Pharmstandard

PHILOSOPHY
PHARM FOR STABLE GROWTH
STANDARD

ANNUAL REPORT 2012

Annual Report 2012

CEO Statement

I am honoured to present to you our Annual Report and key accomplishments achieved by Pharmstandard in 2012. First of all, let me highlight that in 2012 we managed to maintain sustainable business growth trend: Pharmstandard reached a new sales benchmark in excess of RUR 51 billion which translates into a 21% growth versus previous year. This outstanding performance was achieved despite external challenges associated with market environment and regulatory changes.

2012 year beginning was difficult for Pharmstandard – with no flu epidemic our anti-cold product portfolio suffered sales decline.

In order to meet our goals and sales targets we adjusted our promotion strategy and increased marketing/advertising investments for Arbidol®, Codelac® and Maxycold®. This approach provided a positive impact on our sales dynamics which is described in detail in our Annual Report.

We are committed to our strategy with constant focus on business profitability along with sufficient development capex. In 2013, we are determined to pursue our policy of extensive marketing/advertising spendings to support our key existing brands as well as new brands requiring aggressive promotion.

An important development of 2012 was VEDs re-registration. Price-regulated VEDs account for over 60% of Pharmstandard sales. In March 2013, we got VED prices successfully re-registered with 5.5% indexation. This will allow us to maintain sales growth and profitability levels in 2013.

An important element of our business is co-operation with international pharmaceutical manufacturers on production localization based on our capacity. During the last two years we invested over RUR 2 billion in the construction of new capacity and upgrade of existing operations.

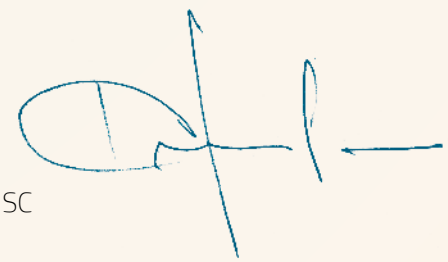
In 2012, we successfully launched a joint project with Chiesi, a major European company, on secondary packaging of a number of antiasthmatic drugs. Our further plans encompass constructing a new workshop to produce aerosols and sprays on Pharmstandard-Leksredstva operating platform in Kursk and commissioning of a full-cycle antiasthmatic manufacturing capacity. In 2013, we are planning to launch Velcade® full-cycle production jointly with Johnson&Johnson on our new cytostatic capacity of Pharmstandard-UfaVITA.

Our sustainable growth strategy also relies on new acquisitions. In 2012, Pharmstandard completed a number of M&A transactions for over RUR2.5 billion. We acquired three manufacturing companies equipped with innovative state-of-the-art technologies: (1) LEKKO CJSC, a Russian innovative company manufacturing drops, powders, sprays and tablets, (2) Pharmapark LLC, a developer and manufacturer of substances and FPPs of Altevir®, Epostin® and other product lines, and (3) Biomed named after I.I. Mechnikov OJSC, one of the oldest producers of immunobiological products in Russia focused on manufacturing vaccines and allergens for domestic and export markets. The Company is targeting to complete new business integration to realize operational and commercial synergies.

A major factor of Pharmstandard success is its management team leading the business for over 10 years which confirms their commitment, efficiency, dedication and track record of successful delivery on ambitious tasks set by the Board of Directors.

We are proud of our achievements and capability of meeting serious challenges we faced in 2012, and we are confident that 2013 will see new sales targets reached and anticipated projects delivered.

Yours sincerely,
Igor Krylov,
CEO
Pharmstandard OJSC



Mission

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

The Company is committed to the following guiding principles

INNOVATION

Speedy implementation of cutting-edge scientific developments in medicine and pharmacology in close cooperation with Russian and international scientists.

EFFICIENCY

Implementation of business process management procedures based on an efficient and balanced combination of technical and scientific innovations with a vast practical experience acquired over the years of extensive involvement in pharmaceutical market.

RESPONSIBILITY

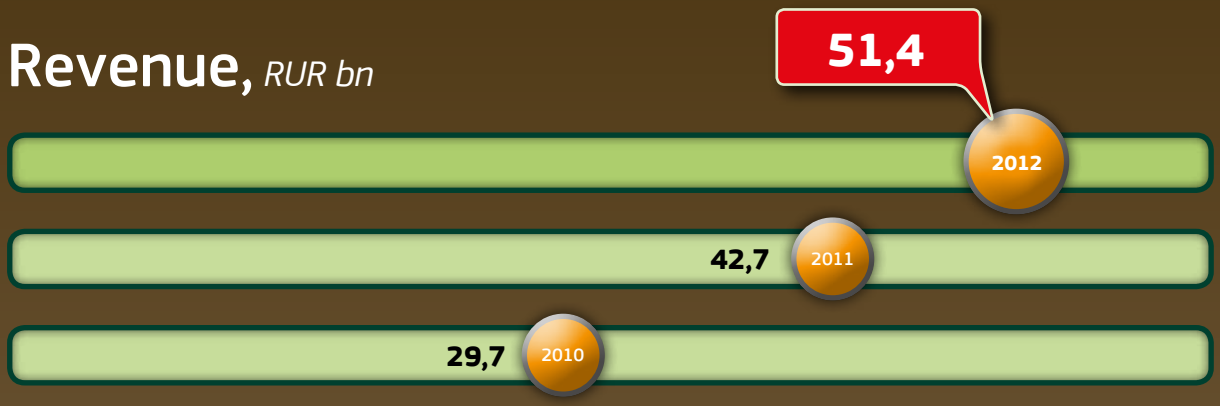
The use of international administrative and technological standards as part of the Company's responsible consumer policy. Compliance with ecological standards and commitment to the reduction of industrial effect on the environment in the context of the Company's responsibility to future generations.

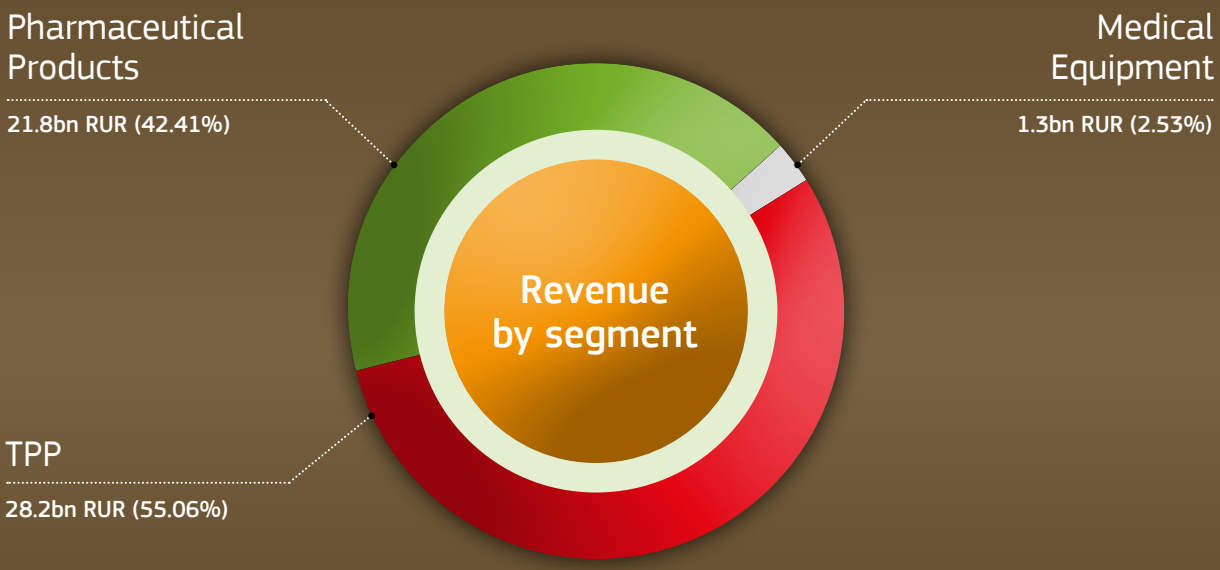
Strategy


Launch new pharmaceutical products in a timely manner to capture market share.
Promote our market-leading brands to drive sales growth and profitability
Maintain our focus on cost control
We strongly believe that our achievements depend on successful implementation of the Company Strategy. Our goal is to further strengthen our leading position in the Russian pharmaceutical market. The key elements of our strategy are:
Expand our sales and marketing capabilities
Grow through acquisitions and realize synergies
Cooperation with leading pharmaceutical companies
Exploit opportunities arising from government funding of healthcare

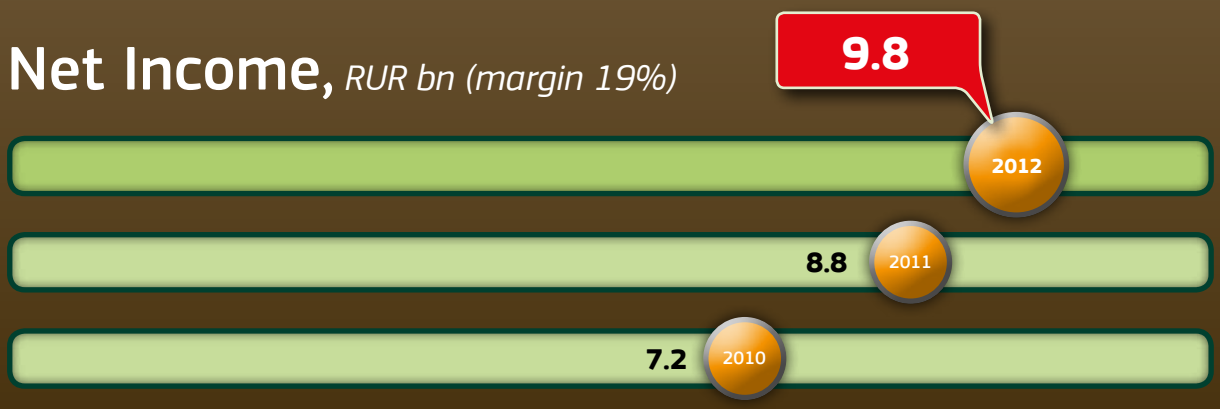
Performance Highlights

Revenue, *RUR bn*



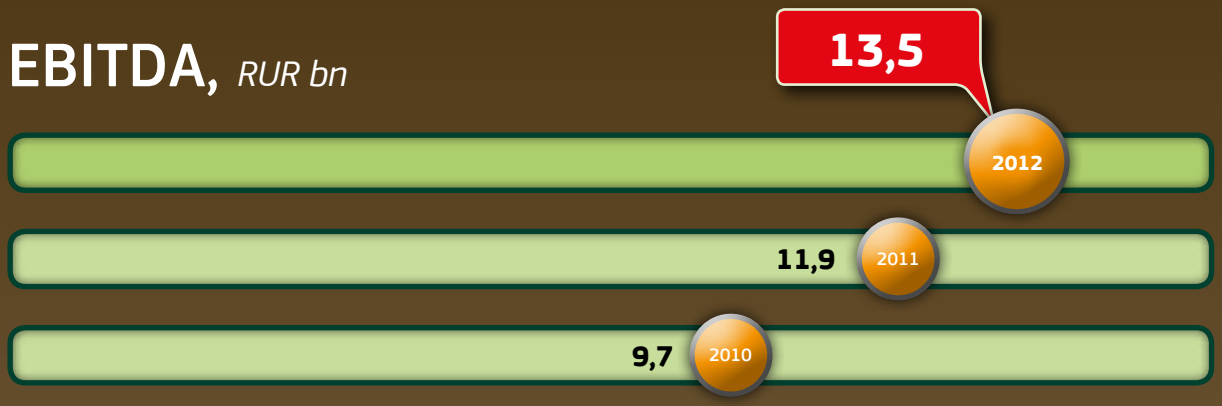


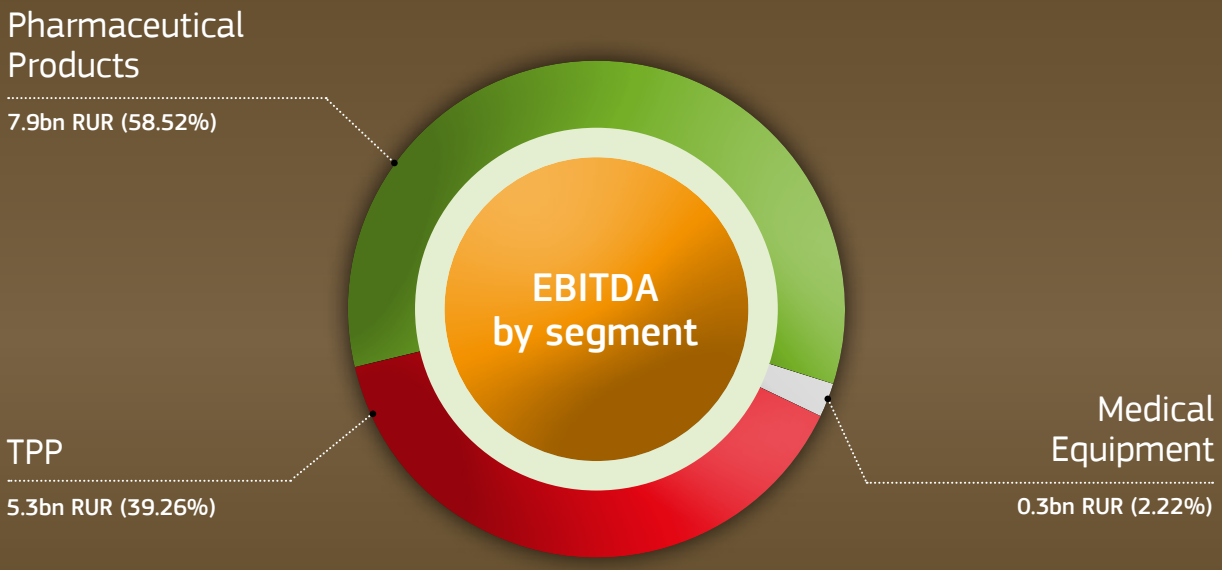
Net Income, *RUR bn (margin 19%)*



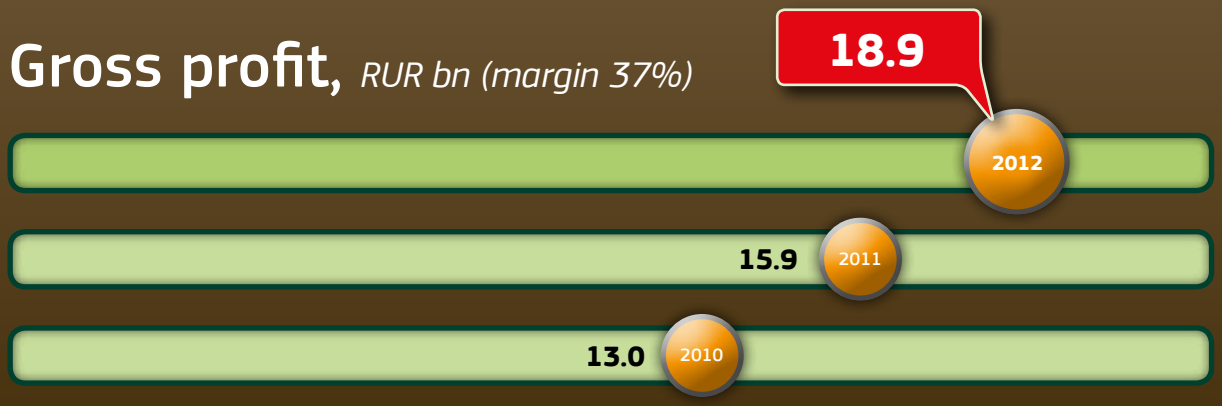
Stable growth

EBITDA, *RUR bn*





Gross profit, *RUR bn (margin 37%)*



The Leading local producer of pharmaceuticals

Stable growth

10 new drugs
have been registered and launched in 2012

#2 position and a **6% market** share covering **110** competitive therapeutic categories – **75% of the market**

#3 position in the entire space of drug and BAA producers with **3.4% market share**

#3 position in the Commercial segment with a **4.3% market share**

Every 10th drug/BAA pack out of all consumer purchases in Russia **PRODUCED BY**

An UNDISPUTED LEADER

in terms of physical drug and BAA consumption consumption (by volume) with a market share of 8.3%

8 plants

that produce more than

700 million

packs per year

TOP 10

brands of the Commercial segment include Arbidol® and Pentalgin®

TOP 25

Commercial segment local brand rating includes Arbidol® #1, Pentalgin® #2, Complivit® #10, Amixin® #15, Aphobazolum® #17 and Flucostat ® #22

PHARMSTANDARD

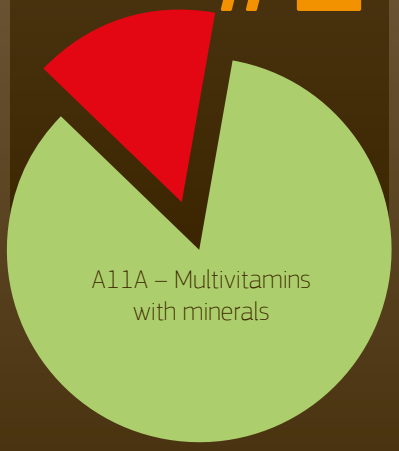
Growth drivers

10%

Complivit®

+147 *RUR mn*

15.6% **#2**

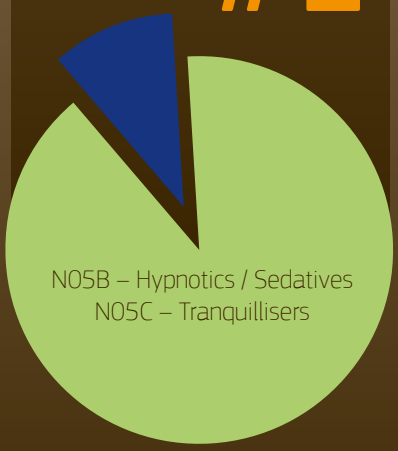


13%

Aphobazolum®

+100 *RUR mn*

10.5% **#1**

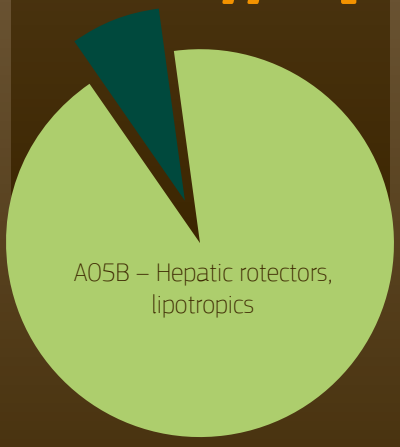


26%

Phosphogliv®

+237 *RUR mn*

7.8% **#4**

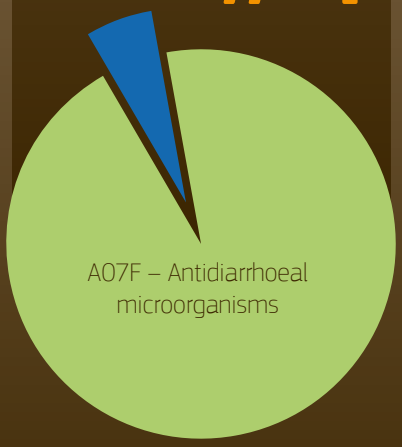


38%

Acipol®

+107 *RUR mn*

5.7% **#4**



50%

Amixin®

+282 *RUR mn*

7.7% **#3**

Pharmstandard OJSC stock buyout. Pharmstandard Leksredstva JSC, a subsidiary of Pharmstandard OJSC, purchased ordinary shares of the parent company on market terms in the amount of 765,000 shares or about 2.02% of authorized share capital of Pharmstandard OJSC. Post transaction Pharmstandard-Leksredstva JSC held 2,589,750 ordinary shares or 6.85% of Pharmstandard OJSC share capital.

