheld; and (3) copies of the relevant contracts or other documents based on which the income was paid, as well as payment documents confirming the payment of the tax that was withheld to the appropriate Russian authorities. (Form 1012DT for dividends and interest and Form 1011DT for other income are intended to combine (1) and (2) for foreign legal entities and organisations; individuals are also required to submit a document issued or approved by the tax authorities in the country in which they are residents for tax purposes, confirming the amount of income received and taxed in that country). The Russian tax authorities may require a Russian translation of some documents. The refund of the tax withheld should be granted within one month following the filing of the application for the refund and the relevant documents with the Russian tax authorities. However, in practice, the procedures for processing such tax refund claims have not been clearly established and there is significant practical uncertainty regarding the availability and timing of such refunds.

The procedures described above may be more complicated with respect to GDRs due to the separation of legal and beneficial ownership of the Russian shares underlying the GDRs. Russian tax legislation does not provide clear guidance regarding availability of double tax treaty relief for GDR holders. See "Russian Tax Considerations—Taxation of Russian Resident Holders — Taxation of dividends." Thus, the Company cannot assure potential investors that exemption from or a reduction in tax will be available under any applicable tax treaties in respect of Russian taxes payable or withheld in respect of dividends on Shares represented by GDRs.

Taxation of Russian Resident Holders

Taxation of dividends

Shares

Dividends paid to a holder of the Shares that is a Russian legal entity or who is an individual will be subject to Russian withholding tax at the rate of 9%. The effective rate of tax may be lower than 9%, as the amount of tax should be determined as the product of the tax rate (9%) and the difference between (1) the amount of dividends to be distributed by the Company to its shareholders (other than to Non-Resident Holders of the Shares) and (2) the amount of dividends received by the Company in the current tax (accounting) period and in the preceding tax (accounting) period from its Russian subsidiaries.

The Russian Tax Code does not clearly state which rate of withholding tax should apply to dividends payable to a holder of Shares that is a permanent establishment of a foreign legal entity (or organisation). According to the recommendations issued by the Russian tax authorities, withholding tax at the rate of 9% should apply to dividends paid to a Russian permanent establishment of a foreign legal entity (or organisation), provided that there is a double tax treaty between Russia and the country of tax residency of the relevant foreign legal entity and that treaty contains non-discrimination provisions. Otherwise, a 15% tax rate should apply. However, as application of the reduced tax rate is not specifically provided in the Russian Tax Code, no assurance can be given that application of a 9% tax rate on dividends paid to residents of the treaty jurisdictions would not be challenged by the Russian tax authorities.

GDRs

There are uncertainties in relation to withholding tax on dividends payable to Russian Resident Holders of GDRs. The Tax Code does not explicitly stipulate that the withholding tax rates applicable to dividend distributions to the holders of the Shares that are the registered title holders (legal owners) are valid for the holders of the GDRs derived from the Shares. In the absence of specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, the Tax Code does not provide for a conclusion that the Russian Resident Holders of the GDRs should be entitled to the same tax rate on dividends as the Russian Resident Holders of the Shares. In 2005 and 2006, the Ministry of Finance expressed an opinion in their private responses that the Russian Resident Holders of GDRs (rather than a depositary) should be treated as the beneficial owners of dividends for the purposes of application of the 9% withholding tax rate. In order to confirm entitlement to the 9% withholding tax rate, the Depositary may be required to provide the Company with the same or similar information as established by the Ministry of Finance with respect to Non-Resident Holders. See "Russian Tax Considerations—Taxation of Non-Resident Holders—Taxation of Dividends".

The above position was expressed by the Ministry of Finance in private responses to specific taxpayers' queries with respect to particular situations and, as such, does not represent a statement of tax law. Starting 2007, the Tax Code provides that it is obligatory for the tax authorities to follow the position of the Ministry of Finance. This new Tax Code provision arguably applies only to letters, responses, guidelines, etc. issued by the Ministry of Finance starting in 2007. It therefore cannot be concluded with absolute certainty whether the local tax inspectorates would follow the position of the Ministry of Finance set out in their responses in 2005 and 2006. It is not obligatory for the taxpayers to follow the position of the Ministry of Finance.

There may be certain practical difficulties in connection with the collection and timely submission of the above information by the Depositary to the Company. The Company may therefore not be in a position to apply 9% withholding tax rate to dividend distributions made to Russian Resident Holders of the GDRs.

If the Depositary rather than the Russian Resident Holders of the GDRs were to be viewed by the Company as the dividend income recipient and/or if the information on the beneficial owners of such dividends were not available or sufficient in the view of the Company by the dividend payment date, the Company should withhold income tax at a rate of 15% from dividend payments on the Shares represented by the GDRs.

There is a risk that income received by Russian Resident Holders of the GDRs from the Depositary may not be regarded by the Russian tax authorities as dividend income, in the event that a view is taken that it does not strictly meet the definition of a dividend established by the Tax Code. In such a case, the income mentioned in the preceding sentence should be taxable at a rate of 13% for Russian Resident Holders—Individuals of the GDRs and at a rate of up to 24% for Russian Resident Holders—Legal Entities. In practice Russian Resident Holders of the GDRs may or may not be deemed entitled to reclaim or credit the tax withheld by the Company initially on payments to the Depositary.

In view of the foregoing, the Company urges Russian Resident Holders to consult their own tax advisers regarding the tax treatment of the purchase, ownership and disposition of the GDRs.

Taxation of capital gains

Legal entities and organisations

Capital gains arising from the sale, exchange or other disposition of Shares or GDRs by any non-individual Russian Resident Holder will be taxable at the regular Russian tax rate of 24%. Russian tax legislation contains a requirement that profit arising from operations with securities quoted on a stock exchange must be calculated and accounted for separately from profit from operations with securities that are not quoted on a stock exchange and from operating profit. Therefore, Russian Resident Holders that are not individuals may be able to apply losses arising in respect of the Shares or GDRs only to offset capital gains, or as a carry forward to offset future capital gains from the sale, exchange or other disposition of securities within the same category (either quoted or not quoted on a stock exchange). Special tax rules apply to Russian legal entities that hold a dealer license or other types of license which can be granted to professional participants of the securities market.

Transactions with the Shares and the GDRs should be subject to Russian transfer pricing rules established by the Tax Code for securities transactions.

Individuals

Unless tax is fully withheld at source as discussed below, capital gains arising from the sale, exchange or other disposition of Shares or GDRs by individuals who are Russian Resident Holders must be declared on the holder's annual tax declaration and are subject to personal income tax at a rate of 13%.

The tax base in respect of the sale of securities by an individual is calculated as the sale proceeds less expenses supported by documents and related to the purchase of such securities (including the cost of such securities and expenses associated with purchase, holding and sale of such securities). In certain circumstances if the disposal proceeds are paid by a licensed broker or an asset manager that is a Russian legal entity or an organisation, or any other person, including a foreign company with a permanent establishment or, arguably, any registered presence in Russia or an individual entrepreneur registered in Russia, who carry on operations under an agency agreement, a commission agreement or another similar agreement for the benefit of Russian Resident Holders - Individuals, such persons should act as the Tax Agents and withhold the applicable tax. The amount of tax withheld should be calculated after taking into account deductions for the acquisition value and related expenses. The Tax Agent would be required to report to the Russian tax authorities the income realised by the Russian Resident Holder and tax withheld upon the sale of securities by 1 April of the year following the reporting year. When a sale is made in other circumstances, generally no withholding of tax needs to be made and the Russian Resident Holder would have an obligation to file a tax return, report income realised and apply for a deduction of acquisition expenses, based on the provision of supporting documentation.

As the Russian legislation related to taxation of income derived by Russian Resident Holders (both legal entities or organisations, and individuals) from the sale, exchange or other disposition of GDRs is not entirely clear, the Company urges Russian Resident Holders to consult their own tax advisers regarding the tax treatment of the purchase, ownership and disposition of the GDRs.

PLAN OF DISTRIBUTION

Description of the Distribution

The Offering comprises (i) an offering of Shares and GDRs outside the United States in reliance on Regulation S under the Securities Act, (ii) an offering of Shares and GDRs within the United States to qualified institutional buyers as defined in, and in reliance upon, Rule 144A under the Securities Act, and (iii) an offering of Shares in the Russian Federation.

The Company, the Selling Shareholder and the Joint Global Coordinators have entered into the Underwriting Agreement with respect to the Securities being offered. Subject to the satisfaction of certain conditions set forth in the Underwriting Agreement, the Joint Global Coordinators named below have agreed, severally but not jointly, to procure purchasers for, or to themselves purchase, the number of Shares (in the form of Shares or GDRs) set forth opposite their name in the following table:

Joint Global Coordinators	Number of Shares
Citigroup Global Markets Limited	7,558,521
UBS Limited	7,558,520
Total	15,117,041

The Offer Price was determined on the basis of a bookbuilding process. The total expenses payable by the Company for this Offering, other than the Joint Global Coordinators' commissions, are estimated to be approximately $4.3 million.

In the Underwriting Agreement, the Company and the Selling Shareholder have made certain representations and warranties and agreed to indemnify the several Joint Global Coordinators against certain liabilities, including liability under the Securities Act. The Joint Global Coordinators are offering the Securities (including the Optional Shares in the form of GDRs) when, as and if delivered to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Shares, and other conditions contained in the Underwriting Agreement, such as Admission and the receipt by the Joint Global Coordinators of officers' certificates and legal opinions.

The Joint Global Coordinators may terminate the Underwriting Agreement prior to the closing of the Offering under certain specified conditions that are typical for an agreement of this nature. If any of such conditions are not satisfied or waived or the Underwriting Agreement is terminated prior to the closing of the Offering, then this Offering will lapse.

Over-Allotment Option

The Selling Shareholder has granted to the Joint Global Coordinators an overallotment option, exercisable until 30 days after the announcement of the Offer Price, to purchase or procure purchasers for up to 1,232,367 Optional Shares in the form of GDRs, solely to cover overallotments in the Offering.

Lock-Up Arrangements

The Company and the Selling Shareholder have agreed, as part of the arrangements with the Joint Global Coordinators (such consent, with respect to the Selling Shareholder, not to be unreasonably withheld), for a period of 180 days after the Closing Date, without the prior written consent of the Joint Global Coordinators, that they will not, and their subsidiaries, affiliates and persons acting on their behalf will not:

- issue, offer, sell, lend, mortgage, assign, contract to sell or issue, pledge, charge, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or global depositary receipts representing the right to receive any such securities;
- enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Shares; or

- enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above,

whether any such transaction described above is to be settled by delivery of Shares or such other securities, in cash or otherwise.

The foregoing agreement does not apply to:

- the offer and sale of the Securities pursuant to the Underwriting Agreement;
- the offer and sale of Securities to other members of the Group, provided that such entities first agree to be bound by the lock-up agreement by executing a legally valid, binding and enforceable agreement on the same terms; and
- issuances of shares by the Company or issue of depositary receipts representing such shares, if such shares or depositary receipts are issued in connection with the acquisition of a company or business to the vendor(s) of such company or business, so long as such shares or depositary receipts do not in the aggregate exceed 20 per cent of the fully diluted share capital of the Company immediately following the Offering, provided that such recipients of shares or depositary receipts first agree to be bound by the lock-up agreement by executing a legally valid, binding and enforceable agreement on the same terms.

Stabilisation

In connection with the Offering, the Stabilising Manager, or its agents, may overallot or effect transactions in the GDRs with a view to supporting the market price of the GDRs at a level higher than that which might have otherwise prevailed in the open market for a limited period after the issue date. However, the Stabilising Manager or such agents have no obligation to do so. Such stabilisation, if commenced, may be discontinued at any time and may only be undertaken during the Stabilisation Period. The Joint Global Coordinators do not intend to disclose the extent of any such stabilisation transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Other Relationships

The Joint Global Coordinators and their respective affiliates have engaged in transactions with and performed various investment banking, financial advisory and other services for the Company and the Selling Shareholder and their respective affiliates, for which they received customary fees. In particular, an affiliate of Citigroup Global Markets Limited is an arranger and lender of the Citibank Loan Agreement. The Joint Global Coordinators and their respective affiliates may provide such services for the Company and the Selling Shareholder and their respective affiliates in the future.

In connection with the Offering, each of the Joint Global Coordinators and any affiliate acting as an investor for its own account may take up Securities and in that capacity may retain, purchase or sell for its own account such Securities and any related investments and may offer or sell such Securities or other investments otherwise than in connection with the Offering. Accordingly, references in this Prospectus to the Securities being offered or placed should be read as including any offering or placement of Securities to the Joint Global Coordinators and any affiliate acting in such capacity. Neither of the Joint Global Coordinators intend to disclose the extent of any such investment or transactions otherwise than to the Company and the Selling Shareholder and in accordance with any legal or regulatory obligation to do so. In addition, in connection with the Offering, certain of the Joint Global Coordinators may enter into financing arrangements with investors, such as share swap arrangements or lending arrangements where Securities are used as collateral, that could result in such Joint Global Coordinators acquiring shareholdings in the Company.

SELLING AND TRANSFER RESTRICTIONS

Selling Restrictions

No action has been taken or will be taken in any jurisdiction, other than in the Russian Federation, that would permit a public offering of the Securities in any country or jurisdiction where action for that purpose is required.

United States

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act.

The Securities are being offered (a) in the United States to QIBs in reliance on Rule 144A and (b) outside the United States in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Securities an offer or sale of Securities within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each of the Joint Global Coordinators has represented, warranted and agreed that it has:

- only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Securities in circumstances in which section 21(1) of the FSMA does not apply to the Company; and
- complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a "Relevant Member State"), an offer to the public of any Securities may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any Securities may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to legal entities that are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of:
  - an average of at least 250 employees during the last financial year;
  - a total balance sheet of more than EUR 43,000,000; and
  - an annual net turnover of more than EUR 50,000,000, as shown in its last annual or consolidated accounts;
- by the Joint Global Coordinators to fewer than 100 natural or legal persons, other than qualified investors as defined in the Prospectus Directive, subject to obtaining the prior consent of the Joint Global Coordinators for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Securities shall result in a requirement for the publication by the Company or either of the Joint Global Coordinators of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Securities to be offered so as to enable an investor to decide to purchase any Securities, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Japan

The Securities have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law"). Accordingly, no Joint Global Coordinator may, directly or indirectly, offer or sell Securities in Japan to, or for the benefit of, any resident of Japan, or to, or for the account or benefit of, any persons for reoffering or resale, directly or indirectly in Japan or to, or for the account or benefit of, any resident of Japan, except, in each case, pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan.

Australia

This Prospectus does not constitute a disclosure document or a product disclosure statement for the purposes of the Corporations Act 2001 of the Commonwealth of Australia (the "Corporations Act") and has not been, and will not be, lodged with the Australian Securities and Investments Commission. No securities commission or similar authority in Australia has reviewed or in any way passed upon this document or the merits of these securities, and any representation to the contrary is an offence.

The Shares and GDRs will be offered to persons who receive offers in Australia only to the extent that both:

- those persons are "wholesale clients" for the purposes of Chapter 7 of the Corporations Act; and
- such offer of the Shares for issue or sale does not need disclosure to investors under Part 6D.2 of the Corporations Act.

Any offer of the Shares or GDRs received in Australia is void to the extent that it needs disclosure to investors under the Corporations Act. In particular, offers for the issue or sale of the Shares or GDRs will only be made, and this document may only be distributed, in Australia in reliance on various exemptions from such disclosure to investors provided by section 708 of the Corporations Act and where the investors are also "wholesale clients" as described above.

As any offer for the Shares or GDRs will be made in Australia without disclosure under the Corporations Act, the offer of the Shares or GDRs for sale in Australia within 12 months of their issue may, under section 707(3) or 1012C(6) of the Corporations Act, require disclosure to investors under the Corporations Act if none of the exemptions under the Corporations Act apply. Accordingly, any person to whom the Shares or GDRs are issued or sold pursuant to this document must not, within 12 months after the issue, offer (or transfer, assign or otherwise alienate) those Shares or GDRs to investors in Australia except in circumstances where disclosure to investors is not required under the Corporations Act or unless a compliant disclosure document or product disclosure statement is prepared and lodged with the Australian Securities and Investments Commission.

None of the Company, the Selling Shareholders or the Joint Global Coordinators hold Australian financial services licences. None of the Company, the Selling Shareholders or the Joint Global Coordinators are licensed to provide financial product advice in relation to the Shares and GDRs. An investor in the Company will not have cooling off rights.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Securities may not be circulated or distributed, nor may Securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Securities are subscribed or purchased under Section 275 by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, shares, debentures and units of shares

and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 except:

(1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

(2) where no consideration is or will be given for the transfer; or

(3) where the transfer is by operation of law.

United Arab Emirates

This Prospectus is not intended to constitute an offer, sale or delivery of shares or other securities under the laws of the United Arab Emirates ("UAE"). The Securities have not been and will not be registered under Federal Law No. 4 of 2000 Concerning the Emirates Securities and Commodities Authority and the Emirates Security and Commodity Exchange, or with the UAE Central Bank, the Dubai Financial Market, the Abu Dhabi Securities market or with any other UAE exchange.

The Offering and the Securities and interests therein have not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities in the UAE, and do not constitute a public offer of securities in the UAE in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.

In relation to its use in the UAE, this Prospectus is strictly private and confidential and is being distributed to a limited number of investors and may not be reproduced or used for any other purpose. The interests in the Securities may not be offered or sold directly or indirectly to the public in the UAE.

Canada

This document is not, and under no circumstances is it to be construed as, a prospectus, an advertisement or a public offering of the securities described herein in Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence.

Representations and Agreements by Purchasers

The Offering is being made in Canada only in the Canadian provinces of Ontario, British Columbia and Québec (the "Canadian Jurisdictions") by way of a private placement of GDRs. The Offering in the Canadian Jurisdictions is being made pursuant to this Prospectus through the Joint Global Coordinators named in this Prospectus or through their selling agents who are permitted under applicable law to distribute such securities in Canada. Each Canadian investor who purchases the GDRs will be deemed to have represented to the Company, the Selling Shareholder the Joint Global Coordinators that: (1) the offer and sale was made exclusively through this Prospectus and was not made through an advertisement of the GDRs in any printed media of general and regular paid circulation, radio, television or telecommunications, including electronic display, or any other form of advertising in Canada; (2) such investor has reviewed the terms referred to below under "Canadian Resale Restrictions;" (3) where required by law, such investor is, or is deemed to be, acquiring the GDRs as principal for its own account in accordance with the laws of the Canadian Jurisdiction in which the investor is resident and not as agent or trustee; and (4) such investor or any ultimate investor for which such investors is acting as agent is entitled under applicable Canadian securities laws to acquire the GDRs without the benefit of a prospectus qualified under such securities laws, and without limiting the generality of the foregoing: (i) in the case of an investor resident in British Columbia or Québec, without the Joint Global Coordinator having to be registered; (ii) in the case of an investor resident in British Columbia or Québec, such investor is an "accredited investor" as defined in section 1.1 of National Instrument 45-106 — *Prospectus and Registration Exemptions* ("NI 45-106"); (iii) in the case of an investor resident in Ontario, such investor, or any ultimate investor for which such investor is acting as agent (1) is an "accredited investor," other than an individual, as defined in NI 45-106 and is a person to which a dealer registered as an international dealer within the meaning of section 98 of Regulation 1015 to the

Securities Act (Ontario) (the "OSA") in Ontario may sell the GDRs or (2) is an "accredited investor," including an individual, as defined in NI 45-106 who is purchasing the GDRs from a fully registered dealer within the meaning of section 204 of Regulation 1015 to the OSA; and (5) such investor, if not an individual or an investment fund, has a pre-existing purpose and was not established solely or primarily for the purpose of acquiring the GDRs in reliance on an exemption from applicable prospectus requirements in the Canadian Jurisdictions.

Each resident of Ontario who purchases the GDRs will be deemed to have represented to the Company and the Joint Global Coordinators that such investor: (a) has been notified by the Company that (i) the Company is required to provide information ("personal information") pertaining to the investor as required to be disclosed in Schedule I of Form 45-106F1 under NI 45-106 (including its name, address, telephone number and the number and value of any GDRs purchased), which Form 45-106F1 is required to be filed by the Company under NI 45-106; (ii) such personal information will be delivered to the Ontario Securities Commission (the "OSC") in accordance with NI 45-106; (iii) such personal information is being collected indirectly by the OSC under the authority granted to it under the securities legislation of Ontario; (iv) such personal information is being collected for the purposes of the administration and enforcement of the securities legislation of Ontario; and (v) the public official in Ontario who can answer questions about the OSC's indirect collection of such personal information is the Administration Assistant to the Director of Corporate Finance at the OSC, Suite 1903, Box 5520 Queen Street West, Toronto, Ontario M5H 3S8, Telephone: (416) 593-8086; and (b) has authorized the indirect collection of the personal information by the OSC. Further, the investor acknowledges that its name, address, telephone number and other specified information, including the number of GDRs it has purchased and the aggregate purchase price to the purchaser, may be disclosed to other Canadian securities regulatory authorities and may become available to the public in accordance with the requirements of applicable laws. Each resident of British Columbia or Québec who purchases the GDRs hereby acknowledges to the Company and the Joint Global Coordinators that its name and other specific information, including the aggregate amount of the GDRs it has purchased and the aggregate purchase price to the investor, may be disclosed to Canadian securities regulatory authorities and become available to the public in accordance with the requirements of applicable Canadian securities laws. By purchasing the GDRs, each Canadian investor consents to the disclosure of such information.

Agreement by the Joint Global Coordinators

Each Joint Global Coordinator has represented and agreed that the GDRs will only be offered or sold, directly or indirectly, in Canada only in the Canadian Jurisdictions and in compliance with applicable Canadian securities laws and accordingly, any sales of GDRs will be made (i) through an appropriately registered securities dealer or in accordance with an available exemption from the registered securities dealer requirements of applicable Canadian securities laws and (ii) pursuant to an exemption from the prospectus requirements of such laws.

Language of Document

Each purchaser of GDRs in Canada that receives a purchase confirmation hereby agrees that it is such purchaser's express wish that all documents evidencing or relating in any way to the sale of such GDRs be drafted in the English language only. *Chaque acheteur au Canada des GDRs recevant un avis de confirmation à l'égard de son acquisition reconnaît que c'est sa volonté expresse que tous les documents faisant foi ou se rapportant de quelque manière à la vente des GDRs soient rédigés uniquement en anglais.*

Canadian Resale Restrictions

The distribution of the GDRs in the Canadian Jurisdictions is being made on a private placement basis. Accordingly, any resale of the GDRs must be made (i) through an appropriately registered dealer or in accordance with an available exemption from the dealer registration requirements of applicable provincial securities laws and (ii) in accordance with, or pursuant to an exemption from, the prospectus requirements of such laws. Such resale restrictions may not apply to resales made outside of Canada, depending on the circumstances. Purchasers of GDRs are advised to seek legal advice prior to any resale of GDRs.

The Company is not, and may never be, a "reporting issuer," as such term is defined under applicable Canadian securities legislation, in any province or territory of Canada and there currently is no public market for any of the securities of the Company in Canada, including the GDRs, and one may never develop. Under no circumstances will the Company be required to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the GDRs to the public in any province or territory of

Canada. Canadian investors are advised that the Company currently has no intention of filing a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the GDRs to the public in any province or territory in Canada.

Rights of Action for Damages or Rescission (Ontario)

Securities legislation in Ontario provides investors in GDRs pursuant to this Prospectus with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where this Prospectus or any amendment to it, contains a "Misrepresentation." Where used herein, "Misrepresentation" means an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading in light of the circumstances in which it was made. These remedies, or notice with respect to these remedies, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed by the applicable securities legislation.

Section 130.1 of the OSA provides that every purchaser of securities pursuant to an offering memorandum (such as this Prospectus) shall have a statutory right of action for damages or rescission against the issuer in the event that the offering memorandum contains a Misrepresentation. A purchaser who purchases securities offered by the offering memorandum during the period of distribution has, without regard to whether the purchaser relied upon the Misrepresentation, a right of action for damages or, alternatively, while still the owner of the securities, for rescission against the issuer provided that:

(a) if the purchaser exercises its right of rescission, it shall cease to have a right of action for damages as against the issuer;

(b) the issuer will not be liable if it proves that the purchaser purchased the securities with knowledge of the Misrepresentation;

(c) the issuer will not be liable for all or any portion of damages that it proves do not represent the depreciation in value of the securities as a result of the Misrepresentation relied upon; and

(d) in no case shall the amount recoverable exceed the price at which the securities were offered.

Subject to the paragraph below, all or any one or more of the issuer and any selling securityholder are jointly and severally liable, and every person or company who becomes liable to make any payment for a Misrepresentation may recover a contribution from any person or company who, if sued separately, would have been liable to make the same payment, unless the court rules that, in all the circumstances of the case, to permit recovery of the contribution would not be just and equitable.

Despite the paragraph above, the issuer shall not be liable where it is not receiving any proceeds from the distribution of the securities being distributed and the Misrepresentation was not based on information provided by the issuer, unless the Misrepresentation (a) was based on information that was previously publicly disclosed by the issuer, (b) was a Misrepresentation at the time of its previous public disclosure and (c) was not subsequently publicly corrected or superseded by the issuer prior to the completion of the distribution of the securities.

Section 138 of the OSA provides that no action shall be commenced to enforce these rights more than:

(a) in the case of an action for rescission, 180 days from the day of the transaction that gave rise to the cause of action; or

(b) in the case of an action for damages, the earlier of:

  (i) 180 days from the day that the purchaser first had knowledge of the facts giving rise to the cause of action; or

  (ii) three years from the day of the transaction that gave rise to the cause of action.

The rights referred to in section 130.1 of the OSA do not apply in respect of an offering memorandum (such as this Prospectus) delivered to a prospective purchaser in connection with a distribution made in reliance on the exemption from the prospectus requirement in section 2.3 of NI 45-106 (the "accredited investor exemption") if the prospective purchaser is:

(a) a Canadian financial institution (as defined in NI 45-106) or a Schedule III bank,

(b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada), or

(c) a subsidiary of any person referred to in paragraphs (a) or (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

The foregoing summary is subject to the express provisions of the OSA and the rules, regulations and other instruments thereunder, and reference is made to the complete text of such provisions contained therein. Such provisions may contain limitations and statutory defences on which Company and the Selling Shareholder may rely. ***Prospective purchasers should refer to the applicable provisions of the relevant securities legislation and are advised to consult their own legal advisers as to which, or whether any, of such rights may be available to them.*** The enforceability of these rights may be limited as described herein under "Enforcement of Legal Rights."

The rights of action discussed above will be granted to the purchasers to whom such rights are conferred upon acceptance by the relevant Joint Global Coordinator of the purchase price for the GDRs. The rights discussed above are in addition to and without derogation from any other right or remedy which purchasers may have at law.

Enforcement of Legal Rights

All of the directors and officers (or their equivalents) of the Company and the Selling Shareholder, as well as any experts named herein, may be located outside of Canada and, as a result, it may not be possible for purchasers to effect service of process within Canada upon the Company, the Selling Shareholder or such experts. All or a substantial portion of the assets of the Company, the Selling Shareholder and such experts may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the Company, the Selling Shareholder or such experts in Canada or to enforce a judgment obtained in Canadian courts against the Company, the Selling Shareholder or such experts outside of Canada.

Canadian Tax Considerations and Eligibility for Investment

This Prospectus does not address the Canadian tax consequences of ownership of the GDRs. Prospective purchasers of GDRs should consult their own tax advisers with respect to the Canadian and other tax considerations applicable to their individual circumstances and with respect to the eligibility of the GDRs for investment by purchasers under relevant Canadian legislation.

Currency

The Offer Price, financial statements and certain other financial information disclosed in this Prospectus are presented in roubles. The following tables set out for the periods indicated, the period-end and average Canadian Noon Rates[(1)] between the Canadian dollar ("CAD") and the rouble (expressed in CAD per RUR1.00):

Period[(2)]	Period-end	Average
2006	0.04427	0.04173
2005	0.04057	0.04284
2004	0.04342	0.04518
2003	0.04420	0.04564
2002	0.04944	0.05005

(1) The term "Canadian Noon Rate" means the Bank of Canada noon exchange rate.

(2) Unless otherwise specified, each reference to a year is a year ended December 31.

On 2 May 2007, RUR1.00 = CAD 0.04308, based on the Canadian Noon Rate.

These exchange rates are provided only for the convenience of the reader. No representation is made that the rouble amounts could have been converted into Canadian dollars at the above rates on any of the dates indicated or at any other rate.

For information on legislation relating to withholding taxes in respect of the GDRs, please refer to the section entitled "Taxation."

Russian Federation

Each of the Joint Global Coordinators acknowledges that no Russian prospectus has been registered or is intended to be registered with respect to the GDRs and the GDRs have not been and are not intended to be

registered in the Russian Federation and, consequently, it represents, warrants and agrees that it and its affiliates have not offered or sold or otherwise transferred, and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter, any GDRs to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation, or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law; it being understood and agreed that the Joint Global Coordinators or their affiliates may distribute the Prospectus to persons in the Russian Federation in a manner that does not constitute an "advertisement" (as defined under Russian law) of GDRs and may sell GDRs to Russian persons in a manner that does not constitute a "placement" or "public circulation" of the GDRs in the Russian Federation (as defined under Russian law).

Transfer Restrictions

None of the Shares or GDRs (or the Shares represented thereby) has been or will be registered under the Securities Act and the Shares and GDRs may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Shares and GDRs are being offered and sold only:

(a) to QIBs in compliance with Rule 144A under the Securities Act or in reliance on another exemption from, or transaction not subject to, registration under the Securities Act; and

(b) in offshore transactions in compliance with Regulation S under the Securities Act. As used in this document, the term "offshore transaction" has the meaning given to it in Regulation S.

Shares and GDRs purchased pursuant to Rule 144A

Each purchaser of Shares or GDRs in the Offering pursuant to Rule 144A, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used therein as defined therein):

- The purchaser (i) is a QIB, (ii) is aware, and each beneficial owner of such Shares or GDRs has been advised, that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Rule 144A GDRs for its own account or for the account of a QIB.
- The purchaser is aware that such Shares or the GDRs (and the Shares represented thereby) have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A only in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that such Shares or the GDRs (and the Shares represented thereby) are subject to significant restrictions on transfer.
- If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Shares or GDRs (or the Shares represented thereby), such GDRs and Shares may be offered, sold, pledged or otherwise transferred only in accordance with the appropriate following legend, which such Shares or GDRs will bear, as applicable, unless otherwise determined by the Company and the Depositary in accordance with applicable law:

THIS SHARE OF THE COMPANY ("THE SHARE") HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON (A) WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A (B) AND WHO IS AWARE THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OWNER OF THE SHARE WILL, AND EACH SUBSEQUENT OWNER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH SHARE OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF THIS SHARE MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARE INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK (INCLUDING ANY SUCH FACILITY MAINTAINED FOR THE RULE 144A GDRS), OTHER THAN A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG

AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

THIS RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE SHARES OF THE COMPANY REPRESENTED HEREBY ("THE SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON (A) WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A (B) AND WHO IS AWARE THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OWNER OF THE GDRS WILL, AND EACH SUBSEQUENT OWNER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRS OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK (INCLUDING ANY SUCH FACILITY MAINTAINED FOR THE RULE 144A GDRS), OTHER THAN A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

- The purchaser acknowledges that the Depositary will not be required to accept for registration of transfer any GDRs acquired by such purchaser, except upon presentation of evidence satisfactory to the Company and the Depositary that the restrictions set forth herein have been complied with.

Each purchaser of Shares or GDRs purchased pursuant to Rule 144A will be deemed to have acknowledged that the Company, the Managers, their respective affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements and agrees that if any of the representations or agreements deemed to have been made by its purchase of such Shares or GDRs are no longer accurate, it shall promptly notify the Company and the Managers. If it is acquiring such Shares or GDRs as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

Prospective purchasers are hereby notified that sellers of the Shares GDRs purchased pursuant to Rule 144A may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Shares and GDRs purchased pursuant to Regulation S

Each purchaser of Shares or GDRs in the Offering pursuant to Regulation S by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

- The purchaser (i) is, and the person, if any, for whose account it is acquiring such Shares or GDRs is, outside the United States, (ii) is not an affiliate of the Company or a person acting on behalf of such an affiliate and (iii) is not a securities dealer or, if it is a securities dealer, it did not acquire such Shares or GDRs (or the Shares represented thereby) from the Company or an affiliate thereof in the initial distribution of Regulation S.
- The purchaser is aware that such Shares or GDRs (and the Shares represented thereby) have not been and will not be registered under the Securities Act, are being offered outside the United States in reliance on Regulation S and are subject to significant restrictions on transfer.