Arbidol® data presented to WHO experts. Information on Arbidol®, an original Russian antiviral drug, was presented at the Expert Conference of the World Healthcare Organization on effective therapies for flu and other acute respiratory viral infections. In addition, WHO experts were presented data on the commencement of ARBITR multicentre post-registration clinical trial program carried out in accordance with the Russian regulatory requirements (Federal Law #61 "On the circulation of pharmaceutical products" of 12 April 2010) and ICH-GCP international clinical trial standards.

Calendar of major

20 JUNE 2012

Acquisition of 50.005% in Bigpearl Trading Limited (Cyprus). Pharmstandard OJSC announced the acquisition of the controlling stake in Bigpearl Trading Limited (Cyprus). As a result of the transaction Pharmstandard OJSC acquired Biomed named after I.I. Mechnikov OJSC, Pharmapark LLC and other companies under control of Bigpearl Trading Limited group.

26 JUNE 2012

Additional Pharmstandard OJSC stock buyout. Pharmstandard-Leksredstva" OJSC purchased 600,000 ordinary shares of the Company representing about 1.59% of the Company's authorized share capital for a total cash consideration of RR 897,000. After this transaction, "Pharmstandard-Leksredstva" holds 8.44% of issued shares of the Company as treasury shares.

JULY 2012

30 AUGUST 2012

events

21 NOVEMBER 2012

Pharmstandard OJSC acquired 100% in LEKKO CJSC. LEKKO is a Russian innovation company focused on research, development, production and marketing of high-efficacy drugs. The Company has 18 years of successful track record in the market. The Company's operating facility located in Volginsky district in Vladimir region.

18 DECEMBER 2012

#1 local pharmaceutical producer. Based on 2012 annual survey of the most reputable players of the Russian pharmaceutical market jointly performed by Pharmaceutical Review newspaper and Pharmexpert Marketing Research Center, Pharmstandard was rated as a **"Dominant Local Pharmaceutical Producer".**

12 MARCH 2013

Membership in the Association of Pharmaceutical Manufacturers of the Eurasian Economic Community. Pharmstandard announced admission to the Association of Pharmaceutical Manufacturers of the Eurasian Economic Community of Pharmstandard-UfaVITA OJSC and Pharmstandard-Leksredstva OJSC. The purpose of the Association's activities is to coordinate business cooperation of Eurasian Economic Community pharmaceutical producers participating in the Association as well as present and protect their property interests in front of international organizations, government agencies, local authorities and other non-government entities.

12 MARCH 2013

Arbidol® rated #1 OTC product. Based on 2012 annual survey of the most reputable players of the Russian pharmaceutical market jointly performed by Pharmaceutical Review newspaper and Pharmexpert Marketing Research Center, Arbidol® received the highest rating as **"The Most Popular OTC Product".**

Map of operations

MOSCOW

Lekko CJSC

A Russian innovative company focused on research, development, manufacturing and marketing of highly-effective drugs

Pharmaceutical forms: liquid forms, sachets, tablets

Production capacity: >50m packages/year

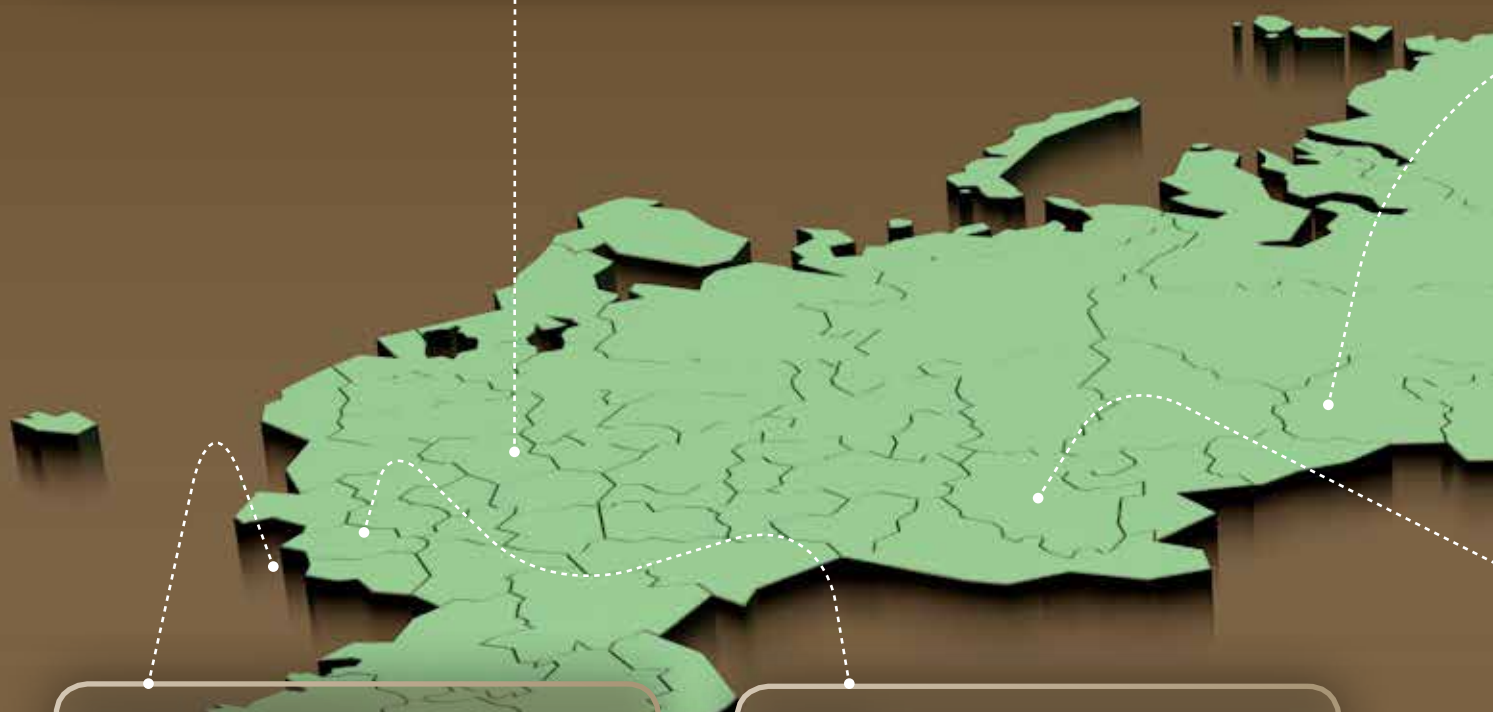
Biomed named after Mechnikov OJSC

Biomed is one of the oldest immunobiologic producers

Key business areas: production of vaccines, interferons, probiotics, immunomodulators and other pharmaceuticals, production of diagnostic products and microbiologic digest media, contract manufacturing

Pharmapark LLC

The largest national producer of Interferon alfa-2b substance development, testing, manufacturing and marketing of biotechnological products in the form of active pharmaceutical substances and finished dosage forms



KHARKOV (Ukraine)

OJSC Pharmstandard-Biolik

Top-20 Ukrainian pharmaceutical company

Specialises in the production of immunobiological products, vaccines, serums, diagnostic products, nutrient mediums, blood products, hormonal, antiviral, antibacterial and enzymatic drugs

KURSK

OJSC Pharmstandard-Leksredstva

Biggest manufacturer of finished pharmaceutical products in the Central Black Earth Region

One of the 10 biggest pharmaceutical manufacturers in Russia

Production capacity: >800m packages/year

Pharmaceutical forms: tablets, aerosols, sprays, capsules, sachets, liquid forms

EU GMP certificates for 6 production lines

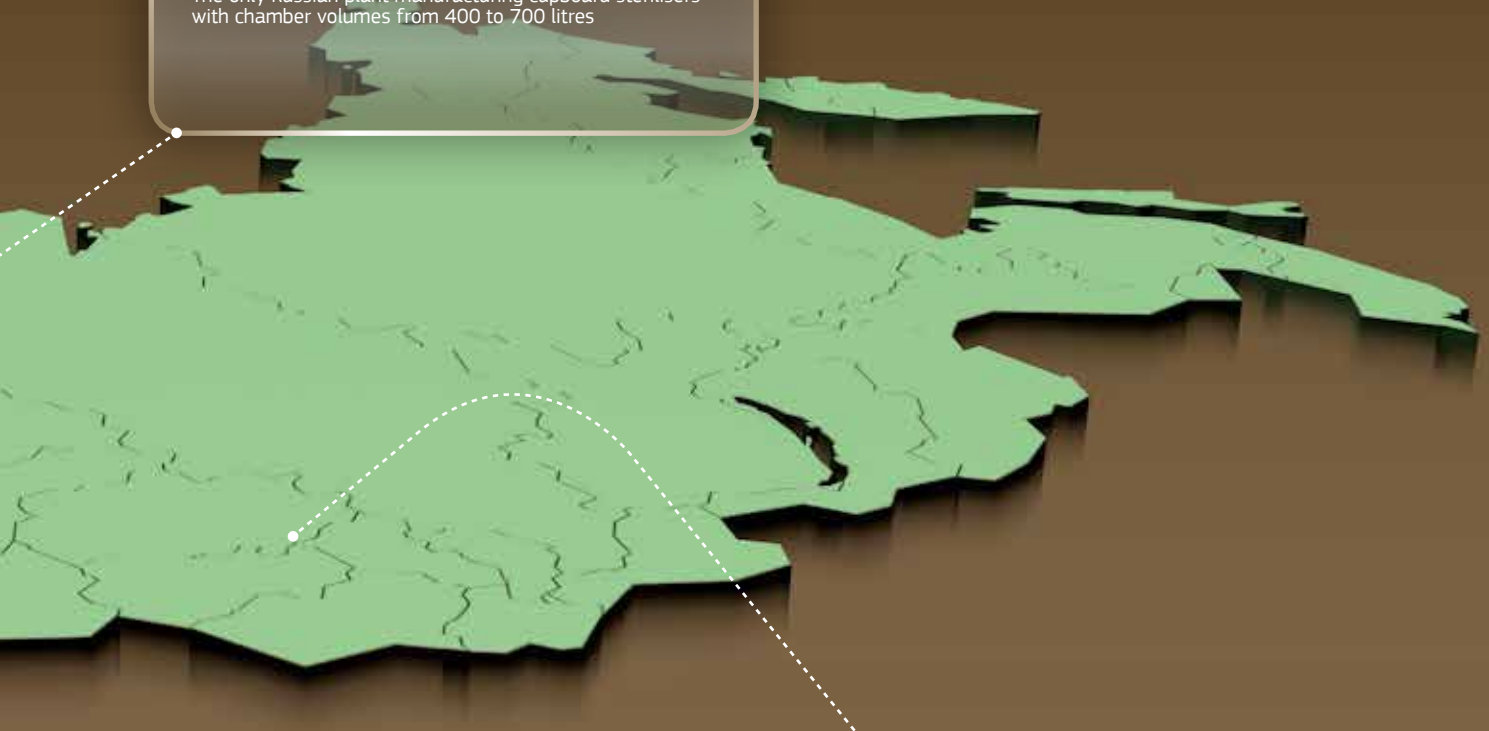
The Company's production assets consist of 8 pharmaceutical plants located in Kursk, Ufa, Tomsk, Vladimir and in Ukraine's Kharkov and 1 medical equipment plant in Tyumen.

TYUMEN

OJSC Tyumen Plant of Medical Equipment and Tools

Leader in the market of steam sterilisers

The only Russian plant manufacturing cupboard sterilisers with chamber volumes from 400 to 700 litres



UFA

OJSC Pharmstandard-UfaVITA

One of the biggest Russian pharmaceutical manufacturers

Holds the leading position in the area of single and multi-vitamin production

Also produces bio-engineered products

Production capacity: >200m packages/year

TOMSK

OJSC Pharmstandard-Tomskhimfarm

Biggest manufacturer of finished pharmaceutical products in Western Siberia

Production capacity: >300m packages/year

Pharmaceutical forms: Tablets, solutions, aerosol

Russian Pharmaceutical Market Overview

In 2012, the Russian drug and BAA retail market reached RUR818 billion (in consumer prices) and 6.11 billion packs showing significant growth vs 2011 both in value and volume terms.

In value terms the market demonstrated 17% growth, twice as high as in 2011 (vs 2010). As such, 2011 y/y performance remains the lowest in recent years. The current growth rate is close to historical averages of over 25% per year achieved before 2011. In absolute terms the 2012 market growth was c. RUR120 billion, which is many times higher than the average annual growth seen during the last 10 years (See fig.1).

The average price per pack showed 10.7% growth for the second consecutive year.

Fig. 1. Russian pharmaceutical market dynamics

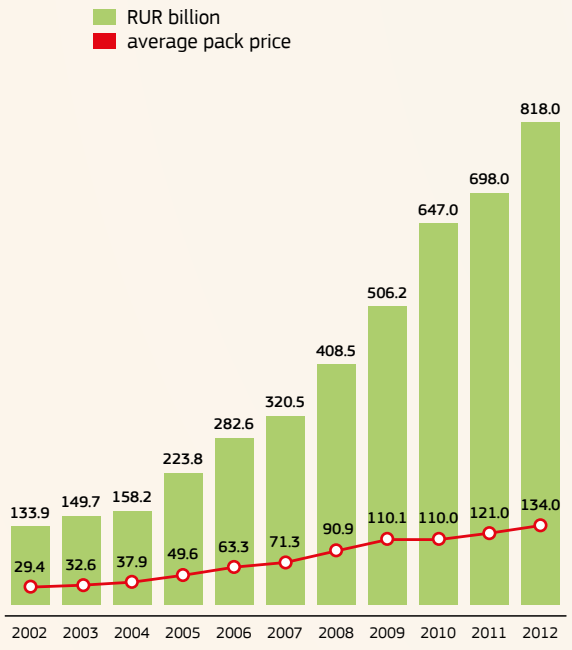
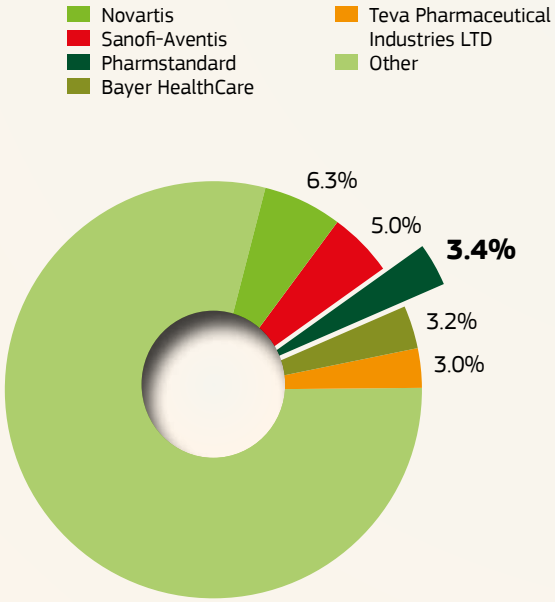


Fig. 2. Russian pharmaceutical market shares by company *(in value terms), %*



* Source: All data in this section are based on Pharmexpert Market Research Centre (Monitoring of pharmacy and hospital purchases and FRP drug and BAA procurement in Russia)

The average drug pack price in 2012 was RUR134 vs RUR121 in the previous year. Price growth for products with no limited markup in the supply chain was 16.6% with the current average pack price of RUR129, compared to just 3.7% price growth in the VED segment.

The situation is more diverse in different market segments: retail segment shows continued consumption growth in value terms reflecting physical consumption growth, which positively impacts potential growth projections in this segment and the Russian pharmaceutical market in general. In 2012, the commercial segment demonstrates higher growth rates than 10-year averages. The trend we indicated in our previous reports is now justified.

Based on 2012 results, Pharmstandard maintains No. 3 position in the entire space of drug and BAA producers (based on Pharmexpert Marketing Research Center data) with 3.4% market share, almost unchanged (-0.2 percentage points) from 2011 (See fig.2) However, in terms of physical drug and BAA consumption Pharmstandard is an undisputed leader with a market share of 8.3% (9.7% in the commercial segment with every 10th drug/BAA pack out of all consumer purchases in Russia produced by Pharmstandard).

Russian pharmaceutical market structure

The Russian pharmaceutical market comprises three major segments: Commercial segment (consumer spending), Hospital segment and FRP segment (Federal Reimbursement Program including ONLS (Essential Drug Management Program) and 7 "Nosologies" Program). Commercial segment dominates the market with relatively small contribution of other segments to the total market sales (See fig.3).

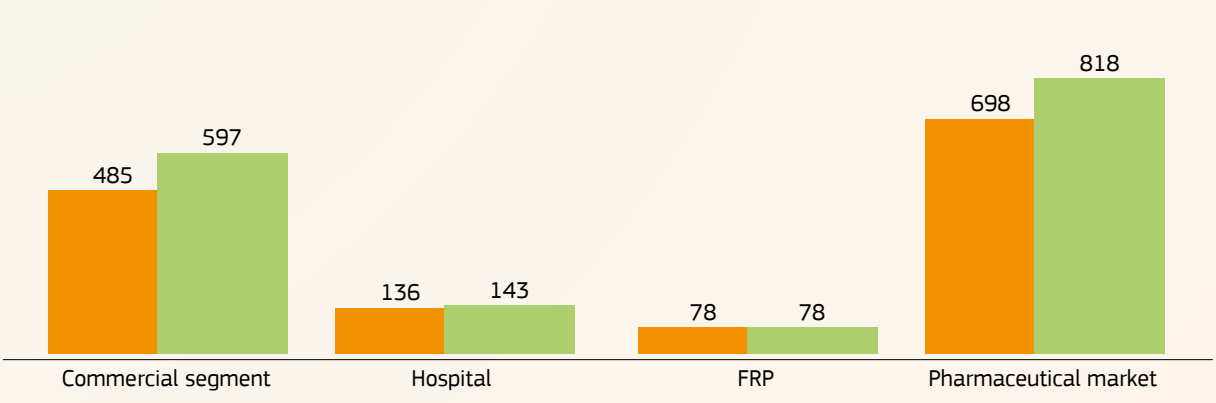
Commercial segment

Commercial segment is the largest part of the Russian pharmaceutical market with 73% market share in value terms and 84% in physical terms as of 2012. Given record high growth rates in the recent years demonstrated in particular in 2012 the segment is expected to remain highly attractive.