- The purchaser will not offer, resell, pledge or otherwise transfer such Shares or GDRs, except in accordance with the Securities Act and all applicable securities laws of each relevant state of the United States.
- If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Shares or GDRs (or the Shares represented thereby), such GDRs and Shares may be offered, sold, pledged or otherwise transferred only in accordance with the appropriate following legend, which such Shares or GDRs will bear, as applicable, unless otherwise determined by the Company and the Depositary in accordance with applicable law.

  THIS SHARE OF THE COMPANY (THE "SHARE") HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

  THIS REGULATION S GLOBAL DEPOSITARY RECEIPT AND THE SHARES OF THE COMPANY REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.
- The purchaser acknowledges that the Depositary will not be required to accept for registration of transfer any GDRs acquired by such purchaser, except upon presentation of evidence satisfactory to the Company and the Depositary that the restrictions set forth herein have been complied with.

Each purchaser of Shares or GDRs purchased pursuant to Regulation S will be deemed to have acknowledged that the Company, the Managers, their respective affiliates and others will rely upon the truth an accuracy of the foregoing representations and agreements and agrees that if any of the representations or agreements deemed to have been made by its purchase of such Shares or GDRs are no longer accurate, it shall promptly notify the Company and the Managers. If it is acquiring such Shares or GDRs as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

SETTLEMENT AND DELIVERY

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, and Clearstream, Luxembourg and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

DTC

DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "Taxation — United States Federal Income Tax Considerations."

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master Regulation S GDR registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for the Bank of New York, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co, as nominee for DTC, which will be held by The Bank of New York, in New York, as custodian for DTC. As necessary, the Depositary will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depository for Euroclear and Clearstream, Luxembourg and the nominee for DTC. The Depositary will make distributions according to usual practice between the Depositary and Clearstream, Luxembourg and Euroclear (as applicable) and DTC, as the case may be.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg or DTC and certain fees and expenses are payable to the Depositary in accordance with the terms of the Deposit Agreement and the GDR Conditions. See "Terms and Conditions of the Global Depositary Receipts."

Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Master GDRs. Purchasers holding book-entry interests in GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary Market Trading

For a description of the transfer restrictions relating to the GDRs, see "Terms and Conditions of the Global Depositary Receipts — Transfer and Ownership" and "Selling and Transfer Restrictions."

Trading between Euroclear and Clearstream, Luxembourg participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the relevant account of the Euroclear or Clearstream, Luxembourg participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (i) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR and (ii) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream, Luxembourg and represented by the Master Regulation S GDR.

Trading between Clearstream, Luxembourg/Euroclear seller and DTC purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a DTC participant, the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, shall on the settlement date instruct the Depositary to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxembourg and DTC, none of Euroclear, Clearstream, Luxembourg or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Joint Global Coordinators, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly-owned subsidiary of The Bank of New York Company, Inc., a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286, United States of America. Its principal administrative offices are located at 101 Barclay Street, 22nd Floor West, New York, New York 10286, United States of America. A copy of the Depositary's Articles of Association, as amended, together with copies of the most recent financial statements and annual report of The Bank of New York Company, Inc. are available for inspection at the Corporate Trust Office of the Depositary located at 101 Barclay Street, New York, New York 10286, United States of America and at The Bank of New York, One Canada Square, London E14 5AL, United Kingdom.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for us with respect to U.S. and English law by Skadden, Arps, Slate, Meagher & Flom (UK) LLP and Russian law by Skadden, Arps, Slate, Meagher & Flom LLP. Certain legal matters in connection with the Offering will be passed upon for the Joint Global Coordinators with respect to U.S. and English law by Linklaters LLP and Russian law by Linklaters CIS.

INDEPENDENT AUDITORS

Ernst & Young LLC, independent auditors, has audited the Consolidated Financial Statements as of and for the years ended 31 December 2004, 2005 and 2006 and the Masterlek Financial Statements for the years ended 31 December 2005 and 2006 and provided a qualified audit opinion with respect to each set of financial statements. See page F-2 and F-31 for the terms of such qualification, as well as "Presentation of Financial Information."

GENERAL INFORMATION

1. Prior to 5 May 2006, the Company was registered as a limited liability company under the name Biovit LLC. On 5 May 2006, the Company was renamed OJSC Pharmstandard and reorganised as an open joint stock company. The Company is registered in the Unified State Register of Legal Entities under principal state registration number 1060274031047. Our registered office is located at 28 Ulitsa Khudaikerdina, 450077, Ufa Republic of Bashkortostan, Russian Federation. Our principal executive office is located at Likhachevsky drive, 5B, Dolgoprudny, Moscow Region, 141701, and its telephone number is +7 495 970 0030.

2. The following is a list of the Company's direct and indirect subsidiaries, their date of establishment, registered addresses, principal business activities and the ownership percentage of the Company.

Name	Date Established	Address of Registered Office	Principal Business	Country of Incorporation	Ownership %
Pharmstandard LLC	22 July 1997	Ulitsa Usacheva, 24 Moscow, 119048 Russian Federation	Management company and trading house	Russian Federation	99
Pharmstandard — Leksredstva OJSC	November 30, 1992	Ulitsa Agregatnaya, 1A/18 Kursk, 305909 Russian Federation	Manufacturing of pharmaceutical products	Russian Federation	99
Pharmstandard — Tomskhimpharm OJSC	22 December 1992	Prospect Lenina, 211 Tomsk, 634009 Russian Federation	Manufacturing of pharmaceutical products	Russian Federation	91
Pharmstandard — Ufavita OJSC	28 July 1993	Ulitsa Khudaiberdina, 28 Ufa, the Republic of Bashkortostan 450077, Russian Federation	Manufacturing of pharmaceutical products	Russian Federation	97
Pharmstandard — Phitofarm — NN LLC	4 September 2002	Ulitsa Kashenko, 9 Nizhniy Novgorod Priokskiy region, 603950 Russian Federation	Manufacturing of pharmaceutical products	Russian Federation	99
TZMOI OJSC	29 January 1998	Ulitsa Respubliki, 205 Tyumen, 625035 Russian Federation	Manufacturing of medical equipment	Russian Federation	90
TMK LLC (prior to 2006, Urlan Invest LLC)	11 July 2005	Kostroma Ulitsa Magistralnaya 59 Russian Federation	Manufacturing of medical equipment	Russian Federation	100
CJSC Masterlek	19 October 2001	Ulitsa Vokzalnaya, 2 Odintsovo, Moscow region, 143000 Russian Federation	Manufacturing of pharmaceutical products	Russian Federation	100

3. On 3 May 2007, the Company resolved by shareholder resolution to enter into the Underwriting Agreement and to make an application to the Financial Services Authority for approval of this Prospectus and for publication thereof and for the admission of the GDRs to the Official List of the Financial Services Authority and for such GDRs to be admitted to trading on the IOB of the London Stock Exchange.

4. Admission to the Official List of the Financial Services Authority and to trading on the London Stock Exchange market for the GDRs is expected to take place on 11 May 2007, following closing and settlement on 10 May 2007.

5. There has been no significant change in the financial or trading position of the Company or the Group since 31 December 2006 the date of the latest Group audited financial statements.

6. The Group is not, and has not been involved in, any governmental, legal or arbitration proceedings that may have or have had in the twelve months before the date of this Prospectus, a significant effect on the financial position or profitability of the Group.

7. Copies of the following will be available for inspection, and may be obtained free of charge, during normal business hours on any weekday, at the registered office of the Company from the date of this Prospectus until twelve months after the date of this Prospectus:

   - the Company's charter (English translation);
   - the Consolidated Financial Statements in respect of the financial years ended 31 December 2004, 2005 and 2006 and the Masterlek Financial Statements in respect of the financial years ended 31 December 2005 and 2006; and
   - a copy of this Prospectus.

8. The Company will prepare annual and interim consolidated financial statements in accordance with IFRS. Copies of the Company's future annual audited consolidated financial statements and reviewed interim consolidated financial statements required to be provided to holders of GDRs will be available for inspection and may be obtained free of charge at the registered office of the Company .

9. There are no temporary documents of title issued in respect of the GDRs. There is no premium and there are no expenses specifically charged to any purchaser of GDRs in the Offering. The Offering is an institutional offering only in which payment for the GDRs by investors will be arranged with the Joint Global Coordinators. Holders may inspect the rules governing the issue of the certificates at the offices of the Depositary from the Closing Date.

10. If definitive certificates are issued in exchange for the GDRs, the Company will appoint an agent in the United Kingdom for so long as the GDRs are listed on the London Stock Exchange.

11. The GDRs have no nominal or par value. The offer price was determined based on the results of the book building exercise conducted by the Joint Global Coordinators.

12. The total fees and expenses of the Company in connection with the Offering are estimated to be approximately $4.3 million.

13. The ISIN for the Regulation S GDRs is US7171402065, the Common Code for the Regulation S GDRs is 029669546, the CUSIP number for the Regulation S GDRs is 717140206.

14. The ISIN for the Rule 144A GDRs is US7171401075, the Common Code for the Rule 144A GDRs is 029669376, the CUSIP number for the Rule 144A GDRs is 717140107.

15. The London Stock Exchange trading symbol for the GDRs is PHST LI and the PORTAL trading symbol for the GDRs is P717140107.

GLOSSARY OF SELECTED TERMS

ACE Inhibitor — A drug used primarily to treat high blood pressure and congestive heart failure by slowing the production of angiotensin II and lowering blood pressure. ACE inhibitors are also used to prevent damage in people with diabetes or high blood pressure.

Active pharmaceutical Ingredient ("API") — The specific substance within a pharmaceutical product which provides a pharmacological effect and thereby gives the product its therapeutic effect.

Alimentary — Pertaining to food or nutritive material or to the organs of digestion.

Alimentary tract — The gastrointestinal tract, i.e., the passage along which food passes, in which it is digested.

Anesthetic — An agent that reduces or abolishes sensation, either in a restricted area (local anaesthetic) or in the whole body (general anaesthetic).

Analgesic — Agents that relieve or abolish pain.

Antiemetics — Drugs used to prevent nausea or vomiting.

Antifungal — Agent that kills or inactivates fungi and is used to treat fungal infections.

Antinauseants — Drugs preventing or counteracting nausea.

Anti-thrombotic — Agents used against or tending to prevent thrombosis.

Antiviral — Agents that destroy or inhibit the growth and reproduction of viruses.

Benign prostatic hyperplasia — A nonmalignant enlargement of the prostate gland commonly occurring in men after the age of 50, and sometimes leading to compression of the urethra and obstruction of the flow of urine.

Branded generics — Products marketed by a company, other than the innovator of the product, and sold under a trade name other than the product's generic approved name.

Bulk products — Branded and non-branded pharmaceutical products that may not be actively promoted.

Central nervous system ("CNS") — The network of cells throughout the body that carry information in the form of nerve impulses.

Cholagogues — An agent that promotes the flow of bile into the intestine, especially as a result of contraction of the gallbladder.

Dermatologicals — Agents used in the treatment of skin disorders.

Endocrinology — The branch of medicine dealing with the endocrine glands and their secretions, especially in relation to their processes or functions.

Good Manufacturing Practices ("GMP") — GMP regulations are a set of principles, requirements and procedures for manufacturing pharmaceutical products to ensure the quality necessary for human consumption. GMP covers quality management and control requirements regarding personnel, premises and equipment, documentation, product manufacturing, contracts for product manufacturing and analysis, reclamation, product withdrawal and self-monitoring.

Hepatic protectors — Drugs used to protect the liver from damage.

Human growth hormone — A hormone released by the pituitary gland that stimulates liver to produce somatomedins 1 and 2, which encourage growth.

Hypolipidaemic — Producing or resulting from a decrease in the level of lipids in the blood.

Hypothalamic — Of or relating to the hypothalamus, the part of the brain that lies below the thalamus, functioning to regulate bodily temperature, certain metabolic processes, and other autonomic activities.

Immunostimulating agents — Agents that stimulate the immune system.

Injectables — A pharmaceutical product designed to be administered directly into the blood through a hypodermic needle.

Laxatives — A food or drug that stimulates evacuation of the bowels.

Life saving drugs — Defined by Order No. 321 of the Russian Ministry of Health as those drugs without the use of which syndromes of disease progression and complication or death can occur.

Line extension — A new variation of a product sharing the same essential characteristics as the parent product, but offering a new benefit, such as flavour, package type or size.

Macrolides — A class of antibiotics characterised by molecules made up of large-ring lactones.

Nitrates — A group of drugs that widen blood vessels and are used to treat insufficient blood supply to the heart (angina pectoris) and reduced pumping efficiency of the heart (heart failure).

Nitrites — Salts of nitrous acid or compounds containing the group NO2.

Non-branded generics — Any product containing the generic entity and sold under the product's generic approved name rather than under a trade name.

Originator pharmaceutical company — A research-based pharmaceutical company which owns the research and development and intellectual property rights associated with a particular branded pharmaceutical product.

Over-the-counter ("OTC") products — Drugs which are deemed safe or effective for use by the general public without the need for a medical practitioner's prescription.

Pharmacological — Of or relating to drugs, their preparation, uses and effects.

Pituitary — Of or relating to the pituitary gland.

Prescription products — A drug or product requiring a medical practitioner's prescription, or a physician's order.

Psycholeptic — Of, relating to, or being a tranquilising drug.

Stock keeping unit ("SKU") — A common term for a unique unit of measure, such as packs, that aids a business in keeping track of its inventory.

Systemic Fungal Infection — An infection of the bloodstream or organs of the body caused by the presence of a fungus.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of OJSC "Pharmstandard"

We have audited the accompanying consolidated financial statements of Open joint stock company "Pharmstandard" and its subsidiaries ("Group"), which comprise the consolidated balance sheets as at 31 December 2006, 2005 and 2004 and the consolidated statements of operations, consolidated statements of cash flows and consolidated statements of changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

We did not observe the counting of the physical inventory stated at RUR 540,788 thousand as at 1 January 2004, since that date was prior to our appointment as auditors. We were unable to satisfy ourselves as to the inventory quantities at that date by other audit procedures. Opening inventories enter into the determination of the results of operations and cash flows for the year ended 31 December 2004.