In 2012, the Commercial segment grew up to RUR597 billion to reach 72.9% market share with a growth rate of 23% y/y in value terms (compared to RUR485 billion and 69.4% in 2011, respectively). In physical terms the segment accounted for 84% of the total market with 5.1 billion packs which means 5.9% growth vs 2011 (4.8 billion packs and 84.0% market share).

The Commercial segment was the key contributor to the entire market growth (RUR112 billion out of total growth of RUR119 billion) compared to previous year. This is twice as high as the average growth rate in absolute terms for the last 10 years (RUR40 billion on average with the highest growth of RUR84 billion seen in 2009/2008). As such, the segment appeared to be a strong growth driver for the whole pharmaceutical market both in value terms (23%

Fig. 3. Russian Pharmaceutical market structure and dynamics, *RUR billion*



growth rate vs zero growth in the other segments) and in physical terms (6% increase in the number of packs). High growth in physical terms (compared to previous years) indicates strong weight of fundamental growth factors reflecting consumer behavior.

On average, prices in all sub-segments grew by c. 16%. However, it should be noted that price growth drivers were different depending on a specific sub-segment. For example, continued structural changes in the Vital & Essential Drug (VED) market make the products of this category more affordable, including the most expensive drugs, which results in higher physical consumption leading to the average segment price growth (See fig.4).

2012 saw physical consumption growth in all commercial market segments (8% average growth vs 2011). Especially it refers to VEDs showing 10% growth (the highest growth rate in physical terms, excluding BAA segment which is of limited significance as it only accounts for 6% in the sales structure). Price restriction policy is still an important growth driver in this segment of the commercial market.

Russian pharmaceutical market structure and dynamics by anatomical therapeutic classification categories

If we consider the segment structure by therapeutic categories, there were no significant changes in 2012 compared to 2011, e.g. average growth for top 5 categories (accounting for 69% of sales in value terms and 71% in physical terms) was 13.4% y/y (ranged from 11% to 15%) in value terms and 3% in physical terms (See fig.5).

Russian pharmaceutical market structure and dynamics by anatomical therapeutic classification categories
(in volume terms)

Packs bn	2011		2012		12/11
A - ALIMENTARY TRACT AND METABOLISM	0.93	19.3%	0.98	19.1%	+5%
R - RESPIRATORY SYSTEM	0.81	16.8%	0.85	16.7%	+5%
C - CARDIOVASCULAR SYSTEM	0.51	10.6%	0.56	11.0%	+10%
N - CENTRAL NERVOUS SYSTEM	0.92	19.0%	0.90	17.6%	-2%
G - GENITO-URINARY SYSTEM AND SEX HORMONES	0.11	2.3%	0.12	2.3%	+9%
OTHER 11 ATC	1.54	32.0%	1.70	33.3%	+10%
Total	**4.82**	**100.0%**	**5.11**	**100.0%**	**+6%**

Fig. 4. Average manufacturer's price dynamics by sub-segments of the Commercial segment in the Russian pharmaceutical market, *RUR*

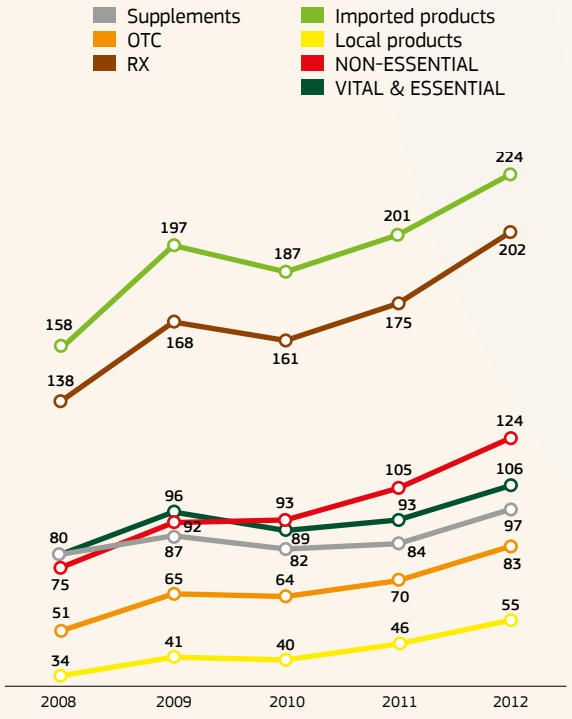
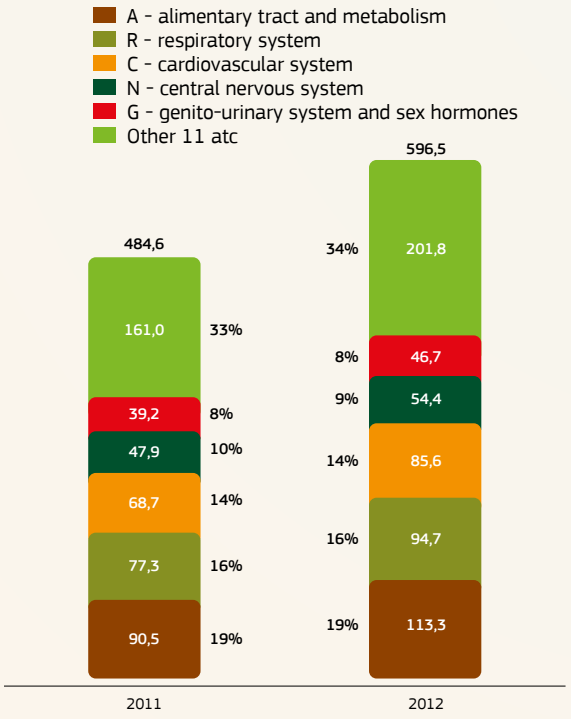


Fig. 5. Russian pharmaceutical market structure and dynamics by anatomical therapeutic classification categories *(in value terms)*



In summary, the general trend for the Commercial segment is associated with price change impact on the consumption level.

Two Pharmstandard products (Arbidol® and Pentalgin®) are among top 10 brands of the Commercial segment with Pentalgin® constantly being No 9 in this rating (See fig.6).

Top 25 Commercial segment local brand rating includes six Pharmstandard products, i.e. Arbidol® (No 1), Pentalgin® (No 2), Complivit® (No 10), Amixin® (No 15), Aphobazolum® (No 17) and Flucostat® (No 22).

Pharmstandard is presented in almost all significant therapeutic categories of the Commercial segment: the Company has products referring to 110 out of 292 ATC3 categories which account for 75% of the Commercial segment in value terms and 68% in physical terms. The Company's aggregated market share with respect to these products is different from its share in the Commercial segment as a whole. Based on 2012 data, Pharmstandard has 6% of the market for these 110 competitive therapeutic categories and holds No 2 position.

Therefore, the Company's product portfolio is highly represented by the most significant categories of the Commercial segment, which reduces portfolio concentration risks and allows to expand the Company market presence without entry barriers.

2012 results clearly confirm consumption growth trend as the key market development driver primarily through its Commercial segment. Furthermore, this growth is associated with changes in consumption pattern reflecting a shift towards products with stable or decreasing prices.

As we indicated in our previous annual reports, physical consumption growth is expected to be one of the key drivers of the pharmaceutical market growth. This trend emerged in 2010-2011 and continues also into 2013: drug consumption growth can be a strong basis for a long-term growth of the Russian pharmaceutical market. As we expected, drug consumption growth resulted in higher market growth rates and stronger impact of fundamental factors on the market dynamics.

Hospital segment

Second largest segment with 17.5% market share in value terms. In 2012, the segment amounted to RUR143 billion with 5.1% growth vs 2011. In physical terms the segment accounted for 15% (915 billion packs).

FRP segment

FRP segment saw no changes in value terms with a slight decline in physical terms by 3.% y/y.

Fig. 6. Russian pharmaceutical market Commercial segment breakdown by company *(in value terms)*

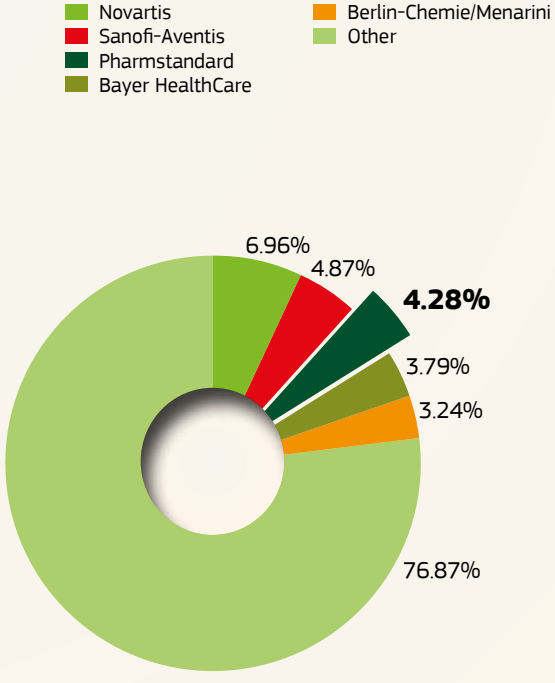
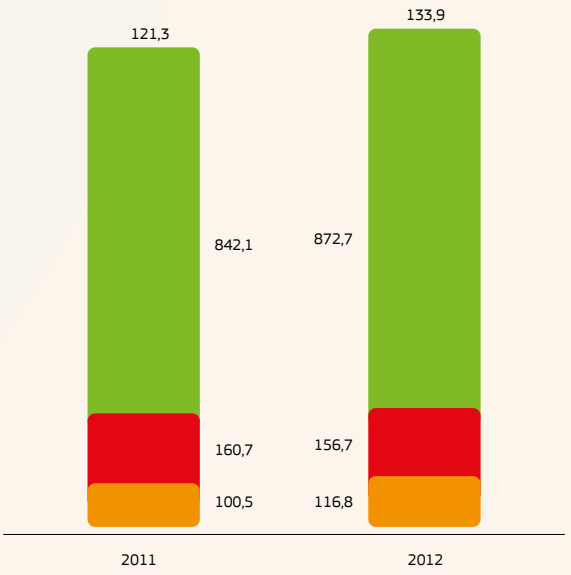
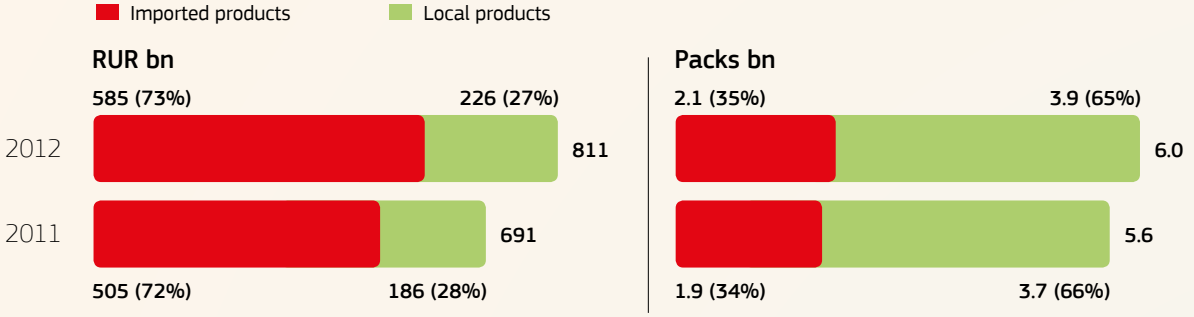


Fig. 7. Average drug manufacturer's prices in Russia by segment, *RUR/packs*



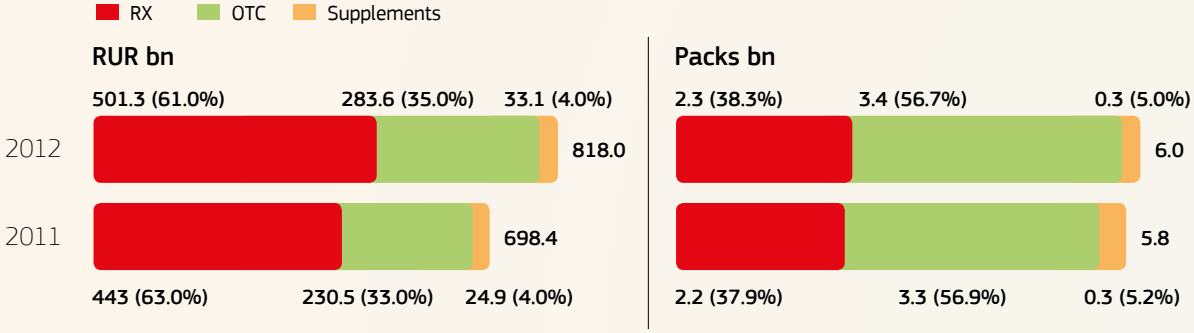
Considering market segmentation by drug manufacturers we see no material changes in the structure: domestic manufacturers account for 27% of the market in value terms and 65% in physical terms (See fig.8).

Fig. 8. Russian pharmaceutical market structure and dynamics by manufacturers *(RUR bn vs packs bn)*



Some structural changes are seen in RX and OTC segments with RX share in 2012 of 61.% in value terms and 38% in physical terms (See fig.9).

Fig. 9. Russian pharmaceutical market structure and dynamics by product status



Following the 2010-2011 trend, in 2012 the share of drugs included in the VED list dropped to 48% of total sales in value terms from 52% in 2011, while in physical terms it slightly increased (See fig.10).

Fig. 10. Russian pharmaceutical market structure and dynamics by essential/non-essential drugs

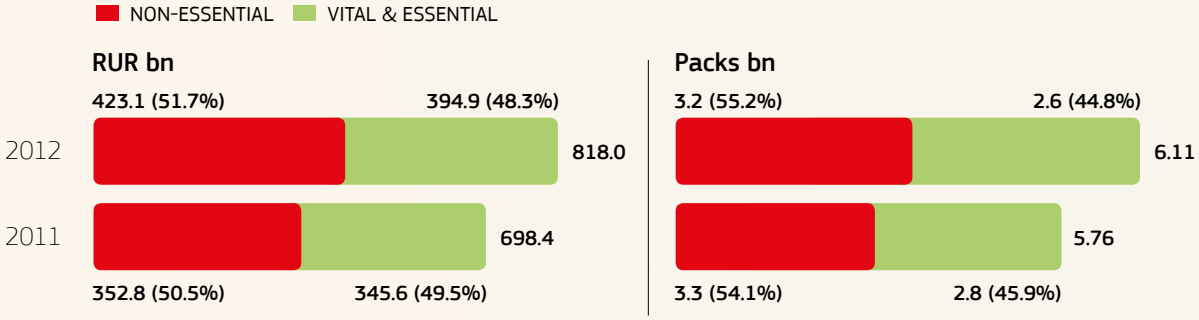
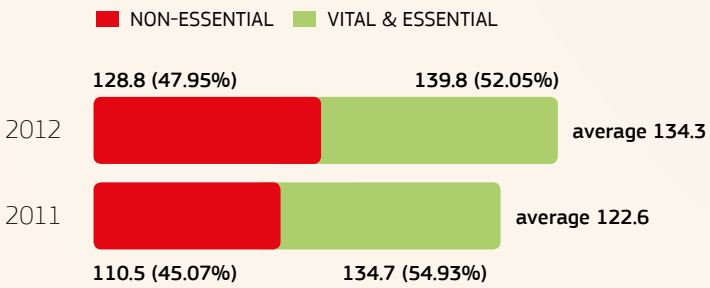


Fig. 11. Average manufacturer's prices, *RUR/pack*



Pharmaceutical sector regulation in Russia

Key regulatory changes in the Russian pharmaceutical market in 2012 and expected developments for 2013

Ministry of Healthcare and the Ministry of Labour. In 2012, the Ministry of Healthcare and Social Development of the Russian Federation was split into two ministries, i.e. the Ministry of Healthcare and the Ministry of Labour and Social Protection. In May 2012, Veronika Skvortsova was appointed the Minister of Healthcare.

Measures to provide control over medicines with low content of narcotic drugs, psychotropic substances and their precursors included in the List of Narcotic Drugs, Psychotropic Substances and their Precursors Subject to Control in the Russian Federation. On 1 June 2012, the Russian Government Decree #599 dated 20 June 2011 ("On measures to provide control over medicines with low content of narcotic drugs, psychotropic substances and their precursors included in the List of Narcotic Drugs, Psychotropic Substances and their Precursors Subject to Control in the Russian Federation") came into effect stipulating prescription sale of medicines containing codeine combinations.

Based on the Order of the Ministry of Healthcare and Social Development #562n of 17 May 2012 "The procedure of retail distribution of pharmaceuticals used for medical purposes and containing, in addition to small amounts of narcotic drugs, psychotropic substances and their precursors, other active pharmaceutical substances", products containing codeine combinations or codeine salts (on a pure substance basis) of up to 20 mg (per dose of solid dosage form) or up to 200 mg (per 100 ml or 100 g of oral liquid dosage form) are subject to prescription sale based on prescription form # 148-1/y-88.

In summary, the following products of Pharmstandard-Leksredstva OJSC have fallen into the category of prescription drugs starting from 1 June 2012:

- Pentalgin®-ICN tablets
- Pentalgin®-N tablets
- Pentalgin®Plus tablets
- Codelac®tablets
- Codelac®phyto elixir
- Terpincodum® tablets
- Terpincodum®N tablets.

As an effective alternative for codeine containing drugs, the Company has developed and launched a number of new products: Pentalgin® (film-coated tablets), Codelac® Broncho (tablets), Codelac® Broncho with thyme (potion), Codelac®-Neo (orally taken syrup and drops) containing no codeine or codeine salts.

The circulation of pharmaceuticals. On 25 June 2012, the Federal Law # 93-FZ dated 25 June 2012 "On amendments to certain legislative instruments of the Russian Federation with respect to federal and municipal control (supervision) issues" became legally effective.

Clause 32 of this law sets out the following amendments to the Federal Law # 61-FZ dated 12 April 2010 "On the circulation of pharmaceuticals":

a) New version of Clause 9 "Government control (supervision) over the circulation of pharmaceuticals". Government control (supervision) over the circulation of pharmaceuticals is now divided into licensing supervision in drug production and pharmaceutical operations (effected by authorized federal executive agencies as well as executive agencies of the Russian Federation constituent entities based on their competence), and federal government supervision of drug circulation (effected by federal executive agencies).

b) Changes in the approval procedure with respect to the Rules of Pharmaceutical Production and Quality Control Organization: Previously, Section 1 of Clause 45 provided that the rules were subject to approval by the Russian Government, while according to the new version the approval function is transferred to an authorized federal executive agency.

The Government Decree #50 dated 28 January 2013 "On amendments to the Regulations on the Ministry of Industry and Trade of the Russian Federation" transferred the function of approving the Rules of Pharmaceutical Production and Quality Control Organization and issuing appropriate compliance certificates to the Ministry of Industry and Trade.

According to the Federal Law "On the circulation of pharmaceuticals" transition period to operations in full compliance with the Rules of Pharmaceutical Production and Quality Control Organization ends on 31 December 2013.

Hence, in 2013 the Rules should be adopted with subsequent conformity assessment of Russian pharmaceutical producers.

Strict quantitative inventory control of pharmaceuticals used for medical purposes. On 25 December 2012, the Federal Law # 262-FZ "On amendments to the Federal Law 'On the circulation of pharmaceuticals'" was signed adding Clause 581 "Quantitative inventory control of pharmaceuticals used for medical purposes" to the Law #61-FZ "On the circulation of pharmaceuticals". According to the new law, the relevant federal executive agency should execute the following:

- approve the List of Pharmaceuticals Used for Medical Purposes Subject to Strict Quantitative Inventory Control (controlled drugs);
- establish the procedure of the List amendments upon the approval of the Federal Drug Control Service.
- approval and control over the execution of rules for registration of operations related to the circulations of pharmaceuticals included in the abovementioned list using special registers, as well as the rules for maintaining and keeping these special registers;

The Law is to come into effect on 25 June 2013.

Narcotic drugs and psychotropic substances. On 4 April 2013, the Federal Law #305-FZ dated 30 December 2012 "On amendments to the Federal Law 'On narcotic drugs and psychotropic substances'" was published.

The Law is focused on the execution of Russia's international obligations with respect to control over pharmaceuticals regarded as superpotent substances under the Russian regulations while being subject to control as psychotropic substances under the Convention on psychotropic substances adopted in 1971.

The law eliminates state monopoly on certain types of psychotropic substances in circulation with respect to psychotropic substances included in Section III of the List of Narcotic Drugs and Psychotropic Substances Subject to Control in the Russian Federation. This will allow to include the above medicines in the List involving state supervision measures established for psychotropic substances without prejudice to their use for medical purposes.

The law is to come into effect on 4 July 2013.

In accordance with the adopted amendments to the Federal Law #305-FZ "On narcotic drugs and psychotropic substances", the Russian Government Decree #78 dated 4 February 2013 introduced changes to some governmental instruments including the List of Psychotropic Substances with Limited Circulation in the Russian Federation (Sublist III) of the List of Narcotic Drugs, Psychotropic Substances and their Precursors Subject to Control in the Russian Federation approved by the Government Decree #681 dated 30 June 1998, including a number of substances previously regarded as super-potent (e.g. phenobarbital). Decree will come into force on 7 August 2013.

These changes will require licensing of Pharmstandard-Leksredstva, OJSC and Pharmstandard-Tomskhimpharm, OJSC for operations associated with the circulation of Sublist III on psychotropic substances.

Amendments to the procedure of setting producers' sale ceiling prices for pharmaceutical products on the List of Vital and Essential Medicines. Effective from 16 November 2012, the Order #400n/663-a of the Ministry of Healthcare / Federal Tariff Service of 8 October 2012 "On amendments to the procedure of setting producers' sale ceiling prices for pharmaceutical products on the List of Vital and Essential Medicines approved by the Order of the Russian Ministry of Healthcare and Social Development and the Federal Tariff Service #961n/527-a of 3 November 2010" specifies that the sale ceiling price for any pharmaceutical product can be revised in the listed cases within the limits of inflation forecast set by the Federal Budget Law for the relevant financial year and targeted period. Such revisions are possible starting from 1 January 2013.

However, given fixed registered prices during the last two years and target inflation rate for 2013 of 5.5% the production of a number of pharmaceuticals included in the List of Vital and Essential Medicines with low sale prices was discontinued as unprofitable.

The circulation of medical devices. A draft law "On the circulation of medical devices" was developed and presented for public consultation with the adoption expected for 2013.

Pharmstandard is involved in the development of the law.

The Government Decree #615 dated 19 June 2012 and approving the Rules on maintaining the National Register of Medical Devices and Manufacturing Entities came into force on 1 July 2012.

The Government Decree #1416 dated 27 December 2012 "On the approval of State Registration Rules for Medical Devices" became effective on 1 January 2013.

According to the rules, any instruments, appliances, devices, equipment, materials and other articles used for medical purposes, excluding tailored products manufactured based on specific client needs and intended solely for personal use of a specific patient, should be subject to state registration.

Law on the Circulation of Pharmaceuticals – expected amendments

In addition to the above mentioned two federal laws adopted in 2012 amending the Federal Law "On the circulation of pharmaceuticals", a lot of work was done during 2012 on the development of a draft law "On amendments to the Federal Law 'On the circulation of pharmaceuticals'":

1. In January 2013, the Russian Ministry of Healthcare placed on its website a draft law "On amendments to the Federal Law 'On the circulation of pharmaceuticals' and Clause 333.32.1. of Part 2 of the Tax Code of the Russian Federation" for public consultation.

The draft law:

- introduces a number of new terms, such as "orphan drugs", "biological medicinal products", "comparator drugs", "biosimilars", "interconvertible drugs", "production site", "marketing authorization holder (owner)", "INN";
- expands the authority of federal executive agencies with respect to pharmaceutical product circulation to include the following functions: approving the list of interconvertible drugs including its buildup and keeping procedures, maintaining the register of interconvertible drug labels, approving the rules for rational choice of pharmaceutical products for medical use, approving drug package designing procedures, approving the rules for drug label development, approving the list of dosage form names;
- provides for pharmaceutical sample review prior to clinical study;
- sets out detailed orphan drug registration procedure and extended documentation package to apply for a pharmaceutical product registration, in particular with respect to pharmaceutical aids;
- contains a provision for a 180-day transition period;
- clarifies the procedure of producers' ceiling sales price setting with respect to products included in the List of Vital and Essential Medicines;
- provides amendments to Clause 333.32.1. of Part 2 of the Tax Code of the Russian Federation that specifies the amount of state duty for pharmaceutical product registration by a properly authorized federal executive agency.

Pharmstandard is a member of the Steering Committee for the development of the draft law and relevant regulations.

2. On 5 February 2013, the Russian Government submitted to the State Duma a draft law "On amendments to certain Russian Federation legislative acts in connection with the adoption of the Federal Law 'On fundamental healthcare principles in the Russian Federation'".

The draft law specifies the inclusion of certain provisions in the Federal Law "On the circulation of pharmaceuticals" to set up limitations for pharmaceutical companies and their representatives in order to prevent medical and pharmaceutical staff from prescribing medicines of a specific manufacturer out of personal interest.

Implementation of Strategy 2020 in 2012

One of the major tasks at the initial stages of the Russian Pharmaceutical Industry Growth Strategy up to 2020 is the creation of a well-functioning system of generics production and market promotion.

The Company makes significant efforts to replace foreign brand pharmaceuticals with Russian generics.

In 2012, the Company brought to market a new product – Akorta® film-coated tablets (Rosuvastatin) for cardiovascular diseases.

Phase 1 (clinical trials) has been completed for Peginterferon alfa-2b biosimilar for chronic hepatitis B and C treatment.

We continue active co-operation with foreign companies to provide localized drug manufacturing based on our operating facilities: Velcade® Lyophilisate for intravenous injection solution preparation, Prezista® film-coated tablets, Intelence® tablets, Incivo® film coated tablets (Johnson&Johnson), Mabthera® concentrate for infusion solution preparation, Actemra® concentrate for infusion solution preparation, Pulmozyme® inhalation solution, Tamiflu® capsules (F. Hoffmann-La Roche), Revlimid® capsules (Celgene), Foster inhalation aerosol, Atimos® inhalation aerosol, Budiair® inhalation aerosol, Clenil® inhalation aerosol (Chiesi).

Public Pharmaceutical Support STRATEGY of the Russian Federation up to 2025

Public Pharmaceutical Support Strategy of the Russian Federation up to 2025 was established by the Order of the Russian Ministry of Healthcare #66 of 13 February 2013 specifying priority areas of country coverage bypharmaceuticals and regulatory improvements with respect to drug circulation.

The Strategy implies maintaining state guarantees in terms of pharmaceutical provision, improving an access to and rational use of pharmaceutical products, strengthening of preventive component in the healthcare space, involvement of medical and pharmaceutical industry players in the development of drug rational medical use systems, public information on pharmaceutical support programs in place, encouragement of using pharmaceuticals produced in Russia, improvement of control and permission system with respect to pharmaceutical product circulation.

The Strategy key objective is to meet public needs and healthcare system requirements in terms of improved access to qualitative, effective and safe pharmaceuticals based on sound public pharmaceutical support system in Russia.

Pharmaceutical Portfolio Overview

Product portfolio mix

The Company traditionally has the following structure of its pharmaceutical business: OTC products, RX products and Third Party Products (TPP). RX and OTC groups are further split into branded and unbranded products. Branded products include registered trademarks while unbranded category contains products without a unique brand name. The table below shows sales breakdown by these product groups.

Pharmstandard group, 2012*	2012, RUR million	% of pharmaceutical product sales	2011, RUR million	% of pharmaceutical product sales	2012/2011 growth, RUR million	2012/2011 growth, %
Pharmaceutical products	**50,061.5**	**100.0%**	**41,891.9**	**100.0%**	**8,169.6**	**19.5%**
Organic	20,462.7	40.9%	19,776.4	47.2%	686.3	3.5%
OTC	**14,793.6**	**29.6%**	**15,497.0**	**37.0%**	**-703.4**	**-4.5%**
Branded	12,447.1	24.9%	13,270.5	31.7%	-823.4	-6.2%
Unbranded	2,346.5	4.7%	2,226.5	5.3%	120.0	5.4%
RX	**5,669.1**	**11.3%**	**4,279.4**	**10.2%**	**1,389.7**	**32.5%**
Branded	4,779.4	9.5%	3,509.4	8.4%	12,70.0	36.2%
Unbranded	889.7	1.8%	770.0	1.8%	119.7	15.5%
TPP	28,279.1	56.5%	21,726.0	51.9%	6,553.1	30.2%
Other sales – substances	548.1	1.1%	389.5	0.9%	158.6	40.7%
Pharmapark (3Q-4Q. 2012)	576.8	1.2%	0.0	0.0%	576.8	100%
Biomed named after I.I. Mechnikov (3Q-4Q. 2012)	163.0	0.3%	0.0	0.0%	163.0	100%
LEKKO (December 2012)	31.8	0.1%	0.0	0.0%	31.8	100%

TPPs account for over 56% of revenue with an absolute growth of RUR6.5 billion or 30%.

This product group includes over 35 brands of different origin. TPP sales breakdown is presented in the table below:

Product group	2012 (RUR million)	% of total sales	2011 (RUR million)	% of total sales	2012/2011 growth (RUR million)	2012/2011 growth (%)
TPP	28,279.1	100.0%	21,726.0	100.0%	6,553.1	30.2%
Mabthera®	8,503.7	30.1%	8,239.3	37.9%	264.4	3.2%
Velcade®	7,147.1	25.3%	3,596.4	16.6%	3,550.7	98.7%
Reduksin®	2,741.8	9.7%	1,459.5	6.7%	1,282.3	87.9%
Prezista®	1,827.5	6.5%	1,243.6	5.7%	583.9	47.0%
Coagil®	1,489.3	5.3%	1,707.3	7.9%	-218.0	-12.8%
Pulmozyme®	1,220.5	4.3%	1,612.1	7.4%	-391.6	-24.3%
Mildronate®	1,096.5	3.9%	1,071.8	4.9%	24.7	2.3%
Other TPPs	4,252.7	15.0%	2,796.0	12.9%	1,456.8	52.1%

The key growth driver in this group is Velcade® (Johnson & Johnson) that accounted for over 50% of the total growth in value terms with nearly doubled revenue vs 2011. As a result, the brand's share in its product group increased from 17% to 25%.

With respect to our sales growth strategy via branded product promotion, we try to maintain sales volumes and develop a positive trend. The main tools in pursuing this objective used in 2012 are:

- Maintaining leadership in terms of "quality" and/or "quantity" of advertising exposure to the target audience;
- Expanding the Company business related to existing brands by increasing sub-brand or new SKU shares to attract new consumers.

With respect to products providing major sales growth (i.e., growth drivers) the key tactic points in 2012 were as follows:

- Development and launch of own organic products, including third party brand acquisitions;
- Active investment pressure for market share expansion;
- Target audience broadening with access to new therapeutic sub-segments
- Product market expansion (end-consumer education, participation in targeted public programs, etc.)

As of 2012, organic sales accounted for 41% of total sales (42.4% including Pharmapark LLC, Biomed named after I.I. Mechnikov OJSC and LEKKO CJSC) with total revenue of RUR20.4 billion and 3.03% y/y growth. Based on the above segmentation, OTC product group shows a slightly negative growth while RX products show positive growth of 33%. Due to a number of regulatory changes we believe this classification could be adjusted.

Key pharmaceutical products and therapeutic categories

Organic sales structure has changed significantly in terms of pharmacy dispensing status (Rx vs OTC products) starting from 1 June 2012 when the Law restricting OTC dispensing of codeine-containing products came into effect.

As a part of sales related to the Company's well-known products **Pentalgin®, Codelac® and Terpincodum®** historically accounting for a sizable portion of the total revenue shifted from OTC to Rx category, for the purposes of our analysis we have distinguished a separate group of codeine-containing products and their analogues. Additionally, we have added a separate line for Arbidol®, the Company's top selling product, for better transparency of sales dynamics shown in the table above. Thus, our updated table looks as follows:

Product group	2012, RURm	% of total sales	2011, RURm	% of total sales	2012/ 2011 growth, RURm	2012/ 2011 growth, %
Total PHS production	**20,462.6**	**100.0%**	**19,776.4**	**100.0%**	**686.1**	**+3.5%**
Arbidol®	3,975.1	19.4%	4,010.8	20.3%	-35.8	-0.9%
Codeine-containing products and their analogues	**3,331.2**	**16.3%**	**4,454.3**	**22.5%**	**-1,123.1**	**-25.2%**
Pentalgin®	2,418	11.8%	2,375	12.0%	43.0	+1.8%
Codelac®	549	2.7%	872	4.4%	-323.3	-37.1%
Terpincodum®	364	1.8%	1,207	6.1%	-842.8	-69.8%
Other PHS products	**13,156.3**	**64.3%**	**11,311.3**	**57.2%**	**1,845.0**	**+16.3%**
OTC (65 Brands, 204 SKUs)	7,922.5	38.7%	7,031.8	35.6%	890.7	+12.7%
RX (48 Brands, 113 SKUs)	5,233.8	25.6%	4,279.4	21.6%	954.4	+22.3%

The table shows that the company has a diversified product portfolio. The diversification strategy produced a visible effect in 2012: organic product group drove the growth in absolute terms with increased share in the Company's sales from 57% in 2011 to 64% in 2012. This group is represented by more than 100 brands including over 300 presentation forms. The group's sales growth of RUR1.8 billion in absolute terms made up for the decline in codeine-containing drug sales. Percentage wise the growth was 16%. It should also be noted that OTC and Rx segments made almost equal contributions to the absolute growth (RUR890 million and RUR960 million, respectively). The group products will be reviewed in the section on growth drivers.

As shown in the table, a modest growth in the organic segment is primarily attributed to 25% y/y sales decline (or RUR1.1 billion in value terms) in the codeine-containing product group accounting for 16.3% of total sales. Disregarding such impact, the total growth of the Company's organic product portfolio would be 12%.

Codeine-containing drugs

Brand dynamics in the codeine-containing product group is broadly mixed. Thus, Pentalgin®, the most extensive brand in this group, demonstrated growth of nearly 2% vs 2011. Though three pharmaceutical forms of this brand (Pentalgin®-N, Pentalgin®-ICN and Pentalgin® Plus) were shifted to Rx-only category, the Company managed to maintain sales level through pro-active approach in anticipation of regulatory changes with respect to dispensing codeine-containing products (since 2008, the Company has been developing codeine-free anesthetics and ARVI/flu treatment drugs). As a result, the Compamy launched codeine-free products with an improved formula under Pentalgin consolidated brand in three presentation forms: Pentalgin® 12, Pentalgin® 24, Pentalgin® 4. 2012 sales data show that the conversion was successful and the Company managed to even increase the brand sales. In the meantime, Pentalgin® brand retained its leadership in N02B – NON-NARCOTICS AND ANTI-PYRETICS segment having increased its market share from 22% in 2011 to 25% in 2012. Pentalgin® is the growth driver in value terms in this product segment with the highest growth rate among the group products. Pentalgin® is also No 1 among branded products and No 3 among all products in

its category (with Pharmstandard's Citramon being No 1) by physical consumption. Pharmstandard dominates this market segment in all aspects – 32%market share in value terms, 30% in physical terms. This segment is a top 10 therapeutic category in the Russian pharmaceutical market.

Codelac® is the second largest brand in the codeine-containing product group. The Company has also developed codeine-free analogues of this brand with the same therapeutic indications. At the moment, Codelac® product line includes several analogues: Codelac ® Broncho (10- and 20-tablet packs, thymus based syrup), Codelac® Neo (drops, syrup). Although a 100% conversion of Codelac® is not feasible at the moment, the Company has a capacity to further develop this product line. Now, Codelac® brand is No 6 in its market segment (R05C – EXPECTORANTS/R05D – ANTITUSSIVES) in value terms (4.4% share) and a top 10 brand by physical consumption (3.9% share). Based on 4Q 2012 Synovate Comcon's survey, Codelac® brand awareness among the relevant category consumers reached 41% with Codelac® Broncho separate sub-brand awareness of 23% (compared to 13% as of January 2011). Total 2012 sales in R05C – EXPECTORANTS/R05D – ANTITUSSIVES category (including all distribution channels) reached RUR19.3 billion in retail prices. This market segment is a top 3 therapeutic category.

Terpincodum® brand referring to the above mentioned market segment has no analogues. Therefore the brand demonstrated significant negative performance since the introduction of regulatory restrictions.

In summary, regulatory restrictions on codeine-containing drug retail dispensing, a historically large share of this product group in the Company's sales (23%) and some brands specifics allowed the Company to just partially make up for sales decline resulting from these factors. Disregarding the impact of this product group on the rest of the organic product portfolio (accounting for 84% in the total 2012 sales) the aggregate portfolio sales growth would be 12%.

Arbidol®

Arbidol® is No 2 product by this year's significance. Before 2012, it had been the top selling pharmaceutical product in the commercial segment. Arbidol® virtually retained its share in the revenue structure currently accounting for 19% of sales (RUR4 billion in 2012). In 2012, the company launched a new presentation form, 100 mg 20 capsule pack, and now Arbidol® product line includes 5 presentation forms: 2 paediatric – 50 mg 10 and 20 tablet packs and 3 adult – 100 mg 10, 20 and 40 capsule packs. As such, the product is broadly presented in different price segments and visually – on pharmacy shelves. Arbidol® is included in the VED list with the current market share of 31% in value terms and is No 1 in its category by consumption. Based on Synovate Comcon's survey, the brand awareness is almost 60% among all consumers in the category and 40% among the Russian population aged 16+. J05B – ANTIVIRALS, EXCLUDING ANTI-HIV PRODUCTS is a top 5 therapeutic category.