Qualified Opinion

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 satisfy ourselves as to the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of 31 December 2006, 2005 and 2004 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC
Moscow, 23 March 2007

OJSC PHARMSTANDARD

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2006, 2005 and 2004
(in thousands of Russian Roubles)

	Notes	2006	2005	2004
ASSETS				
Non–current assets				
Property, plant and equipment	8	**3,788,581**	3,348,928	1,716,459
Investment property		**14,522**	18,787	37,926
Intangible assets	9	**4,473,639**	221,499	—
Investments in associates	10	**—**	—	370,466
Other non–current assets	7	**—**	216,857	166,857
		8,276,742	3,806,071	2,291,708
Current assets				
Inventories	11	**1,406,952**	1,043,141	661,447
Trade receivables	12	**3,373,741**	1,830,858	1,269,179
VAT recoverable		**222,675**	370,176	199,479
Prepayments		**169,232**	279,169	322,764
Short term financial assets	14	**104,866**	346,593	527,308
Cash and cash equivalents	13	**192,966**	243,983	65,599
		5,470,432	4,113,920	3,045,776
Non–current assets classified as held for sale	10	**22,655**	393,121	—
Total assets		**13,769,829**	8,313,112	5,337,484
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital	19	**37,793**	—	—
Retained earnings		**5,838,906**	—	—
Net assets attributable to the Participant of the Company	19	**—**	2,790,388	2,183,895
		5,876,699	2,790,388	2,183,895
Minority interest	5	**463,664**	1,134,474	349,050
Total equity		**6,340,363**	3,924,862	2,532,945
Non–current liabilities				
Finance lease payable	18	**—**	—	81,955
Long–term borrowings and loans	15	**3,523,997**	—	—
Deferred tax liability	25	**1,080,828**	441,463	231,672
Other non–current liabilities		**47,767**	60,292	64,526
		4,652,592	501,755	378,153
Current liabilities				
Trade payables and other payables and advances received	17	**2,092,882**	2,794,789	546,539
Short–term borrowings	15	**351,415**	583,530	1,495,604
Finance lease payable	18	**—**	81,955	109,048
Income tax payable		**184,118**	74,257	24,529
Other taxes payable	16	**148,459**	351,964	250,666
		2,776,874	3,886,495	2,426,386
Total equity and liabilities		**13,769,829**	8,313,112	5,337,484

Signed and authorized for release on behalf of the Board of Directors of OJSC PHARMSTANDARD

General Director — I.K. Krylov

Finance Director — E.V. Arkhangelskaya

23 March 2007

OJSC PHARMSTANDARD

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2006, 2005 and 2004
(in thousands of Russian Roubles)

	Notes	2006	2005	2004
Revenue—sale of goods	**20**	**8,522,780**	5,684,824	3,945,684
Cost of sales	**21**	**(3,581,237)**	(2,507,102)	(2,219,981)
Gross profit		**4,941,543**	3,177,722	1,725,703
Selling and distribution costs	**22**	**(1,268,160)**	(1,069,452)	(531,611)
General and administrative expenses	**23**	**(498,929)**	(443,326)	(521,985)
Other expenses	**24**	**(206,996)**	(126,608)	(160,694)
Interest income		**23,987**	11,774	3,659
Interest expense		**(291,363)**	(106,413)	(77,756)
Profit before income tax		**2,700,082**	1,443,697	437,315
Income tax expense	**25**	**(664,014)**	(424,374)	(117,719)
Profit for the year		**2,036,068**	1,019,323	319,596
Attributable to:				
Equity holders of the Parent (Participant of the Company (Note 19))		**1,897,671**	906,221	305,110
Minority interests		**138,397**	113,102	14,486
Basic and diluted earnings per share, Russian Roubles	**19**	**50.21**	23.98	8.08

Signed and authorized for release on behalf of the Board of Directors of OJSC PHARMSTANDARD

General Director I.K. Krylov

Finance Director E.V. Arkhangelskaya

23 March 2007

OJSC PHARMSTANDARD

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006, 2005 and 2004
(in thousands of Russian Roubles)

	Notes	2006	2005	2004
Cash flows from operating activities:				
Profit before income tax		**2,700,082**	1,443,697	437,315
Adjustments for:				
Depreciation and amortization	**8,9**	**284,797**	181,373	71,704
Allowances for impairment of receivables and inventories	**11,12**	**43,202**	3,981	57,123
Loss on disposal of property, plant and equipment and intangible assets	**8,9**	**160,145**	49,785	(13,921)
Interest income		**(23,987)**	(11,774)	(3,659)
Interest expense		**291,363**	106,413	77,756
Operating cash flows before working capital changes		**3,455,602**	1,773,475	654,160
Increase in trade receivables	**12**	**(1,099,267)**	(242,908)	(269,787)
Increase in inventories	**11**	**(74,735)**	(76,853)	(136,157)
Decrease (increase) in VAT recoverable		**151,436**	(170,697)	(123,265)
Decrease in prepayments		**109,937**	43,595	212,145
Decrease in other short–term financial assets	**14**	**41,014**	101,843	230,681
(Decrease) increase (decrease) in trade payables, other payables and advances received	**17**	**(109,509)**	250,826	(127,847)
(Decrease) increase in taxes payable other than income tax		**(212,060)**	101,298	107,921
Cash generated from operations		**2,262,418**	1,780,579	547,851
Income tax paid	**25**	**(702,129)**	(320,047)	(75,897)
Interest paid, net		**(298,953)**	(93,152)	(54,637)
Net cash from operating activities		**1,261,336**	1,367,380	417,317
Cash flows from investing activities:				
Purchase of property, plant and equipment and intangible assets	**8,9**	**(889,911)**	(889,098)	(188,894)
Cash paid for subsidiaries acquisition	**5**	**(3,945,860)**	—	—
Cash in acquired subsidiary		**76,097**	57,105	—
Cash paid to settle the obligation for OJSC "TZMOI" shares acquired in 2005	**5,7**	**(707,000)**	—	—
Cash received from sale of investment property and property, plant and equipment	**7,8**	**135,346**	19,138	—
Cash received from sale of short–term financial assets, net	**7**	**117,656**	154,131	—
Cash paid for short–term financial assets, net		**(34,466)**	—	(200,987)
Cash paid for investments in associates	**10**	**—**	—	(120,000)
Cash received from sale of non–current assets classified as held for sale	**10**	**370,466**	—	—
Deposits repaid by (placed to) related bank, net	**7**	**71,649**	(71,649)	—
Loans provided to related parties	**7**	**—**	(154,007)	(447,194)
Loans repaid by related parties	**7**	**283,743**	151,194	136,000
Net cash used in investing activities		**(4,522,280)**	(733,186)	(821,075)
Cash flows from financing activities:				
Capital contribution from the Participant of the Company	**5**	**802,400**	—	—
Cash paid for minority interest in OJSC "Pharmstandard Ufavita"	**5**	**(802,400)**	—	—
Proceeds from increase of charter capital		**—**	—	37,383
Proceeds from loans and borrowings	**15**	**3,875,412**	286,193	1,535,634
Repayment of loans and borrowings	**15**	**(513,530)**	(699,025)	(933,664)
Repayment of loans to related parties	**5,15**	**(3,994,242)**	(499,242)	—
Proceeds from loans from related parties	**5,15**	**3,924,242**	—	371,876
Repayment of finance lease liabilities	**18**	**(81,955)**	(109,048)	—
Cash advance received for future share issue	**7,19**	**—**	814,386	—
Dividends paid	**19**	**—**	(249,074)	(576,395)
Net cash from (used in) financing activities		**3,209,927**	(455,810)	434,834
Net (decrease) increase in cash and cash equivalents		**(51,017)**	178,384	31,076
Cash and cash equivalents at the beginning of the year	**13**	**243,983**	65,599	34,523
Cash and cash equivalents at the end of the year	**13**	**192,966**	243,983	65,599

OJSC PHARMSTANDARD

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006, 2005 and 2004
(in thousands of Russian Roubles)

		Equity attributable to equity holders of the parent					
	Notes	Share capital	Retained earnings	Net assets (deficit) attributable to the Participant of the Company	Total	Minority interests	Total equity
Balance at 31 December 2005		**—**	**—**	**2,790,388**	**2,790,388**	**1,134,474**	**3,924,862**
Contribution from the Participant of the Company for acquisition of additional shares in OJSC "Pharmstandard Ufavita"	**5.2**	—	—	802,400	802,400	—	802,400
Acquisition of additional shares in OJSC "Pharmstandard Ufavita" by minority shareholders	**5.2**	—	—	—	—	11,986	11,986
Effect of acquisition of additional shares in OJSC "Pharmstandard Ufavita" by the Company	**5.2**	—	—	199,291	199,291	(199,291)	—
Profit for the period		—	1,265,114	632,557	1,897,671	138,397	2,036,068
Issuance of shares in connection with legal reorganization	**19**	37,793	4,386,843	(4,424,636)	—	—	—
Effect of acquisition of minority interest in OJSC "TZMOI"	**5.2**	—	186,949	—	186,949	(621,902)	(434,953)
Balance at 31 December 2006		**37,793**	**5,838,906**	**—**	**5,876,699**	**463,664**	**6,340,363**

		Equity attributable to equity holders of the parent					
	Notes	Share capital	Retained earnings	Net assets (deficit) attributable to the Participant of the Company	Total	Minority interests	Total equity
Balance at 31 December 2004		**34,562**	**2,463,175**	**(313,842)**	**2,183,895**	**349,050**	**2,532,945**
Profit for the year		—	507,254	398,967	906,221	113,102	1,019,323
Minority interests arising on acquisition of subsidiary	**5.1**	—	—	—	—	674,813	674,813
Dividends	**19**	—	(246,583)	—	(246,583)	(2,491)	(249,074)
Effect of reorganization under common control — acquisition of Group companies by Biovit LLC	**19**	(34,562)	(2,723,846)	2,758,408	—	—	—
Distribution to Participant of the Company	**5.1**	—	—	(53,145)	(53,145)	—	(53,145)
Balance at 31 December 2005		**—**	**—**	**2,790,388**	**2,790,388**	**1,134,474**	**3,924,862**

		Equity attributable to equity holders of the parent					
	Notes	Share capital	Retained earnings	Net assets (deficit) attributable to the Participant of the Company	Total	Minority interests	Total equity
Balance at 31 December 2003		**34,562**	**2,758,334**	**(381,263)**	**2,411,633**	**340,328**	**2,751,961**
Profit for the year		—	275,472	29,638	305,110	14,486	319,596
Increase in charter capital	**19**	—	—	37,783	37,783	—	37,783
Dividends	**19**	—	(570,631)	—	(570,631)	(5,764)	(576,395)
Balance at 31 December 2004		**34,562**	**2,463,175**	**(313,842)**	**2,183,895**	**349,050**	**2,532,945**

(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 Russia. Prior to 5 May 2006, the Company was registered as a limited liability company under the name of "Biovit". In May 2006, the Company was renamed as "Pharmstandard" and reorganized into an open joint stock company (see Note 19). The Group's corporate office is in Dolgoprudny, Likhachevsky proezd, 5B, Moscow region, Russia and its manufacturing facilities are based in Kursk, Tomsk, Ufa, St. Petersburg, Nizhny Novgorod and Tyumen. The Company held shares of voting interests in the following major subsidiaries consolidated within the Group as of 31 December 2006 and 2005, respectively:

Entity	Country of incorporation	Activity	2006 % share	2005 % share	2004 % share
1. "Pharmstandard" LLC	Russia	Management company and trading house	**99**	99	99
2. "Pharmstandard — Leksredstva" OJSC	Russia	Manufacturing of pharmaceutical products	**99**	99	99
3. "Pharmstandard — Tomskhimpharm" OJSC	Russia	Manufacturing of pharmaceutical products	**91**	91	91
4. "Pharmstandard — Ufavita" OJSC	Russia	Manufacturing of pharmaceutical products	**97**	56	56
5. "Pharmstandard — Octyabr" OJSC	Russia	Manufacturing of pharmaceutical products	**93**	93	93
6. "Pharmstandard — Phitofarm-NN" LLC	Russia	Manufacturing of pharmaceutical products	**99**	99	99
7. "TZMOI" OJSC	Russia	Manufacturing of medical equipment	**90**	55	—
8. "TMK" LLC (prior to 2006 "Urlan Invest" LLC)	Russia	Manufacturing of medical equipment	**100**	100	—
9. "Masterlek" CJSC	Russia	Manufacturing of pharmaceutical products	**100**	—	—
10. "Black Bird Investment Enterprises Corp"	British Virgin Islands	Financing activities	**100**	—	—

The Group was formed in 2005 through a reorganization in which the ownership interests in the companies listed above (1 through 6) were acquired by the Company from parties under common control. Other acquisitions of subsidiaries (7 through 10) are disclosed in Note 5.

As the Group has been formed through a reorganisation of entities under common control, these consolidated financial statements have been prepared using the uniting of interests method, and, as such, the financial statements, including corresponding figures, have been presented as if transfers of ownership interests in subsidiaries to the Company had occurred on the date they were originally established or acquired by the transferring party (the "Predecessor").

These consolidated financial statements were authorized for issue by the Board of Directors of the OJSC "Pharmstandard" on 23 March 2007.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of Accounting

Group companies maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The statutory financial statements have been adjusted to present these financial statements in accordance with IFRS. These adjustments principally relate to valuation and depreciation of tangible fixed assets, certain valuation reserves, purchase accounting for business combinations and the resulting income tax effects and also to consolidation.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, non-current assets classified as held for sale have been measured at lower of carrying amount and fair value less costs to sell.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial period except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after 1 January 2006.

The changes in accounting policies result from adoption of the following new or amended standards and interpretations:

- IAS 19 (amended 2005) "Employee benefits";
- IAS 21 (amended 2005) "The Effects of Changes in Foreign Exchange Rates";
- IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement";
- IFRIC 4 "Determining whether an Arrangement contains a Lease";
- IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds".

There were no significant effects of these changes in policies on these financial statements.

IFRSs and IFRIC Interpretations not yet effective

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

- IFRS 7 "Financial Instruments: Disclosures";
- IAS 1 (amended 2005) "Presentation of Financial Statements — Capital Disclosures";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 9 "Reassessment of Embedded Derivatives";
- IFRIC 10 "Interim Financial Reporting and Impairment";
- IFRIC 11 "IFRS 2 — Group and Treasury Share Transactions";
- IFRIC 12 "Service concession arrangements".

IFRS 7 "Financial Instruments: Disclosures" replaces the disclosure requirements of IAS 32 and must be applied for annual reporting periods that commence on or after 1 January 2007.

The amendment of IAS 1 "Presentation of Financial Statements — Capital Disclosures" requires disclosures regarding an entity's objectives, policies and processes for managing capital. The provisions are effective for reporting periods beginning on or after 1 January 2007.

IFRIC 8 clarifies that IFRS 2 applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. If the identifiable consideration given appears to be less than the fair value of the equity instrument granted, under IFRIC 8 this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies. IFRIC 8 becomes effective for financial years beginning on or after 1 May 2006.

IFRIC 9 clarifies, that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. An entity shall apply this interpretation for annual periods beginning on or after 1 June 2006.

Applying IFRIC 10, an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. An entity shall apply this interpretation for annual periods beginning on or after 1 November 2006.

IFRIC 11 addresses the issues whether the certain transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2, and concerns the accounting treatment for share-based payment arrangements that involve two or more entities within the same group. An entity shall apply this interpretation for annual periods beginning on or after 1 March 2007.

IFRIC 12 addresses the accounting issues relating to the service concession arrangements. An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2008.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's result of operation and financial positions in the period of initial application. The adoption of IFRS 7 will significantly affect the disclosures relating to financial instruments as presented in the notes to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Principles of Consolidation

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than 50 percent of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interest is the interest in subsidiaries with equity not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented as an equity item.

Business Combinations

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

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

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

Acquisition of Subsidiaries from Parties under Common Control

Purchases of subsidiaries from parties under common control are accounted for using the uniting of interests method. The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the carrying amounts of the transferred entity (the Predecessor) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

These financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

3.2 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.

3.3 Trade 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 Group will not be able to collect the debts.

3.4 Value Added Tax

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

Value Added Tax Payable

Prior to 2006, VAT was payable by the Group to tax authorities upon collection of receivables from customers. VAT on purchases, which had been settled at the balance sheet date, was deducted from the amount of VAT payable. In addition, VAT related to sales which had not been collected, and therefore currently not due, at the balance sheet date was included in the VAT payable line item.

Starting from 2006, VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the balance sheet date, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Value Added Tax Recoverable

VAT recoverable arises when VAT related to purchases exceeds VAT related to sales.

In addition, prior to 2006, VAT recoverable line item included VAT related to purchases, which had not been settled at the balance sheet date, and to property, plant and equipment not yet put into operation. However, this amount was reclaimable against VAT related to sales only upon payment for the purchases or putting property, plant and equipment into operation.

3.5 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 and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

3.6 Non-current Assets Held for Sale

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

3.7 Property, Plant and Equipment

Property, plant and equipment are stated at cost or deemed cost at the date of transition to IFRS (herein referred to as cost) less accumulated depreciation and impairment losses. Deemed cost was determined for property, plant and equipment at 1 January 2004 by reference to their fair value through valuation by an independent appraisal company. Depreciation is calculated on a straight-line basis. The depreciation periods, which represent the estimated useful economic lives of the respective assets, are as follows:

	Number of years
Buildings	10 to 50
Plant and machinery	5 to 30
Equipment and motor vehicles	3 to 7

The asset's residual values, useful lives and 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 derecognised. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of operations as incurred.

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.

3.8 Goodwill

Goodwill on an acquisition of a subsidiary is included in intangible assets. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

3.9 Other Intangible Assets

Intangible assets acquired separately from business combinations are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination are initially recognized at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with a finite life are amortised on a straight-line basis over the useful economic lives (for trade marks useful economic life is determined as 20 years) and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement of operations in the expense category consistent with the function of the intangible asset.