Growth drivers

Product group	2012, RURm	% of total sales	2011, RURm	% of total sales	2012/ 2011 growth, RURm	2012/ 2011 growth, %
PHS production, other pharmaceutical products	**13,156.3**	**100.0%**	**11,311.3**	**100.0%**	**1,845.0**	**+16.3%**
OTC products (65 Brands, 204 SKUs)	**7,922.5**	**60.2%**	**7,031.8**	**62.2%**	**890.7**	**+12.7%**
Complivit®	1,605.4	12.2%	1,458.5	12.9%	146.9	+10.1%
Aphobazolum®	872.2	6.6%	771.9	6.8%	100.3	+13.0%
Amixin®	791.7	6.0%	527.7	4.7%	263.9	+50.0%
Flucostat®	765.2	5.8%	708.9	6.3%	56.2	+7.9%
Acipol®	390.3	3.0%	283.5	2.5%	106.9	+37.7%
Other	3,497.7	26.6%	3,281.3	29.0%	216.4	+6.6%
RX products (48 Brands, 113 SKUs)	**5,233.8**	**39.8%**	**4,279.4**	**37.8%**	**954.4**	**+22.3%**
Phosphogliv®	1,161.6	8.8%	924.6	8.2%	237.0	+25.6%
Combilipen	534.1	4.1%	404.9	3.6%	129.2	+31.9%
Biosulin®	519.3	3.9%	409.2	3.6%	110.1	+26.9%
Rastan®	279.3	2.1%	355.9	3.1%	-76.7	-21.5%
Octolipen®	278.4	2.1%	188.7	1.7%	89.6	+47.5%
Other	2,461.2	18.7%	1,996.1	17.6%	465.1	+23.3%

In summary, the product group demonstrated an absolute growth of RUR1.8 billion or 16%. OTC segment slightly decreased its share (to 60%) with Rx segment showing nearly double growth rate –22% vs 13% for OTC products. However, as mentioned above, both segments contributed almost equally to the absolute growth. Around 50% of each segment in the revenue structure was accounted for by top 5 brands (56% – OTC, 53% – RX) which also reflects high level of portfolio diversification by brands and therapeutic categories as there are no category overlaps in top 5 brands.

The majority of brands demonstrated strong growth vs 2011. Moreover, if we compare brand rankings by absolute sales growth with sales breakdown we will see that all brands are also growth drivers:

Brand	2012, RURm	2011, RURm	2012/ 2011 growth, RURm	2012/ 2011 growth, %
Amixin®	851.3	569.8	281.5	+49%
Phosphogliv®	1,161.6	924.6	237.0	+26%
Complivit®	1,605.4	1,458.5	146.9	+10%
Combilipen®	534.1	404.9	129.2	+32%
Biosulin	519.3	409.2	110.1	+27%
Acipol®	390.3	283.5	106.9	+38%
Gluconorm	134.9	28.6	106.3	+371%
Aphobazolum	872.2	771.9	100.3	+13%
Inhalypt	328.8	233.2	95.6	+41%
Octolipen	278.4	188.7	89.6	+47%
Formetine	124.7	39.3	85.4	+217%
Andipal	86.2	29.0	57.2	+197%
Flucostat	772.6	717.3	55.3	+8%
Artrozan	136.8	83.7	53.1	+63%

Average growth rates also give evidence of the product portfolio balanced expansion.

J05B – ANTIVIRALS, EXCLUDING ANTI-HIV PRODUCTS therapeutic category includes Amixin® which is referred to the growth drivers segment in the Company's sales structure.

Amixin® falling into the same therapeutic category as Arbidol® is the Company's absolute growth leader (RUR282 million or 50%). Thus, despite Arbidol® poor performance we managed to provide growth in this therapeutic segment through Amixin® as a result of its aggressive media advertising campaign that allowed to raise Amixin® brand awareness among its category consumers to 13% (vs 9% in 1Q 2011). Amixin® market share increased from 6.9% to 7.7%. In value terms, Amixin® is No. 3 in its category. Amixin product line includes three presentation forms, including one intended for kids.

Complivit® is No. 1 brand by sales volume in the "Other OTC Products" group and No. 3 in the growth drivers category with RUR147 million or 10% y/y growth in 2012. The brand has one of the broadest product lines in the Company's pharmaceutical portfolio. Every year the Company launches new sub-brands and/or brand extensions. With high Complivit® brand awareness (60% among vitamin consumers) the Company successfully accessed new market segments. Currently, 14 sub-brands for almost all target groups are marketed under A11A – MULTIVITAMINS WITH MINERALS segment and one sub-brand – Complivit® Calcium – under A12A – CALCIUM PRODUCTS segment. As of now, Complivit® Calcium accounts for 20% of the entire Complivit® brand sales.

Complivit® is No 2 brand in A11A – MULTIVITAMINS WITH MINERALS therapeutic category with 15.6% market share (total 2012 sales of RUR12.3 billion in retail prices) while in physical terms Complivit® vitamins & minerals product line is an undisputed leader with a share of 30% (twice as high as that of the immediate competitor). Complivit® is more affordable for consumers due to efficient price positioning relative to its competitors and availability of presentation forms for all family members.

Complivit® Calcium is No 3 brand in value terms in A12A – CALCIUM PRODUCTS therapeutic category with 14.9% market share (total 2012 sales of RUR3.2 billion in retail prices). In broader terms, Complivit® Calcium is one of the key growth drivers of the category. Aggressive media advertising campaign focused on various target groups and high Complivit® brand awareness are key success factors in this therapeutic category. Based on Synovate Comcon's survey, Complivit® Calcium D3 brand awareness among the category consumers reached 35%, while in physical terms the product only covers 6% of sales. This implies significant potential in terms of further sales growth. The Company is working to expand the product line and launch new products based on improved formulas, e.g. Complivit® Calcium D3 Forte and a suspension for kids. This will allow to build on our success and unlock further growth potential.

Aphobazolum® is another top 5 OTC brand referring to N05B – HYPNOTICS/SEDATIVES/N05C – TRANQUILLISERS

therapeutic category. This is another brand-leader in its product group. It achieved its leadership position in its category back in 2011 and further increased its share to 10.5% in 2012. As of 2012, sales growth was 13% (+RUR100 million vs 2011). Given the size of this therapeutic category (RUR11.8 billion), Aphobazolum® current share in the segment, high marketing indicators (brand awareness and customer loyalty of 47% and 13%, respectively) and current growth rates, the product has a high growth potential in its category. This is especially true taking into account its unique characteristics (a special mode of action determining its clinical profile (e.g. no side effects like drowsiness, addiction and habituation)) and broad involvement of medical specialists to focus their attention on the problem of anxiety disorders among patients suffering somatic diseases.

With the acquisition of **Acipol®** brand the Company entered a relatively new A07F – ANTIDIARRHOEAL MICRO-ORGANISMS therapeutic segment. As of 2012, the segment size was RUR10.6 billion. In 2011, Acipol® had a limited share in the market segment (4.9%), however, the aggressive marketing and promotion campaign undertaken in 2012 resulted in over 38% making the brand one of the growth drivers and a top 5 OTC pharmaceutical product. In value terms, the brand's share reached 5.7%. In addition, Acipol® went up one step in ratings and is now No 4 in entire therapeutic category. Further improvements will be contingent both on the growth of the category (+23% vs 2011) and proactive marketing strategy to promote the brand among consumers and healthcare professionals.

Flucostat® is another product included in the growth drivers group; it falls into J02A – SYSTEMIC AGENTS FOR FUNGAL INFECTIONS therapeutic category. The total size of the commercial segment in this category is RUR5.2 billion. As of 2012, Flucostat® brand retained its leadership in value terms with a share of 21.3% and was No 2 in physical consumption (20.6% share), just 0.1% behind the leader. However, it should be noted that its immediate competitors by physical consumption include non-branded products and their average retail price is 19 RUR/package, while Flucostat® average price is 178 RUR/package. Thus, despite much higher price Flucostat® has comparables sales volume which proves the brand's strong positions supported by effective strategy focused on maintaining leadership in its category. The share of its nearest branded competitor in physical terms is several times less than that of Flucostat®. Based on the Company data Flucostat® demonstrated 8% growth in 2012 with brand awareness of 40%.

Rx products account for c.50% of the Company's absolute sales growth with a high y/y growth rate of 22%.

Phosphogliv®, a Russian innovative pharma product, is the leader of this segment. This brand refers to A05B – HEPATIC PROTECTORS, LIPOTROPICS therapeutic category. As of 2012, total sales in this therapeutic category amounted to RUR15.3 billion. Phosphogliv® achieved No 4 position in value terms (7.8% market share) and managed to increase its share in the commercial segment. Phosphogliv® is also No. 2 among the Company's growth drivers with 2012 sales growth of over RUR237 million or 26%. In 2010, the company launched its new pharmaceutical form with improved formula – Phosphogliv® Forte that in 2012 accounted for 13% of the brand sales mix and 35% of its aggregate growth (RUR237 million). In 2012, the total brand sales exceeded RUR1 billion. Phosphogliv® is a top 100 RX product by commercial segment sales.

Combilipen® is a vivid example of the Company's successful Rx product launch. The product intended for complex therapy of neurological disorders including polyneuropathy of various etiologies (A11D – VITAMIN B1 AND COMBINATIONS therapeutic category) was released to the market in 2008. As a result of aggressive promotion, Combilipen® 2012 sales exceeded RUR500 million with a 32% growth. It is No 2 brand in its therapeutic category by sales volume with a 19%share (vs 15.6% in 2011) and the fastest-growing product in the category (among top 15 trade marks with an aggregate share of 99.5%). By consumption the product holds No 3 position with a 17.7% share. Due to better price positioning vs its competitors and extended product line (Combilipen® tabs, 30- and 60-tablet packages) is has additional advantage in terms of growth potential.

Octolipen® used for treatment of other neurological conditions, including diabetes complications, demonstrated one of the highest growth rates vs 2011 (+47%) and therefore was included in the growth drivers group. It is among the leaders of the Company's Rx product portfolio with absolute sales of RUR278 million as of 2012.

Genetically engineered products Biosulin® and Rastan® are also among the Company's 5 top selling products. Biosulin® is available in two forms – bottles and cartridges accounting for 23% and 77% of the product sales, respectively. Biosulin® demonstrated a solid y/y growth of 32% or RUR110 million in value terms.

Vital and Essential Drugs, 2012–2013

Price regulation with respect to products included in the List of Vital and Essential Drugs ("VED") in 2012 was based on statutory rules and methodologies established in 2011.

In 2012, manufacturers' ceiling prices for domestically produced VEDs were adjusted.

According to the VED List approved for 2012, Pharmstandard's products (INNs) falling into VED category remained unchanged.

In 2012, 37 ceiling prices for VED brands produced or owned by Pharmstandard were included in the state register (14 INNs and 14 brand names).

#	INN	Brand name	Number of registered ceiling prices
1	Azithromycin	Azitrox®	1
2	Acetylsalicylic acid	Acetylsalicylic acid	1
3	Beclometasone	Clenil®	1
4	Budesonide	Budiair®	2
5	Glibenclamide	Glibenclamide	2
6	Calcium gluconate	Calcium gluconate	3
7	Oseltamyvir	Tamiflu®	8
8	Paracetamol	Paracetamol	1
9	Smectit dioctaedric	Neosmectin®	9
10	Tocilizumab	Actemra®	3
11	Umifenovir	Arbidol®	1
12	Fluconazole	Flucostat®	1
13	Formoterol	Atimos®	1
14	Chloramphenicol	Levomycetin	3
Total			**37**

In 2012, VED sales grew by RUR6.2 billion or 23.2% y/y up to RUR32.8 billion representing 64% of the Company's total annual sales. Organic VEDs accounted for 46% of the total Pharmstandard Group's organic sales.

As of 1 March 2013, Pharmstandard Group has 282 VED ceiling prices registered (including third party products and all product forms and dosages).

The number of VED names distributed by Pharmstandard in 2012 increased by 22% to reach 173 items with growth by all product categories (OTC/RX, organic/third party production).

		2011		2012		%
Product type	Retail pharmacy sales status	Number of products	% of total	Number of products	% of total	Change
All types (Organic + Third Party)	**OTC**	38	27%	54	31%	42%
	RX	104	73%	119	69%	14%
Total		**142**	**100%**	**173**	**100%**	**22%**
Organic production	**OTC**	37	35%	49	39%	32%
	RX	68	65%	77[1]	61%	13%
Total (Organic)		**105**	**100%**	**126**	**100%**	**20%**
Third party production	**OTC**	1	3%	5	11%	400%
	RX	36	97%	42	89%	17%
Total (Third Party)		**37**	**100%**	**47**	**100%**	**27%**

1 As of 2012YE, Pharmstandard Group completed the integration of LEKKO CJSC, Pharmapark LLC and Biomed named after I.I. Mechnikov OJSC. Accordingly, their registered VEDs were included in Pharmstandard organic VED production structure.

Price changes for 2013

Joint Order of the Russian Healthcare Ministry and the Russian Federal Tariff Service of 8 October 2012 #400n/663-a introduced change in the Procedure for Setting Manufacturers' Sale Ceiling Prices for Pharmaceutical Products on the List of Vital and Essential Drugs approved by the joint Order of the Russian Ministry of Healthcare and Social Development and the Russian Federal Tariff Service #961n/527-a of 3 November 2010 (the "Procedure"). These changes were intended to separate ceiling price registration and re-registration processes and clarify pricing mechanism with respect to re-registration applications of Russian manufacturers. Most of the changes to the Procedure related to inflation rate price adjustments. The previous version of the Procedure also provided for possible adjustments, though due to conflicting clauses this provision didn't work. The previous version only indicated the possibility of price re-registration based on projected inflation rate, while the new version clarifies that prices can be adjusted for the current year inflation forecast set by the Federal Law approving the Federal Budget for the relevant financial year and projected period (in this case – 2013 financial year).

Therefore, starting from 1 January 2013 domestic pharmaceutical producers can apply for re-registration of 2013 prices for products included in the VED List.

In accordance with the law, Pharmstandard submitted appropriate document packages to the Ministry of Healthcare applying for inflation rate adjustment (5.5%) with respect to 99 prices.

2013 VED ceiling price re-registration (as of 21 March 2013)

Facility	Number of applications for ceiling price re-registration submitted to the Russian Healthcare Ministry (5.5% adjustment)	Number applications currently under review by the Russian Federal Tariff Service	Number of re-registered VED ceiling prices (re-registration confirmed)
Kursk	63	2	61
Ufa	26	0	26
Tomsk	10	0	10
Total	**99**	**2**	**97**

In February 2013, the Company received a confirmation of re-registration of 97 ceiling prices (adjusted for 5.5% inflation) for 41 INNs and 44 brand names.

#	INN	Brand name	Number of re-registered prices since February 2013
1	Azithromycin	Azitrox®	3
2	Activated Charcoal	Activated Charcoal	2
3	Aminophilline	Euphyllin	1
4	Ascorbic acid	Ascorbic acid	1
5	Atenolol	Atenolol	2
6	Acetylsalicylic acid	Acetylsalicylic acid	1
7	Glycyrrhizinic acid+Phospholipides	Phosphogliv®	3
8		Phosphogliv® forte	1
9	Darunavir	Prezista®	2
10	Digoxin	Digoxin	1
11	Dornase alfa	Pulmozyme®	1
12	Drotaverine	Spasmol®	2
13	Isosorbide dinitrate	Nitrosorbide	1
14	Insulin solutio [human biosynthetic]	Biosulin® R	2
15	Insulin-isophan [human biosynthetic]	Biosulin® N	2
16	Potassium-magnesium asparaginate	Asparcam	1
17	Co-trimoxazole [sulfamethoxazole + trimethoprim]	Co-trimoxazole	3
18	Xylometazoline	Rinostop®	2
19	Lenalidomide	Revlimid	4
20	Lidocaine	Lidocaine	1
21	Losartan	Bloctran	2
22	Loratadine	Klarisens®	2
23	Metronidazole	Metronidazole	1
24	Mildronate	Mildronate®	1
25	Nitroglycerin	Nitroglycerin	2
26		Nitrospray	1
27	Oseltamyvir	Tamiflu®	9
28	Pancreatin	Pancreatin	1
29	Paracetamol	Paracetamol	3
30		Paracetamol for kids	1
31	Propranolol	Anaprilin	2
32	Rituximab	Mabthera®	4
33	Smectit dioctaedric	Neosmectin®	6
34	Somatropin	Rastan®	3
35	Tiloron	Amixin®	3
36	Thioctic acid	Octolipen®	2
37	Tocilizumab	Actemra®	3
38	Trihexyphenidyl	Cyclodol®	1
39	Umifenovir	Arbidol®	5
40	Filgrastim	Neupomax	2
41	Fluconazole	Flucostat®	3
42	Furosemide	Furosemide	1
43	Chloramphenicol	Levomycetin	1
44	Enalapril	Renipril®	2
Total			**97**

New products and Product Pipeline

In 2012, the Company completed the development of, obtained registration for and launched commercial production of 10 new drugs (generics, new compositions of existing INNs and formerly manufactured products with new consumer characteristics or dosage modifications), including 2 Rx drugs, 7 OTC drugs and 1 dietary supplement. These products are listed in the Table below:

Product	Group	Therapeutic segment	Sales, RUR m	Planned launch	Actual launch
Maxycold® (coated tablets)	OTC	N02BE51	1.7	Mar-12	Apr-12
Next® (coated tablets)	OTC	M01AE51	45.5	Mar-12	Mar-12
Cyclovita® (coated tablets)	Dietary supplement	A11AA03	6.1	Apr-12	Jul-12
Neosmektine® (powder – new flavours)	OTC	A07BC05	9.1	Mar-12	May-12
Bromhexine syrup (alcohol free)	OTC	R05CB02	9.3	Sep-12	Oct-12
Codelac®NEO (drops)	OTC	R05DB13	2.1	Nov-12	Nov-12
Codelac®NEO (syrup)	OTC	R05DB13	0.7	Nov-12	Nov-12
Paracetamol (syrup – new flavours)	OTC	N02BE01		Dec-12	Nov-13
Acorta® (coated tablets)	RX	C10AA07	11.1	Apr-12	Sep-12
Glimepiride (4 mg tablets)	RX	A10BB12	6.3	Aug-12	Nov-12

Two products – Complivit® Ophtalmo, a powder for suspension (dietary supplement for kids), and Octolipen® (600 mg tablets) – previously targeted for launch in 2012, will be launched in 2013 due to the decision to extend market stability study in order to achieve longer proven usable product life.

In 2013, we plan to launch 16 new products, including 6 Rx drugs, 3 OTC drugs, 5 dietary supplements and 2 cosmetic products. Most of these products represent the expansion of existing brands, i.e. Complivit®, Rhinostop®, Codelac®, Pentalgin®, Bloctran®, Azitrox®, Termicon®, Octolipen®.

The Table below shows a product pipeline for 2013.

Product	Group	Therapeutic segment	Planned launch
Codelac® NEO (tablets)	OTC	R05DB13	Dec-13
Maxispray® (spray for local application)	OTC	R02AA20	Sep-13
Rhinostop® (spray)	OTC	R01AA07	Sep-13
Codelac®-Pulmo (ointment)	OTC/Cosmetics	n/a	Dec-13
Pentalgin® Gel (ointment)	OTC/Cosmetics	n/a	Dec-13
Validol-Pharmstandard (sublingual tablets, export to Bulgaria)	Dietary supplement	C01EX	Mar-13
Complivit® Ophtalmo for kids (powder for suspension for oral application)	Dietary supplement	A11AA03	Jun-13
Complivit® HONDRO (coated tablets)	Dietary supplement	M01AX25	Jun-13
Complivit® Ophtalmo (powder for suspension for kids)	Dietary supplement	A11AA03	Dec-13
Ferrogematogen-Pharmstandard (pastilles)	Dietary supplement	B03AE10	Mar-14
Azitrox® for kids (powder for suspension)	RX	J01FA10	May-13
Azithromycin (tablets)	RX	J01FA10	Aug-13
Bloctran GT (coated tablets)	RX	C09CA01 Losatran	Jul-13
Bloctran 12.5 мг (coated tablets)	RX	C09CA01 Losatran	Jul-13
Octolipen® 600 (coated tablets)	RX	A16AX01	Mar-13
Termicon® Spray, 15 ml (new dosage)	RX	D01AE15	Sep-13

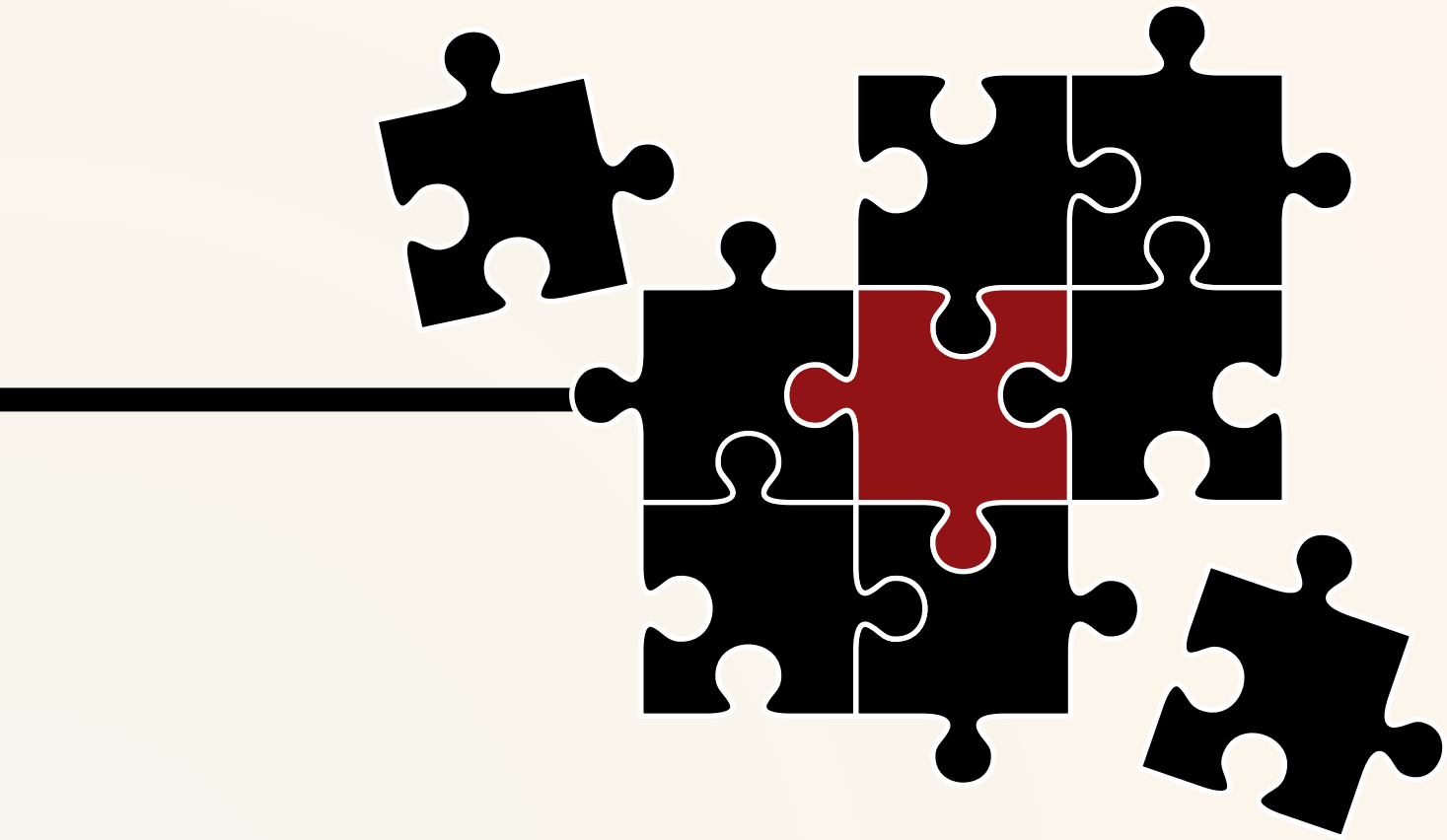
In 2012, the Company continued previous and started new joint pharmaceutical production projects in co-operation with other companies: completed secondary packaging stage localization at Pharmstandard facility for Acterma® (F. Hoffmann-La Roche), started secondary packaging and release quality control operations for metered anti-asthmatic aerosols Clenil®, Atimos and Foster (Chiesi). Full production cycle localization project with respect to Velcade® (Johnson & Johnson) and Mabthera® (F. Hoffmann-La Roche) is still under way.

In 2013, the Company plans to launch secondary packaging and release quality control operations for Incivo®, Intelence®, Sirturo® (Johnson & Johnson) and Biolik PJSC (Ukraine) products (cytostatics for oncological diseases in the form of injection solutions) Vinorelbine, Paclitaxel, Phthoruracilum, Doxorubicin, Epirubicin.

Business Overview

Capacity utilization

Group company	Product form	Number of shifts	2012 capacity, '000 packs	2012 utilization, %	2011 capacity, '000 packs	2011 utilization, %	New capacity commissioned in 2012	Capacity growth, %
OJSC Pharmstandard Leksredstva	Syrups and liquid dosage forms	3	75,929	91%	75,929	62%		
	Tablets	3	649,352	49%	649,352	43%		
	Aerosols and sprays	3	14,964	87%	14,964	91%		
	Powders	3	10,403	22%	10,403	19%		
	Capsules	3	82,877	51%	82,877	47%		
OJSC Pharmstandard Ufavita	Ampoules	3	24,765	43%	17,079	65%	August	45%
	Lyophilisates	3	5,703	42%	5,703	31%		
	Syrups and liquid dosage forms	3	-		-	0%		
	Tablets	3	154,133	61%	154,133	45%		
	Vitamins (Ferrohematogen)	3	36,432	68%	36,432	66%		
	Insulin human	3	14,400	6%	14,400	7%		
OJSC Pharmstandard Tomsk-chempharm	Syrups and liquid dosage forms	3	5,400	5%	5,400	6%		
	Tablets	3	372,387	22%	372,387	25%		
	Aerosols and sprays	3	9,600	7%	9,600	29%		
	Ointments	3	2,178	34%	2,178	26%		
Pharmstandard Biolik PJSC	Syrups and liquid dosage forms	3	990	22%	970	44%		
	Ampoules	3	8,623	26%	8,623	24%		
	Lyophilisates	3	537	33%	537	34%		
	Powders	3	25	39%	25	44%		



Group company	Product form	Number of shifts	2012 capacity, '000 packs	2012 utilization, %	2011 capacity, '000 packs	2011 utilization, %	New capacity commissioned in 2012	Capacity growth, %
LEKKO CLSC	Tablets	3	1,134	9%			November	
	Capsules	3	1,305	40%				
	Syrups and liquid dosage forms	3	9,618	44%				
	Powders	3	6,490	10%				
	Aerosols and sprays	3	2,646	0%				
	Lyophilisates	3	362	42%			July	
Biomed named after I.I. Mechnikov OJSC	Nitroglycerins	3	65	52%				
	Syrups and liquid dosage forms	3	687	5%				
	Ampoules	3	973	28%				
	Interferons	3	3,483	15%				
Total			**1,495,461**		**1,460,992**			**2%**

Capacity utilization – medical appliances and instruments, 2011-2012

Product	Unit	2012 capacity	2012 actual output	2012 capacity utilization, %	2011 capacity	2011 actual output	2011 capacity utilization, %
Water stills, water collectors	pcs	7,200	3,513	49%	7,200	4,308	60%
Steam sterilisers, up to 100 l	pcs	9,600	3,597	37%	9,600	2,937	31%
Steam sterilisers, over 100 l	pcs	428	196	46%	428	120	28%

Good Manufacturing Practice[1]

Compliance with GMP standards is a key to expanding co-operation areas with EU and global manufacturers.

All Pharmstandard operations have a functional and constantly improving quality management system in place. The system has been developed and introduced in full compliance with the Commission Directive 2003/94/EC, national standards RF GOST R 52249-2009 (GMP) "Drug Manufacturing and Quality Control Rules" and GOST R ISO 9001-2008 (ISO 9001:2008) "Quality Management Systems. Requirements". The quality management system operating at the Tyumen Medical Equipment and Instruments Plant complies with EN ISO 13485 (ISO 13485:2003) ("Medical devices. Quality Management Systems. Regulatory requirements") and Annex V Section 3 of the Directive 93/42/EEC (Medical devices) of 14 June 1993.

In 2012, All-Russia Research Certification Institute (VNIIS), the Russian management system certification authority, re-inspected Pharmstandard Group companies Pharmstandard-UfaVITA JSC (23-24 May 2012), Pharmstandard-Leksredstva JSC (15-16 May 2012) and Pharmstandard-Tomskhimpharm JSC (31 May to 1 June 2012) for their compliance with GOST R ISO 9001-2008 (ISO 9001:2008) "Quality Management Systems. Requirements" and GOST R 52249-2009 "Drug Manufacturing and Quality Control Rules (GMP)" and confirmed the validity of existing compliance certificates. GOST R ISO 9001-2008 compliance certificates had been issued by VNIIS and SGS (Switzerland). VNIIS and SGS have a co-operation agreement that allows SGS qualified VNIIS experts to issue SGS compliance certificates on quality management systems used by Russian manufacturers.

In May 2012, the State Drug Agency of Latvia authorized to inspect pharmaceutical operations in terms of their compliance with EU GMP requirements confirmed that manufacturing and quality control procedures provided on six production lines of Pharmstandard-Leksredstva JSC comply with the European Union Good Manufacturing Practice.

EU GMP compliance certificates issued for Pharmstandard-Leksredstva JSC production lines can be found on EudraGMP database at the following address: http://eudragmp.ema.europa.eu/inspections/gmpc/searchGMPCompliance.do.

In September 2012, VNIIS completed its inspection and certification procedure with respect to Pharmstandard pharmacy depots for the compliance with GOST R ISO 9001-2008 "Quality Management Systems. Requirements" and GOST R 52249-2009 "Drug Manufacturing and Quality Control Rules".

Pharmstandard key objectives in terms of product quality are formalized by the Company management in the Quality Policy. Quality control system is targeted at guarantied quality to ensure that drug manufacturing and quality control procedures are constantly in compliance with state registration requirements, regulatory documentation, quality standards and the drugs are produced in accordance with their intended use. Pharmaceutical product quality is the key goal of Pharmstandard management.

Pharmstandard Group companies have developed a documentation system based on GMP/ISO requirements.

This system is focused on timely provision of the companies' divisions and units with necessary documentation in the form and amount sufficient for effective process organization and interaction with the ultimate goal to manufacture qualitative, effective and safe pharmaceuticals.

This documentation reflects all actions associated with drug production, quality control and release permission issues.

All specialists take mandatory GMP training courses at leading domestic and international institutions specialized in pharmaceutical personnel training in proper drug manufacturing and quality control in line with international best practices. Highly qualified and knowledgeable personnel is the main factor of Pharmstandard's successful growth and top position in the Russian pharmaceutical market.

An important element of the quality control system is quality units (QUs) established at Pharmstandard companies. Quality control of raw materials, semi-finished and bulk products and finished products is carried out by highly skilled QU professionals based on established procedures and up-to-date high accuracy equipment. Raw materials can only be accepted for manufacturing process after passing incoming inspection and obtaining the relevant permission. Production process includes monitoring of key process parameters and environmental parameters (air, equipment, personnel clothing and hands microbial control, etc) as well as quality control of semi-finished and bulk products. Finished products can only be eligible for sale and marketing if a quality control manager confirms in writing that each finished product series has been produced and controlled in accordance with master file requirements.

QUs are also responsible for the review of all incoming claims and complaints with respect to drug quality. Every claim/complaint should be registered and reviewed based on established procedures resulting in a corrective and preventive

1 GMP

actions plan to be executed under a strict control with further assessment of its efficiency.

All production processes, key process equipment, quality control and cleaning procedures as well as engineering systems are subject to validation. Validation is an element of quality guarantee system and an integral part of the entire drug development and production process.

The Group companies have developed and introduced a successfully functioning external and internal audit system. Auditing is performed by a group of properly qualified employees of the Group companies. External audit is targeted at raw material and equipment producers/suppliers, service providers and third party contractors, and includes supplier validation for compliance with GMP/ISO standards as well as Pharmstandard requirements to ensure proper guaranteed quality of products and services. Internal audits (self-inspection) at Pharmstandard companies are intended to evaluate quality management system efficiency, improve its productivity and determine next steps for further development and enhancement. External and internal audits are performed in accordance with annually developed schedules on fixed dates based on established regularity.

All Pharmstandard Group companies undergo regular external inspections/audits both by the Russian Government agencies (Federal Supervision Service for Health Care and Social Development) and independent European and domestic auditors.

The Company's growth targets up to 2014 include further reconstruction and renovation of facilities of Pharmstandard-Leksredstva JSC, Pharmstandard-Tomskhimpharm JSC, Pharmstandard-UfaVITA JSC and TZMOI JSC.

Information on compliance certificates issued to Pharmstandard operating companies:

Pharmstandard-Leksredstva JSC

EU GMP compliance certificate (based on Directive 2003/94/EC (1)), ZVA/LV/2012/014H issued 29 May 2012

GOST R 52249-2009 (GMP) ("Drug Manufacturing and Quality Control Rules") compliance certificate OCM RU.04-DG24.4-027, of 27 May 2010, valid until 27 May 2013

GOST R ISO 9001-2008 (ISO 9001:2008) ("Quality Management Systems. Requirements") compliance certificate ROSS RU.IS11.K00589 issued 27 May 2010, valid until 27 May 2013

SGS ISO 9001-2008 ("Drug Development and Production") compliance certificate CH10/1354 issued 01 June 2010, valid until 31 May 2013

Pharmstandard-UfaVITA JSC

GOST R 52249-2009 (GMP) ("Drug Manufacturing and Quality Control Rules") compliance certificate OCM RU.04-DG24.4-029 issued 03.06.2010, valid until 03 June2013

GOST R ISO 9001-2008 (ISO 9001:2008) ("Quality Management Systems. Requirements") compliance certificate ROSS RU.IS11.K00594 issued 03 June 2010, valid until 03 June 2013

SGS ISO 9001-2008 ("Drug Development and Production") compliance certificate CH10/1356 issued 11 June 2010, valid until 10 June 2013

Pharmstandard-Tomskhimpharm JSC

GOST R 52249-2009 (GMP) ("Drug Manufacturing and Quality Control Rules") compliance certificate OCM RU.04-DG24.4-028 issued 03 June 2010, valid until 03 June 2013

GOST R ISO 9001-2008 (ISO 9001:2008) ("Quality Management Systems. Requirements") compliance certificate ROSS RU.IS11.K00593 issued 03 June 2010, valid until 03 June 2013

SGS ISO 9001-2008 ("Drug Development and Production") compliance certificate CH10/1355 issued 07 June 2010, valid until 06 June 2013

Tyumen Medical Equipment and Instruments Plant

EN ISO 13485 (ISO 13485:2003) ("Medical devices. Quality Management Systems. Regulatory requirements") compliance certificate #4115.48.01/0 issued 20 October 2008, valid until 20.10.2013

EU certificate of compliance with Annex V Section 3 of the Directive 93/42/EEC (Medical devices) of 14 June 1993, for quality guarantee systems #4115.07.01/0 issued 13 November 2008, valid until 13 November 2013

Pharmstandard OJSC/ Pharmstandard LLC pharmacy depots

Compliance with GOST R ISO 9001-2008 "Quality Management Systems. Requirements"

Pharmstandard OJSC: ROSS RU.IS11.K00815, valid until 18 September 09.2015

Pharmstandard LLC: ROSS RU.IS11.K00814, valid until 18 September 2015

Compliance with GOST R 52249-2009 "Drug Manufacturing and Quality Control Rules"

Pharmstandard OJSC: GMPPEU RU.001.#0005, valid until 18 September 2015

Pharmstandard LLC: GMPPEU RU.001.#0004, valid until 18 September 2015

New operating assets

Biomed named after I.I. Mechnikov OJSC

Biomed is one of the oldest immunobiologic producers.

Key business areas:

- production of vaccines, interferons, probiotics, allergens, immunomodulators and other pharmaceuticals;
- production of diagnostic products and microbiologic digest media;
- contract manufacturing.

The Company has three production facilities with a total production area of 21 thousand square meters.

Operations include 11 production units,microbiological and biochemical laboratories.

CEO - Vladimir Kolyshkin.

Pharmapark LLC

Pharmapark LLC is a pharmaceutical producer that performs development, testing, manufacturing and marketing of biotechnological products in the form of active pharmaceutical substances and finished dosage forms.

The company is the largest national producer of Interferon alfa-2b substance covering over 80% of the demand from Russian domestic manufacturers of finished pharmaceutical products.

Pharmapark LLC produces ampouled and bottled finished sterile drugs at Biomed named after I.I. Mechnikov OJSC production facilities. Prefilled syringe drugs (RTF) are produced on Petrovax Pharmaceutical Company's platform on a contractual basis.

Key Company brands Altevir® and Epostim® are well known by domestic medical specialists.

CEO – Vassiliy Skrypin.

Lekko CJSC

Lekko CJSC is a Russian innovative company focused on research, development, manufacturing and marketing of highly-effective drugs.

This pharmaceutical producer specializes in solid dosage forms, eye drops and antibiotics.

The Company manufactures around 15 drug names and over 50 million packages a year.

CEO – Evgeniy Stavnichiy.

As a result of operational upgrade, purchase of new hi-tech equipment as well as Lekko CJSC and Biomed OJSC acquisitions, Pharmstandard Group's operating capacity increased **by 34.5 million packages vs 2011 level.**

1 Further in text "Biomed OJSC"

Procurement

Pharmstandard OJSC purchases and supplies raw materials, including supporting and packaging materials, for the production of pharmaceuticals and third party products on Pharmstandard Group's operating platform. Since 2010, Pharmstandard has been a supplier of pharmaceutical substances to the Russian market.