3.10 Borrowings

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

3.11 Deferred Income Taxes

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.

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.

3.12 Leases

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

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

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

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

3.13 Provisions

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

3.14 Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

For the purpose of earnings per share calculation the weighted average number of ordinary shares outstanding during the period and for all periods presented is adjusted for events, other than the conversion of potential ordinary shares that have changed the number of ordinary shares outstanding without a corresponding change in resources.

Dividends

Dividends declared by Group subsidiaries 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. Such 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.

3.15 Revenue Recognition

Revenues are recognized when products are delivered to final customers warehouse, 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.

3.16 Employee Benefits

Pension Costs

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

3.17 Foreign Currency Transactions

The consolidated financial statements are presented in the national currency of the Russian Federation, Russian Rouble (RR), which is the functional currency of the Company and all subsidiaries except for Black Bird Investment Enterprises Corp. 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 consolidated 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.

4. SIGNIFICANT ACCOUNTING ESTIMATES

4.1 Judgements

In the process of applying the Group'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 consolidated financial statements:

Lease agreements

A lease is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership, otherwise it is classified as operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. If the lease term is for longer than 75 percent of the economic life of the asset, or that at the inception of the lease the present value of the minimum lease payments amount to at least 90 percent of the fair value of the leased asset, the lease is classified by the Group as finance lease, unless it is clearly demonstrated otherwise.

The Group has entered into several lease agreements with the state municipal bodies for land on which the Group's factories and buildings, comprising the Group's principal manufacturing facilities, are located. The lease agreements specify lease terms between 10 and 50 years with an option to prolong the lease term for another 10 years. In addition, the lease agreements include a purchase option after termination of the lease. Purchase price will be determined based on fair value of the land as determined by the municipal authorities. The Group has classified these lease agreements as operating leases. More details are provided in Note 8.

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:

Useful life of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. The assets subject to such assessment are primarily property, plant and equipment and trade marks. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. No indications that the Group's assets may be impaired existed at 31 December 2006.

The determination of impairments involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any asset impairment.

The following factors are considered in assessing impairment of major specific assets of the Group:

- *Property, plant and equipment:* changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists.
- *Trade marks:* changes in current competitive conditions, changes in the regulations, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, introduction of alternative products on the market and other changes in circumstances that indicate impairment exists.

Fair Values of Assets and Liabilities Acquired in Business Combinations

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was RR 1,180,469 (2005: 218,854; 2004: nil). More details are provided in Note 9.

Allowance for doubtful accounts

The Group maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2006, allowances for doubtful accounts have been created in the amount of RR 79,308 (2005: 83,049; 2004: RR 98,090).

Inventory Provision

The Group 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 become available. Revisions to the estimates may significantly affect future operating results.

Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurr frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As of 31 December 2006 management believes that its interpretation of the relevant legislation is appropriate. More details are provided in Note 26.

5. BUSINESS COMBINATIONS AND ACQUISITION OF MINORITY INTERESTS

5.1 Business Combinations

OJSC "TZMOI" acquisition

On 1 January 2005, an entity under common control, the Predecessor as defined in Note 3.1 acquired 55% of the voting shares of OJSC "TZMOI", a company involved in the production of the medical equipment located in Tyumen, Russia for cash consideration of RR 1,043,625. Shortly after acquisition the Predecessor transferred the stake in OJSC "TZMOI" to the Group for RR 1,096,770. The respective payable was recorded by the Group as of 31 December 2006 (Notes 7 and 17).

The fair value of identifiable assets, liabilities and contingent liabilities of "TZMOI" as at the date of acquisition by the Predecessor were as follows:

	Fair value recognised on acquisition
Property, plant and equipment	977,174
Other non-current assets	14,927
Cash and cash equivalents	57,105
Trade, prepayments and other receivables	303,730
Inventories	267,382
Available-for-sale investments	70,027
Other current assets	50,796
	1,741,141
Trade, advances received and other payables	86,268
Income tax payable	5,877
Deferred tax liability (Note 25)	149,412
	241,557
Fair value of net assets	**1,499,584**
Less: minority interests	**(674,813)**
Group's share of the fair value of net assets	**824,771**
Goodwill arising on acquisition (Note 9)	**218,854**
Consideration paid by the Predecessor	**1,043,625**

The comparative consolidated financial statements for the period ended 31 December 2005 are presented as if OJSC "TZMOI" had been acquired by the Group on the date it was originally acquired by the Predecessor. The assets and liabilities of OJSC "TZMOI" transferred under common control are recorded in the financial statements at the carrying amounts of the Predecessor at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in the consolidated financial statements. The difference between the consideration paid by the Predecessor and the cost of the OJSC "TZMOI" stake for the Group of RR 53,145 was accounted for in the comparative consolidated financial statements for the period ended 31 December 2005 as a distribution to the Participant of the Company.

At the acquisition date as OJSC TZMOI has never prepared financial statements in accordance with IFRS, it is impracticable to present the carrying amounts of its assets and liabilities, determined in accordance with IFRSs, immediately before the combination.

Acquisition of subsidiaries in 2006

The Group acquired 100% interest in CJSC "Masterlek" ("Masterlek") which is involved in the marketing and sale of pharmaceutical products and a related immaterial company on 1 August and 22 September 2006, respectively.

The aggregated effect of these acquisitions is presented in the following table:

	Fair value recognised on acquisition	IFRS carrying value immediately before the acquisition
Property, plant and equipment	4,851	4,851
Intangible assets (Note 9)	3,278,151	4,232
Cash and cash equivalents	76,097	76,097
Trade and other receivables	443,810	443,810
Inventories	307,080	307,080
Other current assets	29,187	24,955
	4,139,176	**861,025**
Trade and other payables	367,589	367,589
Deferred tax liability (Note 25)	787,342	586
	1,154,931	**368,175**
Fair value of net assets	**2,984,245**	**492,850**
Group's share of the fair value of net assets	**2,984,245**	**492,850**
Goodwill arising on acquisition (Note 9)	**961,615**	
Consideration paid	**3,945,860**	

Of the total consideration amount, RR 3,912,385 was paid for 100% of voting shares of Masterlek and RR 33,475 for 100% interest in the other company. Masterlek acquisition was entirely financed through shareholder loan with maturity date 24 July 2007 which attracted interest of 12% per annum. In December 2006, this shareholder loan has been entirely refinanced from the syndicated borrowing organized by Citibank (Note 15).

Goodwill related to the acquisition of Masterlek represents the fair value of the expected synergies and other benefits from combining the Masterlek's trade marks with production assets of the Group.

From the date of the acquisition, CJSC "Masterlek" contributed RR 264,883 (adjusted for the interest expense relating to cost of financing the acquisition) to the net profit of the Group. If the acquisition had taken place at the beginning of the year, the profit of the Group in 2006 would have been RR 2,006,339 (i.e., aggregate profit of the Company and Masterlek as adjusted for the additional interest expense relating to cost of financing the acquisition) and revenue of the Group in 2006 would have been RR 9,374,153.

5.2 Acquisition of Minority Interests

Additional share issue by OJSC "Pharmstandard — Ufavita"

In April 2006, the Company and certain minority shareholders acquired additional shares issued by OJSC "Pharmstandard Ufavita" for the cash consideration of RR 802,400 and RR 11,986, respectively. This resulted in the Company's interest increasing from 56% to 97% of the share capital as not all minority shareholders subscribed to OJSC "Pharmstandard Ufavita" share increase. This acquisition was financed by a capital contribution of RR 802,400 provided by the Company's Participant (Note 19). As a result of the dilution effect on the minority shareholders of the above transaction, net assets attributable to the Participant of the Company increased by RR 199,291.

Acquisition of minority interest in OJSC "TZMOI"

In June 2006 and in July 2006, the entities controlled by the Group's sole shareholder (Note 19) acquired a 35% interest in the Company's subsidiary, OJSC "TZMOI", for RR 434,953 from minority shareholders and sold this interest to the Company for the same amount, resulting in an increase in the Company's interest in OJSC "TZMOI" from 55% to 90%. The total consideration was recorded as other payables (Note 17) at

31 December 2006. The difference between the cost of acquisition and the carrying amount of the minority interest acquired of RR 186,949 was credited directly to equity.

6. SEGMENT INFORMATION

The Group is organised into two main business segments: (1) production and wholesale of pharmaceutical products and (2) production and wholesale of medical equipment. The second segment arose as a result of the acquisition of TZMOI in 2005 as described in Note 5.1 and is entirely represented by TZMOI.

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash, and mainly exclude investments. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate liabilities. Capital expenditure comprises additions to property, plant and equipment. Impairment loss and provisions relate only to those charges made against allocated assets.

The following table presents revenue and profit and certain asset and liability information regarding the Group's business segments:

Year ended 31 December 2006	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Eliminations	Group
Sales to external customers	7,326,380	1,196,400	—	8,522,780
Inter-segment sales	—	15,867	(15,867)	—
Total revenue	**7,326,380**	**1,212,267**	**(15,867)**	**8,522,780**
Segment result	**2,817,508**	**155,543**	**(5,593)**	**2,967,458**
Interest expense, net				(267,376)
Profit before income tax				2,700,082
Income tax expense				(664,014)
Net profit				**2,036,068**
Segment assets	12,106,791	1,663,038	—	13,769,829
Total assets	**12,106,791**	**1,663,038**	**—**	**13,769,829**
Segment liabilities	1,380,061	115,395	—	1,495,456
Unallocated liabilities				5,934,010
Total liabilities				**7,429,466**
Capital expenditure (Note 8)	882,139	58,455	—	940,594
Intangible assets acquisition (Note 9)	84,317	—	—	84,317
Depreciation and amortisation	226,076	58,721	—	284,797
Year ended 31 December 2006				
Sales to external customers	4,673,704	1,011,120	—	5,684,824
Inter-segment sales	—	10,861	(10,861)	—
Total revenue	**4,673,704**	**1,021,981**	**(10,861)**	**5,684,824**
Segment result	**1,349,585**	**192,111**	**(3,360)**	**1,538,336**
Interest expense				(94,639)
Profit before income tax				1,443,697
Income tax expense				(424,374)
Net profit				**1,019,323**
Segment assets	6,236,063	2,077,049	—	8,313,112
Total assets	**6,236,063**	**2,077,049**	**—**	**8,313,112**
Segment liabilities	1,971,396	115,681	—	2,087,077
Unallocated liabilities				2,301,173
Total liabilities				**4,388,250**
Capital expenditure	780,741	108,357	—	889,098
Depreciation and amortisation	123,681	57,692	—	181,373

7. 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 Group entered into transactions or had balances outstanding at 31 December 2006, 2005 and 2004 are detailed below.

Balances with Related Parties:

2006	Trade receivables[a] Note 12	Short-term financial assets[a] Note 14	Cash and cash equivalents Note 13	Other non-current assets	Short-term borrowings Note 15	Trade payables, other payables and advances received[c] Note 17
Entities under common control	—	5,111	124,632	—	—	824,723
Associates	18,974	25,153	—	—	—	—
Total	**18,974**	**30,264**	**124,632**	**—**	**—**	**824,723**

2005	Trade receivables[a] Note 12	Short-term financial assets[a] Note 14	Cash and cash equivalents Note 13	Other non-current assets	Short-term borrowings Note 15	Trade payables, other payables and advances received[b] Note 17
Entities under common control	—	150,503	—	—	—	1,934,840
Associates	12,925	25,153	181,319	210,000	70,000	—
Total	**12,925**	**175,656**	**181,319**	**210,000**	**70,000**	**1,934,840**

2004	Short-term financial assets Note 14	Cash and cash equivalents Note 13	Advance paid to related party[d]	Other non-current assets	Short-term borrowings Note 15
Entities under common control	151,194	—	212,209	—	565,734
Associates	—	51,169	—	160,000	—
Total	**151,194**	**51,169**	**212,209**	**160,000**	**565,734**

(a) Trade receivables from related parties are discussed in detail in comment (A) of section Transactions with Related Parties below. Receivables in the amount of RR18,974 and loans in the amount of RR 25,153 reflected in the balance sheet as of 31 December 2006 were repaid in January 2007.

(b) As of 31 December 2005, the Company's subsidiary, OJSC "Pharmstandard—Ufavita", received cash advances of RR 814,386 from the entities controlled by the Group's ultimate controlling party (Note 19), of which RR 802,400 was ultimately contributed by the Company's Participant to its capital (Note 5.2). These advances were provided in accordance with share subscription agreements between those entities and OJSC "Pharmstandard—Ufavita" in connection with the additional OJSC "Pharmstandard—Ufavita" share issuance which was registered in 2006. Further, all the additional shares were acquired by the Company from the entities controlled by the Group's sole shareholder (Note 5).

The remaining balance of RR 1,132,440 included in this caption of 31 December 2005 represented obligation for the voting shares of OJSC "TZMOI" originated from their acquisition in 2005 (Note 5).

(c) This balance represented obligation for the voting shares of OJSC "TZMOI" originated from their acquisition in 2005 and 2006 form the entities controlled by the Group's sole shareholder (Note 5).

(d) In December 2004, the Group provided and advance to related party which was repaid in February 2005.

Major conditions of the loans and deposits listed above are as follows:

Caption	Interest rate, %			Maturity period		
	2006	2005	2004	2006	2005	2004
Current loans to related parties	2%	2–12%	4%	1–12 months	6–12 months	6–12 months
Deposits	—	8–9%	—	—	2–6 months	—
Non–current loans	—	11%	2%	—	6 years	7 years
Current loans from related parties	—	—	1–2%	—	—	4–8 months
Current loans from related bank	—	14%	—	—	4 months	—

Cash balances with related bank carry no interest.

Transactions with Related Parties:

Statement of operations caption	Relationship	2006	2005	2004
Sales of medical equipment[A]	Associate	**4,167**	17,593	—
Property insurance[B]	Entity under common control	**—**	21,200	144,711
License fee (included in distribution costs)[C]	Entity under common control	**18,686**	9,273	—
Warehouse rental expenses (included in distribution costs)[D]	Entity under common control	**19,915**	7,365	4,187
Office rental expenses (included in general and administrative expenses)	Entity under common control	**9,494**	3,422	3,587

(A) Sale of medical equipment

In 2006, the Group's sales of medical equipment to an associate did not exceed 1% of its total revenues. These sales were provided based on the standard price list. Trade receivables from related parties are due within 90 days and bear no interest. For the year ended 31 December 2006, the Group has not made any provision for doubtful debts relating to amounts owned by related parties (2005: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. Outstanding balances at year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables.

(B) Property insurance

In 2005 and 2004 the Group paid property insurance premium classified as general and administrative expense to an entity acting on behalf of the Group's ultimate controlling party (Note 19). These transactions were terminated in April 2005.

(C) 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.

(D) Warehouse rental expenses

The Group incurred warehouse rental expenses to an entity under common control. Rental fees quoted by the lessor in this transaction approximated average market rates established for Moscow region where the warehouse is located.

Acquisition of intangible assets

In 2006, the Group acquired intangible assets (trade marks) for RR 84,317 from an entity under common control. The consideration paid for the trade marks approximated their fair value confirmed by an independent appraiser.

Disposal of non-current assets classified as held for sale

Non-current assets classified as held for sale reflected in the balance sheet as of 31 December 2005 in the amount of RR 370,466 were sold to entities under common control in 2006 at their carrying value.

Sale of OJSC "Pharmstandard-Octyabr" buildings

In 2006, the Group terminated operations of "Pharmstandard-Octyabr" OJSC. This decision was in line with the business strategy to concentrate manufacturing of certain products (primarily vitamins) at "Pharmstandard-Ufavita" OJSC and "Pharmstandard—Leksredstva" OJSC given that production workshops of "Pharmstandard—Octyabr" OJSC required substantial renovation and modernization investment. As a result, buildings of "Pharmstandard—Octyabr" OJSC with the carrying value of RR 103,000 were sold to an entity under common control in 2006 for cash consideration equal to their carrying value.

Shareholder's loan for Masterlek acquisition

On 2 August 2006, the Group received a loan from shareholder in the amount of US$ 146,200 thousand (RR 3,912,385) for CJSC "Masterlek" acquisition (Note 5). In December 2006 this shareholder's loan has been refinanced by the syndicated borrowing organized by Citibank (Note 15).