During 2012, the Company purchased over 420 items of various raw materials for the total amount of RUR4.3bn (excluding TPP), of which RUR3.9bn accounted for active pharmaceutical ingredients (APIs).

Top 10 suppliers having long-term co-operation experience with the Company account for 53% of the total purchased material volume. Raw materials for pharmaceutical production are primarily supplied from China, Europe, India and other countries as most of the items are either unavailable in Russia or not in compliance with international quality standards, or insufficient to meet capacity requirements.

The Table below shows procurement breakdown by type of raw materials purchased for the purposes of pharmaceuticals production and substance sales (excluding TPP):

Raw material mix	2011, %	2012, %	2012, RURm
Raw materials	86.3%	81.6%	4,383.2
Active pharmaceutical ingredients (APIs)	80.8%	74.2%	3,985.8
Other	5.5%	7.4%	397.5
Supporting materials	0.2%	0.2%	12.2
Packaging	13.5%	18.2%	973.7
Total	**100.0%**	**100%**	**5,369.1**

In 2012, US dollar remained the key currency with underlying raw material procurement contracts accounting for 53% (vs 66.7% in 2011) in the currency mix.

During 2012 major currencies showed mixed performance against the Russian ruble.

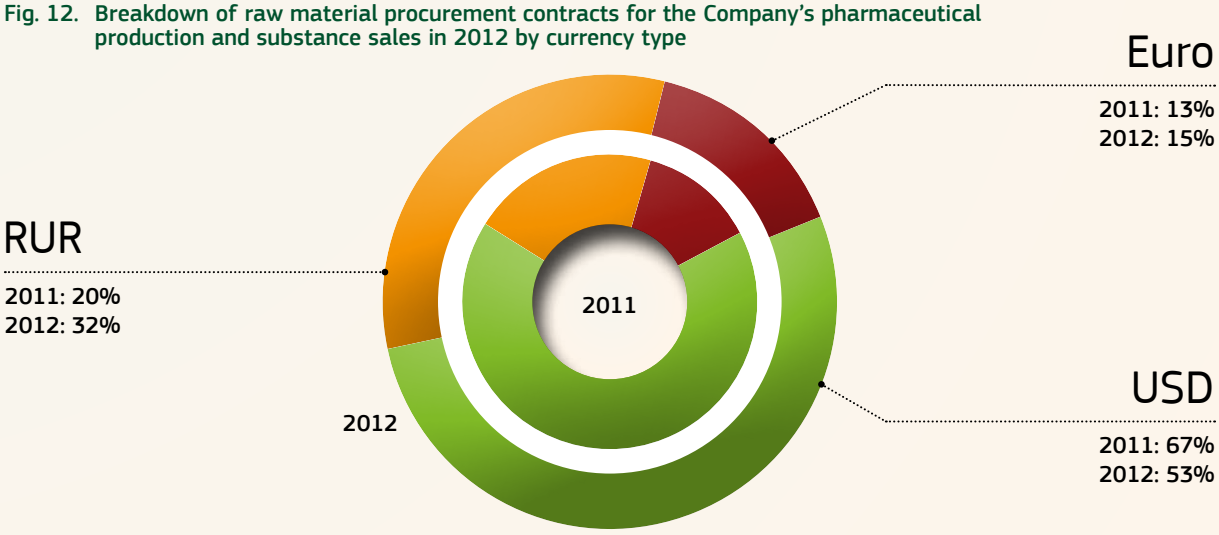
In 1H2012, both the US dollar and the Euro gradually depreciated against the Russian ruble reaching their annual lows of RUR28.9468 and RUR38.4117, respectively.

From April to June, the US dollar rose rapidly against the Russian ruble (adding RUR4.67 from 29 April to 5 May to reach its highest rate of RUR34.0395) while the Euro also increased significantly from May to June (with RUR2.50 growth from 24 May to 6 June reaching the highest rate of RUR42.2464).

Financial losses from currency fluctuations were compensated by revenues from value and FX difference as a result of foreign currency liability adjustments. Gradual US dollar and Euro depreciation allowed the Company to retain surplus on revenue from FX liability adjustments.

The Chart below reflects the breakdown of raw material procurement contracts for the Company's pharmaceutical production and substance sales in 2012 by currency type (excluding TPP):

Fig. 12. Breakdown of raw material procurement contracts for the Company's pharmaceutical production and substance sales in 2012 by currency type



Pharmaceutical substance sales in the Russian market

In 2012, Pharmstandard OJSC further expanded its wholesale API purchase & sale business based on direct supply primarily from Chinese, Indian and West European producers.

Pharmaceutical substance sales grew in 2012 by 28% from 2011 and amounted to RUR460.0m net of VAT (vs RUR358.7m in 2011).

The number of APIs supplied increased in 2012 from 86 to 109 items.

During the entire period in operation the Company has executed 146 contracts, including 42 new contracts in 2012.

Top 10 substances supplied

Substance types	RUR million, (net of 10% VAT)
Rutoside	47.959
Chloramphenicol	46.650
Metamizole sodium	32.064
Paracetamol	30.304
Acetylsalicylic acid	22.315
Omeprazole pellets	21.980
Ascorbic acid	18.410
Sumatriptan succinate	17.770
Mucaltin	15.988
Ketotifen fumarate	14.449

Growth strategy for 2013

- Sales growth through adding new pharmaceutical substances for further marketing and sales;
- Registration of pharmaceutical substances in the Russian Federation with further promotion in the market ;
- Targeting new consumers in Kazakhstan and Belarus;
- Sales growth through pharmaceutical substance supply for veterinary drug production.

Marketing and promotion

Building on marketing capabilities with active promotion of the Company products forms a strategic platform for our success.

Our marketing and promotion unit responsibilities cover branded products marketed to medical and pharmaceutical community as well as end consumers. In 2012, the Company's promotion program encompassed over 50 brands. Product promotion contributed over 70% of the total 2012 pharmaceutical sales (excluding TPPs).

Our 2012 strategy was based on the following principles:

- Ensure better efficiency of the Promotion Department through active introduction of standardized analytic algorithms including client monitoring systems, daily and monthly action planning and control over marketing investments;
- Ensure more efficient interaction among marketing, promotion, pharmacy chain coverage and sales departments to achieve synergies while using targeted marketing tools;
- Creation of dedicated "product teams" combining specialists from various departments.

Our Promotion department structure was generally kept unchanged in 2012 with continuous focus on qualified personnel recruitment, advanced training and on-the-ground efficiency.

As of 2012YE, the promotion function was structured to include the following product lines:

- Endocrine drugs and biopharmaceuticals;
- RX products (three specialty lines);
- OTC products (four specialty lines).

We have created a separate division focused on public procurement – a cross-functional unit ensuring the Company's presence in this market segment.

As of 2012YE, the marketing structure was split into the following product-based groups:

- vitamin & mineral products and BAAs;
- cardiology drugs;
- neurology drugs;
- liver disease drugs;
- flu and other ARVI drugs;
- anaesthetics, women health products, dermatology drugs;
- biopharmaceuticals.

This approach ensures high level of expertise within each specialty group.

An important structural development of 2011 was the creation of a separate pharmacy chain coverage function with its regional expansion which resulted in significant increase of actively cultivated pharmacy chain clients in 2012. We continued building up regional management task force focused pharmacy chains responsible for distribution as well as launch of BTL programs in the regions.

Apart from the Pharmacy Chain Coverage Department the management was largely supported by our Media Relations Department responsible for the co-ordination of TV, radio and industry press advertising campaigns. Analysis Department of the Administration Office is focused on developing analytical tools, providing market data and internal audit findings.

As of 31 December 2012, the Company employed 1,101 marketing and promotion professionals (vs 749 employees in 2011).

Marketing and Promotion Department continues to use an efficient incentivisation system with a variable performance based compensation component paid on a quarterly basis. Bonus is paid for meeting quantitative (second sales plan performance) and qualitative targets.

All marketing and promotion professionals take regular training which we consider an important factor in meeting our business objectives and an additional motivation catalyst to achieve successful operations. In 2012, we pursued with a remote training system driving to more effective training results and cost savings. In addition to information portal incorporating training materials and testing system we extensively used video-conferencing with the Company employees.

Training Department functions include knowledge consolidation, best practice identification and local introduction. Each promotion line has dedicated trainers helping their trainees to keep on track while training and developing their skills based on roadmaps (competency profiles). Marketing and Promotion Department continues to support regular reporting system that implies monitoring retail sales, distributors' trade inventories, retail prices to provide sales, expenses and profitability reports for each brand. This approach facilitates regular analysis of key performance indicators and fast decision making for future periods.

The strategy allowed us to achieve our business plan targets and y/y sales growth for most of our promoted brands.

Third party products[1] – government contract supplies

One of the strategic areas of the Company's business is strengthening partnership relations with global market leaders through localized production of socially significant drugs mostly having no equivalents in Russia.

Starting from 2009, the Company closely co-operates with a number of international players, such as Johnson & Johnson, Hoffmann-La Roche, Celgene, Chiesi, on the production and supply of their products for the purposes of local and national programs focused on public pharmaceutical support.

TPP sales grew in 2012 by 30.2% (RUR6,5 billion) vs 2011, up to RUR28,3billion. Substantial TPP sales growth was driven by a significant increase in Government contract supplies. One of the priority products for the Company in this segment is Mabthera®, developed by Hoffmann-La Roche and used for lymphosarcoma and rheumatic arthritis treatment. This is currently the only product of this treatment group localized in Russia.

Implementing the Government strategy for the Russian pharmaceutical industry development up to 2025, the Company launched a staged project on full cycle localized production of equally important Chiesi's pulmonary drugs Atimos®, Clenil® Jet and Foster, and completed localization process for Johnson & Johnson's antiretroviral original drug Intelence® and a unique Hoffmann-La Roche's product Actemra® used for orphan disease treatment, in particular juvenile arthritis. A similar localization project with respect to Celgene's hemopathic drug Vidaza® is still under way.

In Russia, public pharmaceutical support provided to people falling into national social assistance programs in the form of additional pharmaceutical provision is split into two channels:

1. Drug and medical device provision to beneficiaries of federal and local social support programs financed from local budgets and through federal subsidies;

2. Centralized federal budget financed provision of high-cost nosology drugs for patients suffering from haemophilia, cystic fibrosis, pituitary dwarfism, Gaucher disease, myeloleukemia, multiocular sclerosis, as well as post-transplantation patients.

As estimated by Pharmstandard, during the last three years the Government financing of the above mentioned programs has been constantly increased :

Channel	2010, US$ bn	2011, US$ bn	2012, US$ bn
High-cost nosology	1.58	1.65	1.80
Essential Drug Management Program	1.12	1.19	1.34

To satisfy the needs of patients requiring expensive treatment under the 7 Nosologies Program the Company manufactures and supplies drugs based on the results of Federal Government auctions. In 2012 TPP segment showed 30% growth in 2012 and accounted for 78.5% of the total third party product sales. Growth in this segment was primarily driven by Velcade® (+98.7%) and Prezista® (+46.9%) manufactured in co-operation with Johnson & Johnson.

Effective from 1 January 2013, the Russian Government Decree #1438 dated 27 December 2012 ("On financing the procurement of diagnostic agents and antiviral drugs for preventive care, detection, monitoring and treatment of HIV/hepatitis B and C infected patients") initiates decentralization of drug purchases for socially significant disease treatments with the function transferred to regional authorities.

In addition, starting from 2014, drug procurement function under the 7 Nosologies Program is also to be handed over to the Russian sub-sovereign entities in accordance with the provisions of the Federal Law #323-FZ dated 21 November 2011 ("On the fundamentals of public health protection in the Russian Federation"). The purchases are assumed to be financed from the federal budget in the form of subsidies granted to local authorities. The new scheme will allow the regions to respond quickly to newly detected cases or changes in any treatment regimen and provide patients with drugs accordingly. On the other hand, procurement decentralization can result in higher drug prices with an additional risk

1 TPP

of corruption associated with local tenders for Government contracts.

In 2012, the law #94-FZ introduced changes in drug procurement rules. As such, drug purchases should be made by INNs and a single lot cannot include different INN based drugs if the threshold initial maximum contract price (IMCP) established by the Russian Government is exceeded. Drugs can also be purchased by trade names if they are included in a list to be approved based on a procedure established by the Russian Government. The market accepted these changes as a recommendation followed by a significant increase of purchases based on one INN position (single lots or monolots), which resulted in a substantial generic price decrease within monolots, however, due to the lack of IMCP threshold and the list approval procedure most of the purchases are still performed on a mixed basis.

Benefits for Russian manufacturers in the Government procurement market came into effect on 6 May 2012 in accordance with the Order of the Ministry of Economic Development #120 dated 12 March 2012 ("On access terms for foreign origin products with respect to placing supply orders for goods to meet customers' needs") which was valid until 31 December 2012.

In 2013, a 15% benefit is expected to be fixed for products manufactured in Russia and Belarus in accordance with the Draft Order prepared by the Ministry of Economic Development in consideration with revisions and proposals of the Ministry of Industry and Trade and the Ministry of Healthcare. Since the document has not yet been signed, the auctions for 2H2013 are likely to be held on equal terms for all manufacturers.

In addition, the Russian Ministry of Industry and Trade currently has an amended Draft Decree published on its website stipulating that only Russian or Belorussian origin drugs can be involved in the public drug procurement system, unless the Drug Registry of the Russian Federation includes less than two Russian or Belorussian manufacturers of required products. If this document is adopted, part of imported products will have no access to government-financed drug procurement programs resulting in a new market niche opening both for the Company and other Russian and Belorussian manufacturers.

Major expectations of the public procurement market players are associated with the Law on the Federal Contract System (FCS) to replace the Law #94-FZ. This Law coming into effect on 1 January 2014, suggests a number of material innovations in the Government procurement system. Firstly, FCS-based purchasing procedures will cover the entire purchasing cycle where key phases include planning, order placing, execution and control. The Law is primarily focused on the purchase result that should be directly linked to the initial phase of the purchase process, i.e. 3-year planning. Secondly, the FCS Law will address a number of issues not covered by the Law #94-FZ, including anti-dumping and anti-corruption measures, unilateral contract termination, etc. Thus, the new draft law assumes monitoring average market prices for any products and services. If a seller agrees upon price reduction of over 25% of the initial price, additional financing should be validated and provided. On 27 March 2013, the draft law on FCS prepared by the Ministry of Economic Development was approved by the Federation Council and submitted to the President. Nevertheless, the industry experts point out to a lot of regulatory amendments and additions required to make the FCS system functional.

Production and marketing of medical equipment and instruments

On 5 July 2011, Pharmstandard OJSC and DGM Group announced setting up a new company Pharmstandard-Medtechnika LLC to ensure disinfection and sterilization equipment sales growth.

For this purpose, Pharmstandard and и DGM TRADING LIMITED established the joint venture MOLDILDO TRADING LIMITED holding 100% in Pharmstandard-Medtechnika. Pharmstandard holds 75% in the project with 25% held by DGM Group.

In 2012, medical equipment and instrument production and marketing business demonstrated 74% growth y/y in line with the market growth of 78%, which is a clear evidence of fast development in this business segment. Such growth was achieved due to the following:

- New sales strategy focused on regional sales allowing to expand the Company's presence in the Russian regions.
- Increased headcount through recruiting highly qualified professionals in all business segments.
- Substantial synergies from combining TZMOI OJSC and DGM brands leading to significant product mix expansion to meet the requirements of target consumers in various target segments to the highest extent.
- Launch of two new equipment lines – DGM Z low temperature plasma sterilizers and DGM M medical waste sterilization units that allowed business expansion in the most rapidly growing segments of sterilization equipment market.
- A number of material engineering changes in the existing equipment models to better meet market requirements.
- Higher quality of equipment maintenance services as a result of service business development strategy focused on regional expansion, higher flexibility, speed rate and quality of maintenance services.
- Participation in the Moscow Healthcare System Modernization Program as a supplier of disinfection and sterilization equipment: the Company supplied and put in operation a great number of equipment under a very tight schedule gaining new expertise with complex projects and confirming a track-record of successful delivery.
- Active promotion of the equipment in CIS markets.
- Building up a strong marketing function focused on robust promotion of the entire equipment line based on thorough market analysis using various marketing tools.
- Market growth driven by significant budget allocations on the restructuring and modernization of the Russian healthcare system in 2012.

With outstanding performance in 2012, Pharmstandard-Medtechnika LLC will continue its business expansion to provide higher growth rates.

This will be possible assuming the following factors:

- Changes in sales mix with active equipment promotion in growing segments such as central sterilization departments, low temperature sterilization, high level disinfection.
- Development and implementation of a new dealer policy with dealer network consolidation and expansion.
- Improved sales management through better product mix planning and forecasting and higher level of contractors' responsibility for fulfilling their obligations.
- Launch of equipment sales in a new segment of laboratory diagnostics and blood banking.
- Further development of maintenance service business to achieve higher level of flexibility, speed rate and quality.

Producer	Type of equipment		Sales, units	Sales, RURm
TZMOI JSC	Spare parts	Spare parts for medical equipment	11,098	16.1
		Purchased spare parts	3,775	1.9
		Electric heaters	649	1.3
	Equipment	Aqua distiller	3,211	63.2
		Completing to distillers	752	8.0
		Decontaminator	88	10.6
		Central Sterilization Installation	1	4.3
		Steam sterilizers	3,315	623.8
		Other	424	17.6
Pharmstandard-Medtechnika LLC	Spare parts	Completing to distillers	556	0.6
		Purchased spare parts	4,837	10.4
		Electric heaters	2,154	4.4
		Completing to distillers DGM vert.	7	0.045
		Other	10,444	4.0
	Equipment	Disinfecting steam chamber	11	47.3
		Disinfecting washing machines	189	150.5
		Decontaminator	26	86.0
		Plasma sterilizers	42	123.7
		Thermo sealing machines	57	4.3
		Ultrasonic washing installation	18	13.3
		DGM Endo	4	4.6
		Steam sterilizers	542	365.6
		Other	954,693	19.5
Total			**996,893**	**1,581.05**

Overseas sales

While the Russian domestic market is the key market for Pharmstandard products the Company actively develops its export capabilities.

In 2012, the Company's pharmaceutical export grew by 44% vs 2011 – from RUR742.1m in 2011 to RUR 1,068.6m in 2012[1].

The Company exports its products in 14 countries, primarily within CIS and FSU: Ukraine – 38.5%, Uzbekistan – 23.5%, Kazakhstan – 21.5%*. In 2012, pharmaceutical export accounted for 2.1% of the total sales.