Compensation to Key Management Personnel

Key management personnel comprise 3 persons as of 31 December 2006, 2005 and 2004. Total compensation to key management personnel, all of which represented short-term employee benefits (payroll), included in general and administrative expenses in the statement of operations amounted to RR 16,129 for the year ended 31 December 2006 (2005: RR 2,559; 2004: RR 1,611).

8. PROPERTY, PLANT AND EQUIPMENT

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

	Land	Buildings	Plant and machinery	Equipment and motor vehicles	Assets under construction	Total
31 December 2006						
Cost						
Balance at 31 December 2005	**49,101**	**1,591,342**	**1,162,705**	**55,521**	**689,091**	**3,547,760**
Additions	12,738	—	235,693	71,806	620,357	940,594
Acquisition through business combination (Note 5)	—	—	—	4,851	—	4,851
Transfers	—	456,593	590,275	27,869	(1,074,737)	—
Disposals	(24,185)	(234,585)	(55,459)	(13,516)	(6,543)	(334,288)
Balance at 31 December 2006	**37,654**	**1,813,350**	**1,933,214**	**146,531**	**228,168**	**4,158,917**
Accumulated Depreciation						
Balance at 31 December 2005	**—**	**71,929**	**109,759**	**17,144**	**—**	**198,832**
Depreciation charge	—	55,034	146,536	13,929	—	215,499
Transfers	—	79	(7,234)	7,155	—	—
Disposals	—	(15,717)	(20,938)	(7,340)	—	(43,995)
Balance at 31 December 2006	**—**	**111,325**	**228,123**	**30,888**	**—**	**370,336**
Net Book Value						
Balance at 31 December 2005	**49,101**	**1,519,413**	**1,052,946**	**38,377**	**689,091**	**3,348,928**
Balance at 31 December 2006	**37,654**	**1,702,025**	**1,705,091**	**115,643**	**228,168**	**3,788,581**
31 December 2005						
Cost						
Balance at 31 December 2004	**6,192**	**1,047,969**	**463,437**	**14,360**	**256,205**	**1,788,163**
Additions	13,857	20,338	358,835	7,348	486,075	886,453
Acquisition through business combination (Note 5)	29,052	532,562	305,271	26,328	83,961	977,174
Transfers	—	41,280	74,331	20,070	(135,681)	—
Disposals		(50,807)	(39,169)	(12,585)	(1,469)	(104,030)
Balance at 31 December 2005	**49,101**	**1,591,342**	**1,162,705**	**55,521**	**689,091**	**3,547,760**
Accumulated Depreciation						
Balance at 31 December 2004	—	33,722	36,452	1,530	—	71,704
Depreciation charge	—	51,880	110,237	19,256	—	181,373
Disposals	—	(13,673)	(36,930)	(3,642)	—	(54,245)
Balance at 31 December 2005	**—**	**71,929**	**109,759**	**17,144**	**—**	**198,832**
Net Book Value						
Balance at 31 December 2004	6,192	1,014,247	426,985	12,830	256,205	1,716,459
Balance at 31 December 2005	**49,101**	**1,519,413**	**1,052,946**	**38,377**	**689,091**	**3,348,928**

	Land	Buildings	Plant and machinery	Equipment and motor vehicles	Assets under construction	Total
31 December 2004						
Cost						
Balance at 1 January 2004	6,192	1,086,694	264,424	15,155	130,511	1,502,976
Additions	—	—	148,140	—	188,894	337,034
Transfer to investment property	—	(37,926)	—	—	—	(37,926)
Transfers	—	3,789	50,873	8,507	(63,169)	—
Disposals	—	(4,588)	—	(9,302)	(31)	(13,921)
Balance at 31 December 2004	**6,192**	**1,047,969**	**463,437**	**14,360**	**256,205**	**1,788,163**
Accumulated Depreciation						
Balance at 1 January 2004	—	—	—	—	—	—
Depreciation charge	—	33,722	36,452	1,530	—	71,704
Balance at 31 December 2004	—	33,722	36,452	1,530	—	71,704
Net Book Value						
Balance at 1 January 2004	6,192	1,086,694	264,424	15,155	130,511	1,502,976
Balance at 31 December 2004	**6,192**	**1,014,247**	**426,985**	**12,830**	**256,205**	**1,716,459**

Plant and machinery in the amount of RR 286,193 had been pledged as security for borrowings at 31 December 2005 (2004: RR 279,000, see Note 15). The Group did not used borrowings to finance capital expenditures, thus no interest expense was capitalized in 2006, 2005 and 2004.

The above tables include plant and machinery leased under finance lease agreements as of 31 December 2006, 2005 and 2004 as follows:

	2006	2005	2004
Cost	—	148,140	148,140
Accumulated depreciation	—	(22,207)	(7,407)
	—	125,933	140,733

All lease agreements expired in 2006 and the respective plant and machinery was purchased by the Group.

The Group assets include only a minor portion of the land on which the Group's factories and buildings, comprising the Group's principal manufacturing facilities, are located, whilst the major portion of the land is held under operating lease agreements with the state municipal bodies (Note 4). The total amount of rental payments for the use of the land was RR 7,962 in 2006 (2005: RR 10,474; 2004: RR 8,424). Such payments are assessed by the state authorities on an annual basis. No such assessment has been completed for 2007.

9. INTANGIBLE ASSETS

	Goodwill	Trademarks	Total
Cost			
Balance at 31 December 2005	**218,854**	**2,645**	**221,499**
Additions (Note 7)	—	84,317	84,317
Acquisition through business combination (Note 5)	961,615	3,278,151	4,239,766
Disposals	—	(2,645)	(2,645)
Balance at 31 December 2006	**1,180,469**	**3,362,468**	**4,542,937**
Accumulated Amortisation			
Balance at 31 December 2005	—	—	—
Amortisation expense	—	69,298	69,298
Balance at 31 December 2006	**—**	**69,298**	**69,298**
Net Book Value			
Balance at 31 December 2005	218,854	2,645	221,499
Balance at 31 December 2006	**1,180,469**	**3,293,170**	**4,473,639**

	Goodwill	Trademarks	Total
Cost			
Balance at 31 December 2004	—	—	—
Additions	—	2,645	2,645
Acquisition through business combination (Note 5)	218,854	—	218,854
Balance at 31 December 2005	**218,854**	**2,645**	**221,499**
Accumulated Amortisation			
Balance at 31 December 2004	—	—	—
Amortisation expense	—	—	—
Balance at 31 December 2005	**—**	**—**	**—**
Net Book Value			
Balance at 31 December 2004	—	—	—
Balance at 31 December 2005	**218,854**	**2,645**	**221,499**

Impairment testing of goodwill

Goodwill acquired through business combinations in 2005 and 2006 has been allocated for impairment testing purposes to the following groups of cash-generating units, which are also reportable segments of the Group:

- production and wholesale of pharmaceutical products group of units ("Pharmaceuticals"); and
- production and wholesale of medical equipment group of units ("Equipment").

Carrying amount of goodwill allocated to each group of cash generating units:

	Pharmaceuticals		Equipment		Total	
	2006	2005	2006	2005	2006	2005
Carrying amount of goodwill	961,615	—	218,854	218,854	1,180,469	218,854

The recoverable amount of the cash-generating units has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a five-year period and cash flows beyond the five-year period are extrapolated using a 15% and 5% growth rate that is the same as the long-term average growth rate for Pharmaceuticals and Equipment groups of cash-generating units, respectively. The discount rate applied to cash flow projections is 13%.

Key assumption used in value in use calculations

The calculation of value in use for both Pharmaceuticals and Equipment groups of cash-generating units are most sensitive to the following assumptions:

- Discount rates;
- Raw material price inflation;
- Growth rate used to extrapolate cash flows beyond the budget period.

Discount rates—Discount rates reflect management's estimate of the risks specific to each group of units. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for each group of units, regard has been given to the interbank interest rate approved by Central Bank of Russia at the beginning of the budgeted year.

Raw material price inflation—past actual raw materials price movements have been used as an indicator of future price movements.

Growth rate estimates—Rates are based on published industry research.

10. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The Group had investments in several associates, which represented non-core businesses, with a total carrying amount of RR 22,655 as of 31 December 2006 (2005: RR 393,121; 2004: nil), which were classified as non-current assets held for sale as approval of the Group's plan on their disposal was made in 2005 (Note 28).

In 2006, non-current assets classified as held for sale in the amount of RR 370,466 were sold at their carrying value to a related party (Note 7).

11. INVENTORIES

Inventories consist of the following:

	2006	2005	2004
Raw materials—at cost	**748,619**	496,434	281,415
Work in progress—at cost	**96,948**	94,665	17,552
Finished goods:			
—at cost	**596,992**	469,645	417,542
—at net realisable value	**561,385**	452,042	362,480
	1,406,952	1,043,141	661,447

The amount of write-down of inventories recognised as an expense is RR 32,606 (2005: RR 1,654; 2004: RR 15,499). This expense is included in the cost of sales line item as a cost of materials and components, which is disclosed in Note 21.

No inventories have been pledged or restricted in use at 31 December 2006 and 2005 (2004: RR 153,245 was pledged—see Note 15).

12. TRADE RECEIVABLES

	2006	2005	2004
Trade receivables (net of provision for impairment of receivables of RR 79,308 as at 31 December (2005: RR 83,049; 2004: RR 98,090)	**3,373,741**	1,830,858	1,269,179
	3,373,741	1,830,858	1,269,179

RR 68,549 of trade receivables were denominated in currencies other than Russian Roubles (primarily in US$) at 31 December 2006 (2005: RR 27,691; 2004: RR 104,947).

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	2006	2005	2004
Cash in bank—Roubles (Note 7)	**158,239**	94,058	59,539
Cash in bank—US$ and Euro	**34,727**	2,228	6,060
Short-term bank deposits with less than 90 days maturity—Roubles (Note 7)	**—**	147,697	—
	192,966	243,983	65,599

Balances with banks generally carry no interest.

14. SHORT-TERM FINANCIAL ASSETS

	2006	2005	2004
Promissory notes	**34,466**	94,019	248,149
Loans to related parties (Note 7)	**30,264**	104,007	151,194
Bank deposits with maturity over 90 days (Note 7)	**—**	71,649	—
Other	**40,136**	76,918	127,965
	104,866	346,593	527,308

15. BORROWINGS AND LOANS

	2006	2005	2004
Short-term borrowings			
International Moscow Bank (c)	**—**	425,604	424,251
Related bank (c)	**—**	70,000	—
Related parties (c)	**—**	—	565,734
Expobank (c)	**—**	—	75,000
Sberbank (c)	**—**	—	279,000
Other (c)	**—**	87,926	151,619
(a) Current portion of long-term borrowing	**351,415**	—	—
	351,415	583,530	1,495,604
Long-term borrowings and loans			
(a) Syndicated borrowing organized by Citibank ("Citibank loan")—Note 5	**3,844,341**	—	—
(b) Other loans	**31,071**	—	—
Less: Current portion of long-term borrowing	**(351,415)**	—	—
	3,523,997	—	—

Long-term debt is repayable as follows:

	2006
1 to 2 years	**1,405,659**
2 to 3 years	**1,436,757**
3 to 4 years	**340,724**
4 to 5 years	**340,857**
	3,523,997

As at 31 December 2005 and 2004, loans were guaranteed by collateral of property, plant and equipment (see Notes 8).

As at 31 December 2006 all the borrowings are US$ denominated (2005 and 2004—Rouble denominated).

(a) Citibank loan was applied towards the refinancing of the shareholder loan (Note 7). This loan was provided in December 2006 in two credit facilities:

- Facility A in the total amount of US$ 91 million (RR:2,396,130) with maturity period of 3 years; and
- Facility B in the total amount of US$ 55 million (RR: 1,448,211) with maturity period of 5 years.

Interest rate for facility A was established as 3 month LIBOR plus margin of 1.50% p.a. Interest rate for facility B was established as 3 month LIBOR plus margin of 1.90% p.a. In addition to interest, the Group is obliged to reimburse mandatory administrative costs, if any incurred by Citibank in connection with the Citibank loan. Citibank loan is secured by guarantees issued by all the Group subsidiaries. The Citibank loan agreement establishes certain financial ratios, limitations on disposal of assets and distribution of dividends to the Group.

(b) Other loans mature in September 2009 and bear fixed interest rate 7% per annum.

(c) All the loans bore a fixed interest rate and rouble denominated. Their maturity period varied from 4 to 8 months in 2005 and 2004. The interest rate for bank borrowings ranged from 10 to 14% per annum. Loans from related parties attracted interest at rates disclosed in Note 7.

The Group has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

16. OTHER TAXES PAYABLE

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

	2006	2005	2004
Value-added tax	**112,482**	338,879	232,737
Property and other taxes	**35,977**	12,036	13,554
Tax penalties and interest	**—**	1,049	4,375
	148,459	351,964	250,666

17. TRADE AND OTHER PAYABLES AND ADVANCES RECEIVED

	2006	2005	2004
Trade payables	**1,071,596**	789,532	522,044
Other payables—related party (Note 7)	**824,723**	1,132,440	—
Advances received—related party (Note 7)	**—**	802,400	—
Other payables	**196,563**	70,417	24,495
	2,092,882	2,794,789	546,539

RR 414,022 of trade payables were denominated in currencies other than Russian Rouble (primarily US$) at 31 December 2006 (2005: RR 34,883; 2004: RR 55,445).

18. OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases comprised the following:

	2006	2005	2004
Finance lease liabilities—minimum lease payments:			
Not later than 1 year	**—**	94,953	119,078
Later than 1 year and not later than 5 years	**—**	—	115,179
	—	94,953	234,257
Less: interest	**—**	(12,998)	(43,254)
Present value of finance lease liabilities	**—**	81,955	191,003
Representing lease liabilities			
—current	**—**	81,955	109,048
—non-current	**—**	—	81,955

Obligations under finance leases related to a lease with an effective interest of 11% per annum.

Obligations under finance leases were repaid in the annual period ended 31 December 2006.

19. SHARE CAPITAL

The sole shareholder of OJSC "Pharmstandard" (the sole Participant prior to the reorganization described below) is "Augment Investments Limited", a company registered under the laws of Cyprus. In 2005 and 2004, Victor Kharitonin held 70% interest in "Augment Investments Limited" and ultimately controlled the Group, while other individual held 30% interest in "Augment Investments Limited" ("Augment"). In 2006, additional shareholders were introduced, and as a result no individual party ultimately controlled the Group as of 31 December 2006.

As discussed in Note 1, the Group was formed through a reorganization of the pharmaceutical business included in six legal entities under common control of Victor Kharitonin. These 6 legal entities were reorganized under Biovit LLC during 2005 and then in May 2006 Biovit LLC was renamed as "Pharmstandard" and further reorganized into an open joint stock company. This reorganization process represents a transaction under common control whereby the ultimately controlling party transferred this pharmaceutical business to an open joint stock company. During this reorganization process there was a period of time upon which the business was temporary held in a limited liability company. The equity for this period is reflected to as Net Assets Attributable to Participant.

As this reorganization has been accounted for using the uniting of interest method, which resulted in presenting this reorganization in these financial statements as if it had happened from the beginning of the earliest period presented, the net assets attributable to the Participant, which was previously presented as a liability, has been reclassified as equity throughout all periods presented.

The authorised number of ordinary shares issued upon reorganization of the Company into an open joint stock company equated to 37,792,603 with a par value per share of one Russian Rouble. All the issued shares were exchanged for ownership interest previously held by the Participant of the Company.

In accordance with Russian legislation, dividends may only be declared from accumulated undistributed and unreserved earnings as shown in Russian statutory financial statements. The Company had approximately RR 2,114,304 of undistributed and unreserved earnings as at 31 December 2006 (2005: RR 28,893; 2004: RR 37,132). In addition, the Company's share in the undistributed and unreserved earnings of the subsidiaries was approximately RR 5,938,296 as at 31 December 2006 (2005: RR 2,954,265; 2004: RR 2,033,887).

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

In January 2006, the Participant of the Company provided to the Company a capital contribution in the amount of RR 802,400 to finance the acquisition of additional shares issued by OJSC "Pharmstandard—Ufavita" (Note 7). This contribution was credited to equity.

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

As a result of the Company's reorganization into an open joint stock company 37,792,603 shares were issued on 5 May 2006. This issue of shares occurred without a corresponding change in resources and, therefore, the number of shares issued was applied retrospectively for the purpose of the earnings per share calculation.

Earnings per share

Earnings per share calculated retrospectively are as follows:

	2006	2005	2004
Weighted average number of ordinary shares outstanding (thousands)	**37,793**	37,793	37,793
Profit for the year attributable to Participant of the Company (sole shareholder since 5 May 2006)	**1,897,671**	906,221	305,110
Basic and diluted earnings per share, Russian Roubles	**50.21**	23.98	8.08

20. REVENUE—SALE OF GOODS

The Groups' products may be divided into pharmaceuticals, which comprise products sold either in the OTC ("Over-the-counter") market or with a prescription, and medical equipment and disposables.

Sales breakdown by product groups comprised the following:

	2006	2005	2004
Product group			
Pharmaceutical products			
OTC			
Branded	**5,340,643**	3,274,968	2,766,200
Non-branded	**690,844**	626,948	580,500
	6,031,487	3,901,916	3,346,700
Prescription			
Branded	**899,273**	440,127	294,400
Non-branded	**299,240**	292,990	260,800
	1,198,513	733,117	555,200
Other	**96,380**	38,671	43,784
Total pharmaceutical products	**7,326,380**	4,673,704	3,945,684
Medical equipment and disposables	**1,196,400**	1,011,120	—
	8,522,780	5,684,824	3,945,684

21. COST OF SALES

The components of cost of sales were as follows:

	2006	2005	2004
Materials and components	**2,360,659**	1,574,150	1,388,257
Production overheads	**757,616**	617,990	725,824
Depreciation and amortization	**260,285**	158,662	50,470
Direct labour costs	**202,677**	156,300	55,430
	3,581,237	2,507,102	2,219,981

22. SELLING AND DISTRIBUTION COSTS

Selling and distribution costs comprised the following:

	2006	2005	2004
Advertising	**665,108**	628,813	157,581
Insurance of goods in transit	**39,712**	116,256	69,754
Labour costs	**215,607**	105,475	89,654
Freight and communication	**90,119**	67,043	53,634
Utilities and other services	**17,428**	26,889	53,751
Certification expenses	**32,300**	27,744	19,421
Rent (Note 7)	**39,593**	25,361	24,092
Commission and license fee	**75,922**	21,584	17,267
Materials and maintenance	**28,587**	12,899	10,319
Travel and entertainment	**23,397**	12,200	9,760
Depreciation	**10,485**	9,436	8,900
Other expenses	**29,902**	15,752	17,478
	1,268,160	1,069,452	531,611

The Group entered into a number operating lease agreements for warehouses. Rental agreements are revised on an annual basis. Future minimum operating lease payments classified as selling and distribution costs will not substantially change in 2007 compared to 2006.

23. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprised the following:

	2006	2005	2004
Labour costs	**288,016**	161,697	138,052
Utilities and services	**87,637**	116,199	109,749
Taxes other than income tax	**18,362**	34,058	29,078
Property insurance	**15,772**	21,200	144,711
Freight and communication	**16,159**	15,247	13,017
Depreciation	**14,027**	13,275	12,334
Rent (Note 7)	**22,534**	12,306	10,506
Materials and maintenance	**11,005**	7,575	6,467
Other	**25,417**	61,769	58,071
	498,929	443,326	521,985

The Group entered into a number operating lease agreements for office premises. Rental agreements are revised on annual basis. Future minimum operating lease payments classified as are general and administrative expense will not substantially change in 2007 compared to 2006.

24. OTHER EXPENSES

Other expenses comprised the following:

	2006	2005	2004
Loss from disposal of property, plant and equipment and intangible assets	**160,145**	49,785	13,922
Charity	**13,082**	15,533	15,565
Other taxes	**32,027**	23,985	17,836
Other	**1,742**	37,305	113,371
	206,996	126,608	160,694

25. INCOME TAX

	2006	2005	2004
Income tax expense—current	**811,991**	363,995	84,152
Deferred tax (credit) expense—origination and reversal of temporary differences	**(147,977)**	60,379	33,567
Income tax expense	**664,014**	424,374	117,719

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

	2006	2005	2004
Income before taxation	**2,700,082**	1,443,697	437,315
Theoretical tax charge at statutory rate of 24%	**648,020**	346,487	104,956
Tax effect of items which are not deductible or assessable for taxation purposes:			
Non-deductible expenses	**15,994**	77,887	12,763
Income tax expense	**664,014**	424,374	117,719

Movements in deferred tax balances were as follows:

	31 December 2003	Differences recognition and reversal	31 December 2004	Differences recognition and reversal	Effect of business combination (Note 5)	31 December 2005
Tax effects of deductible temporary differences—asset (liability):						
Property, plant and equipment (Note 8)	(204,214)	(11,906)	(216,120)	(16,200)	(143,662)	(375,982)
Trade and other receivables	8,431	(27,071)	(18,640)	(35,175)	2,169	(51,646)
Inventories	(3,019)	6,107	3,088	(9,004)	(7,919)	(13,835)
Other	697	(697)	—	—	—	—
Total net deferred tax liability	**(198,105)**	**(33,567)**	**(231,672)**	**(60,379)**	**(149,412)**	**(441,463)**

	31 December 2005	Differences recognition and reversal	Effect of business combination (Note 5)	31 December 2006
Tax effects of deductible temporary differences—asset (liability):				
Property, plant and equipment (Note 8)	**(375,982)**	34,994	—	**(340,988)**
Intangible assets (Note 9)	**—**	64,990	(786,756)	**(721,766)**
Trade and other receivables	**(51,646)**	6,689	—	**(44,957)**
Inventories	**(13,835)**	17,522	(3,482)	**205**
Trade and other payables	**—**	18,628	2,896	**21,524**
Other	**—**	5,154	—	**5,154**
Total net deferred tax liability	**(441,463)**	**147,977**	**(787,342)**	**(1,080,828)**

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;
- impairment of trade receivables; and
- provisions to write inventory down to net realizable value.

26. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Operating Environment of the Group

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

As at 31 December 2006 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Because of the uncertainties associated with the Russian tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as of

31 December 2006. Management's estimate of the amount of possible liabilities, including fines, that could be incurred in the event that the tax authorities disagree with the Group's position on certain tax matters and certain tax practices used by the Group is approximately RR 53 million at 31 December 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.

Insurance Policies

The Group holds insurance policies in relation to its property, plant and equipment, which cover about 70% of its carrying value because insurance coverage is based on statutory book value of property, plant and equipment, which is substantially lower than IFRS value. The Group holds no insurance policies in relation to its operations, or in respect of public liability.

27. FINANCIAL RISK MANAGEMENT

The Group'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 Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. During the year the Group did not undertake trading in financial instruments.

Credit Risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk. The Group 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 Group beyond the allowance already recorded.

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

Foreign Exchange Risk

The Group attracted substantial amount of US$ denominated long-term borrowings (see Note 15) and also had material amount of US$ denominated trade payables (Note 17) and is thus exposed to foreign exchange risk.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations.

Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings as the majority of interest rates on long-term borrowings are floating and based on LIBOR as disclosed in Note 15. The Group has not entered into any hedging arrangements in respect of its interest rate exposures.

The Group has no significant interest-bearing assets.

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.

28. POST BALANCE SHEET EVENTS

Non-current assets classified as held for sale reflected in the consolidated balance sheet as of 31 December 2006 in the amount of RR 22,655 were sold in February 2007 for cash consideration of US$ 1,311 thousand (RR 34,305).

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of CJSC "Masterlek"

We have audited the accompanying consolidated financial statements of Closed joint stock company "Masterlek" and its subsidiary ("Group"), which comprise the consolidated balance sheets as at 31 December 2006 and 2005, and the consolidated statements of operations, consolidated statements of cash flows and consolidated statements of changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

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

Qualified Opinion

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 satisfy ourselves as to the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of 31 December 2006 and 2005, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC
23 March 2007

CJSC "MASTERLEK"

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2006
(in thousands of Russian Roubles)

	Notes	2006	2005
ASSETS			
Non-current assets			
Deferred tax asset	**22**	**6,446**	2,621
Property, plant and equipment	**6**	**4,337**	3,588
Intangible assets	**7**	**457**	3,159
		11,240	9,368
Current assets			
Inventories	**9**	**351,004**	283,621
Trade and other receivables	**10**	**1,100,719**	487,044
VAT recoverable		**654**	6,146
Short term financial assets	**11**	**13,070**	7,678
Cash and cash equivalents	**12**	**35,121**	12,721
		1,500,568	797,210
Non-current assets held for sale	**8**	**3,850**	—
Total assets		**1,515,658**	806,578
EQUITY AND LIABILITIES			
Share capital	**16**	**500**	500
Retained earnings		**905,801**	368,939
		906,301	369,439
Non-current liabilities			
Long-term loans	**13**	**31,071**	—
Current liabilities			
Trade and other payables	**15**	**499,018**	396,623
Short-term borrowings	**13**	**—**	13,326
Income tax payable		**76,223**	358
Other taxes payable	**14**	**3,045**	26,832
		578,286	437,139
Total equity and liabilities		**1,515,658**	806,578

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

General Director Nusratullin A.Z.

23 March 2007

The accompanying notes are an integral part of these financial statements.

CJSC "MASTERLEK"

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2006
(in thousands of Russian Roubles)

	Notes	2006	2005
Revenue — Sale of goods	**17**	**2,283,029**	1,361,697
Cost of sales	**18**	**(1,064,492)**	(767,656)
Gross profit		**1,218,537**	594,041
Selling and distribution costs	**19**	**(290,216)**	(199,538)
General and administrative expenses	**20**	**(85,252)**	(54,897)
Other expenses	**21**	**(27,797)**	(13,533)
Interest expense		**(149)**	(6,996)
Interest income		**453**	191
Exchange rate gain (loss)		**30,445**	(10,858)
(Loss) gain from sale of assets	**5**	**(33,475)**	3,071
Profit before income tax		**812,546**	311,481
Income tax expense	**22**	**(218,184)**	(82,238)
Profit for the year		**594,362**	229,243
Basic and diluted earnings per share, thousand Roubles	**16**	**1,188**	458

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

General Director Nusratullin A.Z.

23 March 2007

The accompanying notes are an integral part of these financial statements.

CJSC "MASTERLEK"

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006
(in thousands of Russian Roubles)

	Notes	2006	2005
Cash flows from operating activities:			
Profit before income tax		**812,546**	311,481
Adjustments for:			
Depreciation of property, plant and equipment and amortization of intangible assets	**6, 7**	**1,926**	3,103
Allowances for impairment of receivables and inventories	**9, 10**	**771**	986
Loss (gain) from disposal of intangible assets	**5**	**33,475**	(3,071)
Interest expense		**149**	6,996
Interest income		**(453)**	(191)
Operating cash flows before working capital changes		**848,414**	319,304
Increase in trade and other receivables	**10**	**(586,256)**	(250,986)
(Increase) decrease in inventories	**9**	**(62,401)**	26,125
Decrease (increase) in VAT recoverable		**5,492**	(12,316)
Increase in short-term financial assets	**11**	**(5,392)**	—
Increase in trade payables and other payables	**15**	**102,395**	54,665
(Decrease) increase in taxes payable other than income tax	**14**	**(23,787)**	9,988
Cash generated from operations		**278,465**	146,780
Income tax paid		**(146,144)**	(97,598)
Interest paid		**(149)**	(6,962)
Interest received		**85**	191
Net cash from operating activities		**132,257**	42,411
Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets	**5, 6, 7**	**(70,881)**	(6,224)
Cash received from sales of intangible assets in 2005 and 2006	**5**	**5,297**	1,394
Cash received from sale of investments in associate	**5**	**—**	630
Net cash used in investing activities		**(65,584)**	(4,200)
Cash flows from financing activities:			
Proceeds from loans and borrowings	**13**	**29,853**	114,777
Repayment of the borrowings	**13**	**(16,626)**	(99,774)
Dividends paid	**16**	**(57,500)**	(57,500)
Net cash used in financing activities		**(44,273)**	(42,497)
Net increase (decrease) in cash and cash equivalents		**22,400**	(4,286)
Cash and cash equivalents at the beginning of the year	**12**	**12,721**	17,007
Cash and cash equivalents at the end of the year	**12**	**35,121**	12,721

The accompanying notes are an integral part of these financial statements.

CJSC "MASTERLEK"

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006
(in thousands of Russian Roubles)

	Notes	Share capital	Retained earnings	Total
Balance at 1 January 2006		500	368,939	369,439
Profit for the year		—	594,362	594,362
Dividends	**16**	—	(57,500)	(57,500)
Balance at 31 December 2006		**500**	**905,801**	**906,301**

	Notes	Share capital	Retained earnings	Total
Balance at 1 January 2005		500	208,638	209,138
Profit for the year		—	229,243	229,243
Distribution of assets to shareholders	**5**	—	(11,442)	(11,442)
Dividends	**16**	—	(57,500)	(57,500)
Balance at 31 December 2005		**500**	**368,939**	**369,439**

The accompanying notes are an integral part of these financial statements.

1. CORPORATE INFORMATION

CJSC "Masterlek" ("Masterlek" or "the Company") was incorporated as closed joint stock company in the Russian Federation in October 2001 and its principal activities include marketing and wholesale distribution of pharmaceutical products, outsourcing of production from raw materials purchased by Masterlek. The Company's corporate office is located in Moscow, 1st Volkonsky per, 11, bld. 2, Russia. The Company has one wholly owned subsidiary called "Black Bird Investments Enterprises Corp." and they jointly form the Group.

Since August, 2006 CJSC "Masterlek" is subsidiary of OJSC "Pharmstandard" (Note 16).

These financial statements were authorized for issue by the Board of Directors of the CJSC "Masterlek" on 23 March 2007.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of Accounting

The Group maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The financial statements are based on the statutory accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. These adjustments principally relate to valuation and depreciation of tangible fixed assets, certain valuation reserves and the resulting income tax effects.

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

First time adoption of IFRS

For all periods up to and including the year ended 31 December 2005, the Group prepared its financial statements in accordance with local generally accepted accounting practice (Russian GAAP). These financial statements, for the year ended 31 December 2006, are the first the Group prepared in accordance with IFRS.

Accordingly, the Group has prepared financial statements which comply with IFRS applicable for periods beginning on or after 1 January 2006 as described in the accounting policies. In preparing these financial statements, the Group opening balance sheet was prepared as at 1 January 2005, the Group's date of transition to IFRS. This note explains below the principal adjustments made by the Group in restating its Russian GAAP balance sheet as at 1 January 2005 and its previously published Russian GAAP financial statements for the year ended 31 December 2005.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

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
Short term financial 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**

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
Short-term financial 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 for IFRS. Under Russian GAAP investments in associates are accounted for at cost.(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.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

Reconciliation of Profit for the Year ended 31 December 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)	(1,737)	(767,656)
Gross profit		**605,332**	**(11,291)**	**594,041**
Selling and distribution costs	**2**	(161,076)	(38,462)	(199,538)
General and administrative expenses	**2**	(84,379)	29,482	(54,897)
Exchange loss		(10,858)	—	(10,858)
Gain from sale of assets		3,071	—	3,071
Other expenses	**2**	(24,583)	11,050	(13,533)
Interest income		191	—	191
Interest expense		(1,700)	(5,296)	(6,996)
Profit before income tax		**325,998**	**(14,517)**	**311,481**
Income tax expense	**3**	(85,675)	3,437	(82,238)
Profit for the year		**240,323**	**(11,080)**	**229,243**

Notes to Reconciliation of Profit for the Year ended 31 December 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.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards and interpretations mandatory for financial years beginning on or after 1 January 2006.

The changes in accounting policies result from adoption of the following new or amended standards and interpretations:

- IFRS 6 "Exploration for and Evaluation of Mineral Resources";
- IAS 19 (amended 2005) "Employee benefits";
- IAS 21 (amended 2005) "The Effects of Changes in Foreign Exchange Rates";
- IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement"
- IFRIC 4 "Determining whether an Arrangement contains a Lease";

There were no significant effects of these changes in policies on these financial statements.

IFRSs and IFRIC Interpretations not yet effective

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

- IFRS 7 "Financial Instruments: Disclosures";
- IAS 1 (amended 2005) "Presentation of Financial Statements — Capital Disclosures";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 9 "Reassessment of Embedded Derivatives";
- IFRIC 10 "Interim Financial Reporting and Impairment";

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

IFRSs and IFRIC Interpretations not yet effective (continued)

- IFRIC 11 "IFRS 2 — Group and Treasury Share Transactions"
- IFRIC 12 "Service concession arrangements".

IFRS 7 "Financial Instruments: Disclosures" replaces the disclosure requirements of IAS 32 and must be applied for annual reporting periods that commence on or after 1 January 2007.

The amendment of IAS 1 "Presentation of Financial Statements — Capital Disclosures" requires disclosures regarding an entity's objectives, policies and processes for managing capital. The provisions are effective for reporting periods beginning on or after 1 January 2007.

IFRIC 8 clarifies that IFRS 2 applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. If the identifiable consideration given appears to be less than the fair value of the equity instrument granted, under IFRIC 8 this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies. IFRIC 8 becomes effective for financial years beginning on or after May 1, 2006.

IFRIC 9 clarifies, that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. An entity shall apply this interpretation for annual periods beginning on or after 1 June 2006.

Applying IFRIC 10, an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. An entity shall apply this interpretation for annual periods beginning on or after 1 November 2006.

IFRIC 11 addresses the issues whether the certain transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2, and concerns the accounting treatment for share-based payment arrangements that involve two or more entities within the same group. An entity shall apply this interpretation for annual periods beginning on or after 1 March 2007.

IFRIC 12 addresses the accounting issues relating to service concession arrangements. An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2008.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's result of operation and financial position in the period of initial application. The adoption of IFRS 7 will significantly affect the disclosures relating to financial instruments as presented in the notes to the financial statements.

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 less than three months.

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 Group will not be able to collect the debts.

3.3 Value Added Tax

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

Value Added Tax Payable

Prior to 2006, VAT was payable by the Group to tax authorities upon collection of receivables from customers. VAT on purchases, which had been settled at the balance sheet date, was deducted from the amount

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Value Added Tax Payable (continued)

of VAT payable. In addition, VAT related to sales which had not been collected, and therefore currently not due, at the balance sheet date was included in the VAT payable line item.

Starting from 2006, VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the balance sheet date, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Value Added Tax Recoverable

VAT recoverable arises when VAT related to purchases exceeds VAT related to sales.

In addition, prior to 2006, VAT recoverable line item included VAT related to purchases, which had not been settled at the balance sheet date, and to property, plant and equipment not yet put into operation. However, this amount was reclaimable against VAT related to sales only upon payment for the purchases or putting property, plant and equipment into operation.

3.4 Inventories

Inventories are recorded at the lower of cost and net realisable value. The 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 Non-current assets held for sale

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

3.6 Property, Plant and Equipment

Property, plant and equipment is stated at historical cost 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

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. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of operations as incurred.

3.7 Intangible Assets

Intangible assets acquired separately from business combinations are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is initially recognized at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with a finite life are amortised on a straight-line basis over the useful economic lives of 7 to 20 years on a straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Intangible Assets (continued)

methods for intangible assets are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

3.8 Borrowings

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

All borrowing costs are expensed when incurred.

3.9 Deferred Income Taxes

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.

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.

3.10 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 Group. 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.

3.11 Provisions

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

3.12 Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

For the purpose of earnings per share calculation the weighted average number of ordinary shares outstanding during the period and for all periods presented is adjusted for events, other than the conversion of potential ordinary shares that have changed the number of ordinary shares outstanding without a corresponding change in resources.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Equity (continued)

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.

3.13 Revenue Recognition

Revenues are recognized when products are delivered to the customers' warehouse, 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.

3.14 Employee Benefits

Pension Costs

In the normal course of business the Group 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 Group'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:

Lease agreements

A lease is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership, otherwise it is classified as operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. If the lease term is for longer than 75 percent of the economic life of the asset, or that at the inception of the lease the present value of the minimum lease payments amount to at least 90 percent of the fair value of the leased asset, the lease is classified by the Group as finance lease, unless it is clearly demonstrated otherwise.

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 Group maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the 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 Group 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.

4. SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

4.2 Estimation Uncertainty (continued)

Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As of December 31, 2006 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Note 23.

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 Group entered into transactions or had balances outstanding as at 31 December 2006 and 2005 are detailed below.

Entities under common control consist of two groups of shareholders: entities under common control of the Company's shareholders prior to the Company's acquisition by OJSC "Pharmstandard" ("former shareholders") and entities under common control of OJSC "Pharmstandard" ("new shareholder").

Balances with Related Parties:

Balance sheet caption	Relationship	2006	2005
Trade and other receivables			
Other receivables due from related parties (Note 10) . . .	Entities under common control of former shareholders	—	54,848
Trade and other receivables due from related parties (Note 10)	Entities under common control of new shareholder	**911,366**	—

The amounts of receivables due from related parties as at 31 December 2005 represented payments made by the Group to third parties on behalf of the entities controlled by the Company's former shareholders. These amounts did not bear interest and were entirely repaid to the Group in 2006.

The amounts of receivables due from related parties as at 31 December 2006 represent receivables due from "Pharmstandard" LLC for goods sold after the Group's acquisition by OJSC "Pharmstandard" (Note 16).

Transactions with Related Parties:

Statement of operations caption	2006(A)	2005(B)
Sale of goods	**941,903**	1,949
Cost of sales	**491,688**	4,437

(A) — Sales and cost of sales incurred in 2006 related to good sold to "Pharmstandard" LLC — an entity under common control of OJSC "Pharmstandard".

(B) — Sales and cost of sales incurred in 2005 related to goods sold to entities under common control of the former shareholders.

5. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Revenues and trade receivables

In 2006, upon its acquisition by OJSC "Pharmstandard" (see Note 16), the Company sold to "Pharmstandard" LLC (subsidiary of OJSC "Pharmstandard") 46% of its total production sold for the year. Prior to the acquisition there were no sales from the Company to entities controlled by OJSC "Pharmstandard".

Sales to related parties are provided at 1% percent discount from the standard price list. Trade receivables from related parties are repaid within 30-45 days and bear no interest. For the year ended 31 December 2006, the Group has not made any provision for doubtful debts relating to amounts owned by related parties (2005: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. Outstanding balances at year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables.

Disposal of Assets

On 1 January 2005 the Group had 50% stake in the capital of a company engaged in production of pharmaceutical products, with a carrying amount of investment of RR 15,370. In 2005, the Group sold its 50% stake in the associate to its former 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 11,142 net of RR 3,613 income tax effect) was recorded through the Group's equity.

Transactions with trade marks

In 2005, the Group sold trademarks for its two major products to entities controlled by former shareholders for RR 6,691, of which RR 1,394 was paid to the Group in 2005 and the remaining balance of RR 5,297 was paid in 2006. As a result of this transaction, a gain in the amount of RR 3,071 was recognized in the statement of operations for the year ended 31 December 2005.

In 2006, upon acquisition of Masterlek by OJSC "Pharmstandard" trade marks were purchased by the Group for RR 66,950 and then sold to OJSC "Pharmstandard" for consideration of US$ 1,250 thousand (RR 33,475) resulting in a loss in the amount of RR 33,475 recognized in the statement of operations. The respective receivable from OJSC "Pharmstandard" was recorded as of 31 December 2006.

Guarantees

At 31 December 2006, the Group was one of guarantors of related party long-term loan obligations in the total amount of US$ 146 million (RR 3,844,341). This guarantee will expire in December 2011.

Compensation to Key Management Personnel:

Key management personnel comprise five persons as of 31 December 2006 and 2005. Total compensation to key management personnel all of which represented short-term employee benefits (payroll) included in general and administrative expenses in the statement of operations amounted to RR 8,470 for the year ended 31 December 2006 (2005: RR 5,503).

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 2006	9,337
Additions	2,630
Balance at 31 December 2006	**11,967**
Accumulated Depreciation	
Balance at 1 January 2006	5,749
Depreciation charge	1,881
Balance at 31 December 2006	**7,630**
Net Book Value	
Balance at 1 January 2006	3,588
Balance at 31 December 2006	**4,337**
Cost	
Balance at 1 January 2005	6,424
Additions	3,500
Disposals	(587)
Balance at 31 December 2005	**9,337**
Accumulated Depreciation	
Balance at 1 January 2005	4,019
Depreciation charge	2,282
Disposals	(552)
Balance at 31 December 2005	**5,749**
Net Book Value	
Balance at 1 January 2005	2,405
Balance at 31 December 2005	**3,588**

7. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Trade marks
Cost	
Balance at 1 January 2006	3,219
Additions	68,251
Disposals	(67,163)
Transfers to non-current assets held for sale	(3,850)
Balance at 31 December 2006	**457**
Accumulated Amortisation	
Balance at 1 January 2006	60
Amortisation expense	45
Disposals	(105)
Balance at 31 December 2006	**—**
Net Book Value	
Balance at 1 January 2006	3,159
Balance at 31 December 2006	**457**
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. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The Group had several trade marks with a total carrying amount of RR 3,850 as of 31 December 2006, which were classified as non-current assets held for sale due to approval of the Group's plan on their sale to the former shareholders of the Company (Note 5). This was one of the conditions of the Masterlek acquisition by OJSC "Pharmstandard" (Note 16).

9. INVENTORIES

Inventories consist of the following:

	2006	2005
Raw materials (at cost)	**220,935**	118,025
Finished goods (at net realisable value)	**130,069**	165,596
	351,004	283,621

Cost of finished goods reflected in the table above was RR 130,079 and RR 170,588 as of 31 December 2006 and 2005, respectively.

The amount of write-down of inventories recognised as an expense in 2005 is RR 573. These expenses are included in cost of sales.

No inventories have been pledged or restricted in use at 31 December 2006 (2005: RR 128,286).

10. TRADE AND OTHER RECEIVABLES

	2006	2005
Trade receivables due from unrelated customers (net of provision for impairment of receivables of RR 198 and nil as at 31 December 2006 and 2005, respectively)	**189,353**	432,195
Trade receivables due from related parties (Note 5)	**877,891**	—
Other receivables due from related parties (Note 5)	**33,475**	54,848
	1,100,719	487,044

RR 37,176 of trade receivables were denominated in currencies other than Russian Rouble (US$) at 31 December 2006 (2005: RR 20,576).

11. SHORT TERM FINANCIAL ASSETS

	2006	2005
Promissory notes	**12,991**	7,678
Other assets	**79**	—
	13,070	7,678

Promissory notes had maturity period of 3 months and were rouble denominated. They attracted 5% to 10% interest per annum.

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise rouble denominated bank accounts.

Balances with banks generally carry no interest.

13. BORROWINGS AND LOANS

Short-term loan as of 31 December 2005 represented the outstanding balance of rouble denominated credit facility of RR 120,000. Interest on this facility is a fixed 14% per annum. The facility was guaranteed by collateral of inventories (see Note 9).

The long-term loan as at 31 December 2006 has maturity date in September, 2009 and is to be repaid as a lump sum. This loan is US$ denominated and bears interest at a fixed rate of 7% per annum.

14. OTHER TAXES PAYABLE

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

	2006	2005
Value-added tax	**—**	25,846
Other taxes	**3,045**	986
	3,045	26,832

15. TRADE PAYABLES AND OTHER PAYABLES

	2006	2005
Trade accounts payable	**493,885**	387,995
Other accounts payable	**5,133**	8,628
	499,018	396,623

RR 389,672 of trade payables were denominated in currencies other than Russian Rouble (US$) at 31 December 2006 (2005: RR 353,490).

16. SHARE CAPITAL

The share capital of the Company in accordance with its charter documents is RR 500 as at 31 December 2006 and 2005. The authorised number of ordinary shares is 500 with a par value per share of one thousand Russian Roubles. All the authorised shares are issued and fully paid.

In August 2006, OJSC "Pharmstandard" acquired 100% of the voting shares of CJSC "Masterlek". There is no ultimate controlling party because control is split after the parent.

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

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 988,002 of undistributed and unreserved earnings at 31 December 2006 (2005: RR 395,071).

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

Earnings per share are as follows:

	2006	2005
Weighted average number of ordinary shares outstanding	**500**	500
Profit for the year	**594,362**	229,243
Basic and diluted earnings per share, thousand Roubles	**1,188**	458

17. REVENUE — SALE OF GOODS

The Group'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:

	2006	2005
Products group		
Pharmaceutical products		
OTC		
Branded products	**1,895,924**	1,152,815
	1,895,924	1,152,815
Prescription		
Branded products	**345,011**	195,142
Non-branded products	**13,502**	11,709
	358,513	206,851
Other sales	**28,592**	2,031
	2,283,029	1,361,697

18. COST OF SALES

The components of cost of sales were as follows:

	2006	2005
Materials and components	**867,723**	656,996
Production outsourcing fees	**196,769**	110,660
	1,064,492	767,656

19. SELLING AND DISTRIBUTION COSTS

Selling and distribution costs comprised the following:

	2006	2005
Advertising	**197,318**	152,182
Freight and communication	**3,483**	3,175
License fees	**60,845**	30,230
Rent	**1,981**	1,786
Materials and maintenance	**1,234**	47
Commission and storage expenses	**2,542**	—
Labour costs	**19,843**	10,823
Other expenses	**2,970**	1,295
	290,216	199,538

20. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprised the following:

	2006	2005
Labour costs	**52,576**	31,903
Property insurance	**1,545**	1,210
Freight and communication	**5,758**	2,816
Depreciation and amortization	**1,926**	3,103
Rent	**4,671**	2,377
Utilities and services	**12,948**	3,636
Materials and maintenance	**2,967**	5,445
Other	**2,861**	4,407
	85,252	54,897

21. OTHER EXPENSES

Other expenses comprised the following:

	2006	2005
Bank fees	**4,994**	3,981
Taxes other than income tax	**6,048**	3,888
Charity	**3,005**	—
Employee benefits	**7,451**	—
Other	**6,299**	5,664
	27,797	13,533

22. INCOME TAX

	2006	2005
Income tax expense — current	**222,009**	86,318
Deferred tax expense — origination and reversal of temporary differences	**(3,825)**	(4,080)
Income tax expense	**218,184**	82,238

22. INCOME TAX (CONTINUED)

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

	2006	2005
Income before taxation	**812,546**	311,481
Theoretical tax charge at statutory rate of 24%	**195,011**	74,755
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	**23,173**	7,483
Income tax expense	**218,184**	82,238

Movements in deferred tax balances were as follows:

	1 January 2005	Differences reversal through income	Differences reversal through equity	31 December 2005	Differences recognition and reversal through income	31 December 2006
Tax effects of deductible temporary differences — asset (liability):						
Trade and other receivables[a]	2,174	2,034	—	4,208	(5,628)	(1,420)
Inventories[b]	(4,914)	809	—	(4,105)	4,898	793
Investment in associate (Note 5)[c]	(3,613)	—	3,613	—	—	—
Trade and other payables[d]	1,281	1,237	—	2,518	4,555	7,073
Total net deferred tax asset (liability)	**(5,072)**	**4,080**	**3,613**	**2,621**	**3,825**	**6,446**

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

(a) impairment of trade receivables;
(b) provisions to write inventory down to net realizable value;
(c) write down of assets to realizable value; and
(d) accruals of liabilities.

23. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Operating Environment of the Group

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

As at 31 December 2006 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

24. FINANCIAL RISK MANAGEMENT

The Group'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 Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. During the year the Group did not undertake trading in financial instruments.

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk

Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables. The Group 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 Group has no significant concentrations of credit risk other than to related parties (Note 5), however management estimated this risk to be minimal. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

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

Foreign Exchange Risk

The Group imports its major raw materials and is thus exposed to foreign exchange risk. Foreign currency denominated liabilities (see Note 15) give rise to foreign exchange risk exposure. The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations.

Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets or liabilities, except for RR 31,071 loan denominated in US$ at a fixed interest rate of 7% (Note 13).

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.

25. SEGMENT INFORMATION

The Group operates in one operating segment — production and wholesale distribution of pharmaceutical products and one geographical segment — Russia.

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