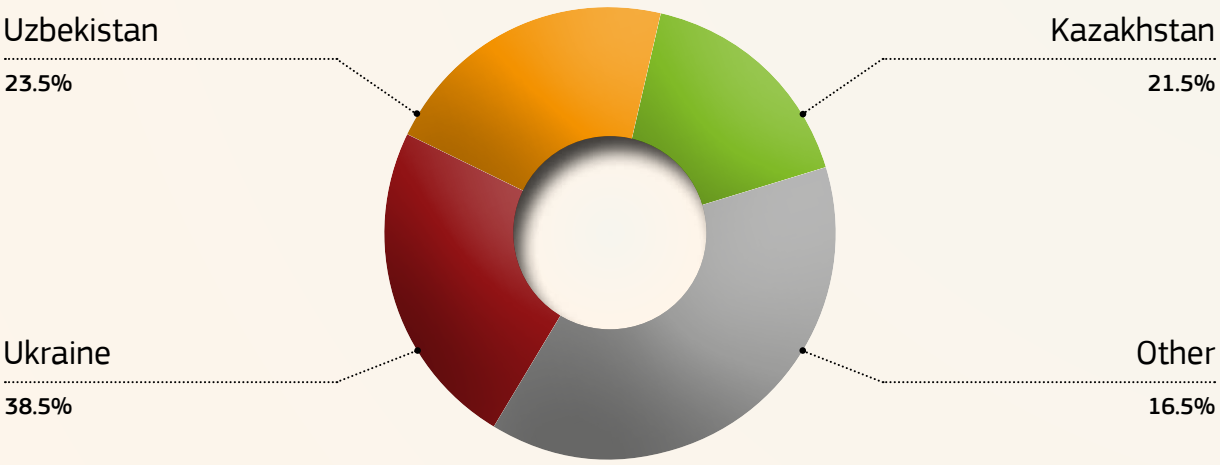
The Company's strategic plans include robust export growth and expansion in Ukraine, South America (Venezuela, Argentina, Nicaragua), Africa (Nigeria, Egypt), Middle East and Central Asia (Iran, Iraq, Afghanistan, UAE).

Top 10 export pharmaceuticals account for c. 80.8% of the total Company's export revenue. Top 10 include Arbidol®, Mabthera®, Phosphogliv®, Afobazol®, Pentalgin®, Inhalyptum®, Cocarboxylase hydrochloride, Complivit®, Activated charcoal, Codelac®

Export sales and y/y growth by country (2010-2012)

	2012		2011		2010		2009		2012 vs 2011 growth		2011 vs 2010 growth		2010 vs 2009 growth	
Country	RURm	share, %	RURm	share, %	RURm	share, %	RURm	share, %	RURm	%	RURm	%	RURm	%
Ukraine	411.7	38.5%	306.2	41.3%	248.1	42%	211.6	49%	105.5	34%	58.1	23%	36.5	17%
Kazakhstan[1]	250.6	23.5%	39.3	5.3%	21.2	4%	3.7	1%	211.3	538%	18.1	85%	17.5	473%
Uzbekistan	229.6	21.5%	262.8	35.4%	206.6	35%	119.9	28%	-33.2	-13%	56.2	27%	86.7	72%
Belarus	62.7	5.9%	55.0	7.4%	46.2	8%	43.8	10%	7.7	14%	8.8	19%	2.4	5%
Kyrgyzstan	29.9	2.8%	16.9	2.3%	0.0	0%	0.0	0%	13.0	77%	16.9		0.0	
Azerbaijan	23.7	2.2%	13.6	1.8%	9.1	2%	2.2	1%	10.1	74%	4.5	49%	6.9	314%
Armenia	19.3	1.8%	16.7	2.3%	24.5	4%	13	3%	2.6	16%	-7.8	-32%	11.5	88%
Moldova	15.0	1.4%	13.5	1.8%	10.9	2%	9.5	2%	1.5	11%	2.6	24%	1.4	15%
Turkmenistan	10.7	1.0%	5.4	0.7%	0.0	0%	6.6	2%	5.3	98%	5.4	-100%	-6.6	
Other	15.4	1.4%	12.7	1.7%	26.7	4.5%	17.3	4.0%	2.7	21%	-14.0	-52%	9.4	54%
Total	**1,068.6**	**100%**	**742.1**	**100%**	**593.3**	**100%**	**427.6**	**100%**	**326.5**	**44%**	**148.8**	**25%**	**165.7**	**39%**

Fig. 14. Export sales breakdown by countries



1 including Pulmozyme® shipment to Kazakhstan in 4Q2012 (through SK-Pharmacia).

In addition to the Company's achievements in the export markets it is also important to emphasize some trends and developments in two key CIS markets – Ukraine and Kazakhstan. Kazakhstan is a member of the Customs and Economic Union together with Russia, and unified requirements to pharmaceuticals registration and certification are expected to be introduced by 2014. Ukraine is the second largest CIS market after the Russian Federation and there are a number of cross-trends in these markets, e.g. the introduction of a ceiling price for products included in the list of life-saving medication.

Ukraine:
pharmaceutical market growth reaching US$3.9bn in 2012[2]

- Introduction of new requirements to local producers' licenses closely linked to GMP standards. GMP requirements are also applied to all products.
- The Ukrainian pharmaceutical circulation regulator is now a participant of the European PIC/S Committee.
- A new law on media advertising of pharmaceuticals became effective from 2012.
- A new law on licensing pharmaceuticals imported to Ukraine will become effective from 1 March 2013.
- Discussions under way with respect to the introduction of VAT on imported medicines.
- Ukrainian Healthcare Ministry is in the process of developing the National Concept for price regulation in pharmaceutical sector

Kazakhstan:
pharmaceutical market has reached approx. US$1.3bn[3]

- Kazakhstan is a member of the Single Economic Area Union together with Russia and Belarus. Dismantling of custom barriers among the Union participants resulted in increased trade turnover.
- Kazakhstan adheres to GMP standards. Based on the National Pharmaceutical Sector Development Programme effective since 2010, all companies should operate in compliance with GMP standards by 2014.
- Kazakhstan represents one of the biggest hospital markets in CIS that accounts for c. 45% -50% of the total national pharmaceutical market. Purchases are provided through SK-Pharmacia being a state-owned company.
- Kazakhstan actively develops national pharmaceutical industry attracting investors to the construction of greenfield facilities and expansion of existing capacity.

Belarus:
pharmaceutical market growth reaching US$0.8bn in 2012[4]

- In 2013, a marketing team has started working in Belarus to promote the Company's products in the country.

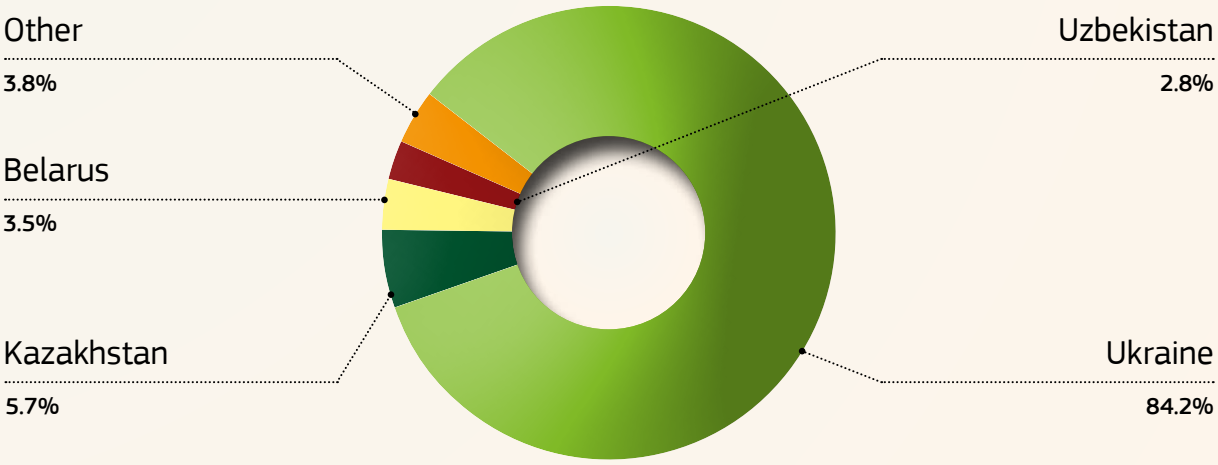
To provide export sales growth, Pharmstandard is set to focus on the following areas:
- further robust efforts to ensure registration and launch of new up-to-date branded products;
- active participation in public procurement programmes (Kazakhstan, Ukraine, Belarus);
- co-operation with international pharmaceutical companies as part of production localization for CIS markets as well as Russia .

Biolik PJSC (Ukraine)

Biolik PJSC (further "Biolik") is Ukraine's largest manufacturer of immunobiological products, vaccines, serums, diagnostic products, culture mediums, blood products, hormonal, antiviral, antibacterial and enzymatic products. Its products are sold in all regions of Ukraine and Russia and are being exported to other countries of CIS and Europe.

In 2012, Biolik's export of pharmaceutical products grew by 21.5% vs 2011 – from RUR539.58 million in 2011 up to RUR655.59 million in 2012.

Fig. 15. Biolik's export sales breakdown



2 Proxima Research's analytical system PharmXplorer/Pharmstandard
3 SK-Pharmacia web-site (sk-pharma.kz)
4 Intellix-M data (www.intellix.by)

Biolik exports its products to 12 countries - primarily to CIS and adjacent countries: Ukraine – 84,2%, Kazakhstan – 5,7%, Belarus – 3,5%, Uzbekistan – 2,8%.

Export sales breakdown and sales dynamics (2011/2012)

Country	2012, RUR mln	2012 share, %	2011, RUR mln	2011 share, %	Change 2012/2011, RUR mln	Change 2012/2011, %
Ukraine	551.97	84.2%	393.79	73.0%	158.17	40.2%
Kazakhstan	37.15	5.7%	34.02	6.3%	3.13	9.2%
Belarus	23.27	3.5%	24.17	4.5%	-0.90	-3.7%
Uzbekistan	18.37	2.8%	40.91	7.6%	-22.54	-55.1%
Other	24.84	3.8%	46.69	8.7%	-21.85	-46.8%
Total	**655.59**	**100%**	**539.58**	**100%**	**116.01**	**21.5%**

The bulk of export sales comprises 5 groups of pharmacological agents that account for 72% of Biolik's export revenue. The list of top 5 pharmacological groups includes: antineoplastic agents, diagnostics, vaccines and toxoids, anticoagulants, hormonal drugs.

The Top-5 pharmacological groups

		2012			2011			Volume 12/11		Sales 12/11	
№	Group	Volume, mln packs	Sales, RUR mln	% of total sales	Volume, mln packs	Sales, RUR mln	% of total sales	Change	%	Change	%
1	Antineoplastic agents	0.829	178	26.4%	0.499	83	15.4%	0.330	66.1%	95	115.1%
2	Diagnostics	1.819	124	18.4%	2.006	107	19.8%	-0.187	-9.3%	17	16.4%
3	Vaccines and toxoids	4.200	88	13.1%	2.097	34	6.3%	2.103	100.3%	54	161.9%
4	Anticoagulants	0.548	53	7.8%	0.593	55	10.2%	-0.045	-7.6%	-2	-4.2%
5	Hormonal drugs	10.223	43	6.3%	7.884	26	48%	2.340	29.7%	17	62.2%
	TOP 5 total	**17.619**	**486**	**72.0%**	**13.080**	**305**	**56.5%**	**4.539**	**34.7%**	**181**	**59.6%**
	Other brands	7.866	189	28.0%	11.663	235	43.5%	-3.797	-32.6%	-46	-19.7%
	TOTAL SALES	**25.485**	**675**	**100.0%**	**24.743**	**540**	**100.0%**	**0.742**	**3.0%**	**135**	**25.1%**

Top-10 of Biolik's exported products account for 61.7% of Biolik PJSC total revenue. Tuberkulin is the leading brand in terms of sales. Despite the decrease of sales volumes (-18.7%) the value of sales showed a 16.9% growth due to the market launch of a more expensive SKU with a 0.6 ml dosage.

Top-10 brands

		2012			2011			Volume 12/11		Sales 12/11	
№	BRAND	Volume, mln packs	Sales, RUR mln	% of total sales	Volume, mln packs	Sales, RUR mln	% of total sales	Change	%	Change	%
1	Tuberkulin	1.365	107	15.9%	1.678	92	17.0%	-0.313	-18.7%	15	16.3%
2	Heparin sodium	0.548	53	7.9%	0.572	51	9.5%	-0.024	-4.2%	2	3.9%
3	Vaccine against Hepatitis "B"	1.577	50	7.4%	0.594	20	3.7%	0.983	165.5%	30	150.0%
4	Doxorubicin	0.220	37	5.5%	0.136	33	6.1%	0.084	61.8%	4	12.1%
5	Vinorelbine	0.015	37	5.5%	0.001	1	0.2%	0.014	1400.0%	36	3600.0%
6	Fluorouracil	0.421	33	4.9%	0.337	18	3.3%	0.084	24.9%	15	83.3%
7	Dalargin	1.035	29	4.3%	0.920	25	4.6%	0.115	12.5%	4	16.0%
8	Immunoglobulin antirabies	0.033	28	4.2%	0.106	38	7.0%	-0.073	-68.9%	-10	-26.3%
9	Hydrocortisone	2.451	21	3.1%	1.285	9	1.8%	1.166	90.7%	12	133.3%
10	Oxytocin	7.772	21	3.1%	6.599	17	3.1%	1.173	17.8%	4	23.5%
	TOP 10 total	**15.437**	**416**	**61.8%**	**12.228**	**304**	**56.3%**	**3.208**	**26.2%**	**112**	**36.8%**
	Other brands	**10.047**	**258**	**38.3%**	**12.514**	**236**	**43.7%**	**-2.467**	**-19.7%**	**22**	**9.3%**
	TOTAL SALES	**25.484**	**674**	**100.0%**	**24.742**	**540**	**100.0%**	**0.741**	**3.0%**	**134**	**24.8%**

Distribution

In 2012, the Company continued pursuing lending policy focused on minimizing default risk on accounts receivable on the basis of contractors' financial position and solvency review.

Collection period under key distribution contracts in Russia in 2012 ranged from 90 to 120 days.

The Table below shows sales breakdown by key distributors.

Contractor	Share in commercial sales	Share in total sales
Katren	19%	14%
Protek	16%	12%
ROSTA	11%	7%
Oriola	6%	6%
Alliance Healthcare	9%	6%
Pharmcomplekt	5%	4%
Puls	2%	2%
ProfitMed	3%	2%
R-Pharm	2%	2%
Imperia-Pharma	2%	2%
Total Top 10	**75%**	**57%**

Employees and Social Responsibility

Employees

As of 31 December 2012, Pharmstandard Group had 7,204 full time employees of which 37% being the members of trade union organizations.

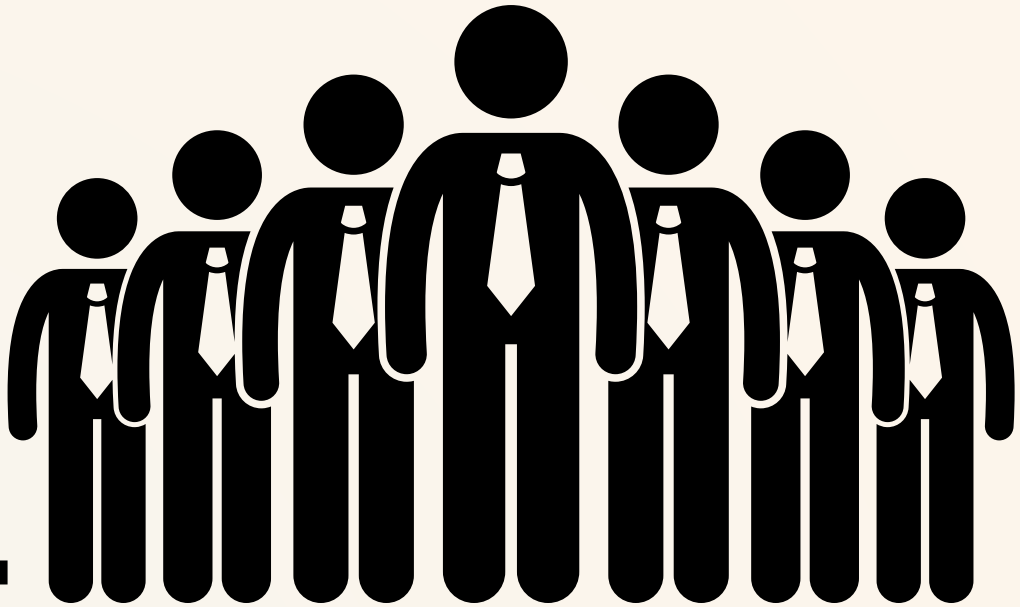
Headcount growth of 22.2% in 2012 is associated with the acquisition of Lekko CJSC, Pharmapark LLC and Biomed named after I.I. Mechnikov OJSC. During 2012, the employer had no collective labor disputes or trade union initiated discontinuation of operations, which we believe reflects high level of employee satisfaction with the working conditions. The Table below demonstrates Pharmstandard headcount y/y dynamics broken down by key employee categories.

Headcount as of 31 December 2012	2010	2011	YoY change, %	2012	YoY change, %
Operations/Logistics	3,750	3,909	4.2%	4,804	22.9%
R&D	144	162	12.5%	254	56.8%
Marketing & Promotion	987	1046	6.0%	1,101	5.3%
Administrative personnel	700	777	11.0%	1,045	34.5%
Total	**5,581**	**5,894**	**5.6%**	**7,204**	**22.2%**

The following Table shows the number of personnel for each operating company within the Group and the management company as of 31 December 2012:

Headcount as of 31 December 2012	Kursk	Ufa	Tomsk	Tyumen	Biolik	Moscow	Pharmstandard-Medtechnika LLC	Lekko CJSC	Pharmapark LLC	OJSC Biomed named after I.I. Mechnikov	Other	TOTAL
Operations/Logistics	1261	1495	499	317	369	76	48	202	101	402	34	4804
R&D	48	40	17	11	23	80	0	0	32	3	0	254
Marketing & Promotion	0	0	0	0	18	1073	9	0	1	0	0	1101
Administrative personnel	112	152	96	46	80	278	63	54	57	91	16	1045
Total	**1421**	**1687**	**612**	**374**	**490**	**1507**	**120**	**256**	**191**	**496**	**50**	**7204**

Administrative personnel increase in 2012 was also due to the integration of newly acquired entities into Pharmstandard Group structure.



Social policy

Pharmstandard Group is the undisputable leader in the Russian pharmaceutical sector operating for the national benefit with the key objective of providing the public with up-to-date, high-end medical products.

Pharmstandard operates in accordance with the pharmaceutical support government policy focused on the replacement of expensive imported medicines with functionally equivalent pharmaceuticals produced locally based on high-end technology and in line with the best international standards.

Pharmstandard highly appreciates positive views that physicians and patients hold with respect to its medical products and maintains high level of investment in the development and production of new medicines aimed at the treatment of socially significant diseases and improvement of patients' life quality.

Pharmstandard adheres to the highest standards in terms of efficacy and safety of its medical products and has internal pharmacovigilance function in place focused on consistent monitoring and analysis of information on any product-related adverse events. Another important task of this function is to maintain efficient relationship with state regulators. The quality assurance unit strictly controls R&D, production, logistics and product promotion processes to ensure compliance with international standards.

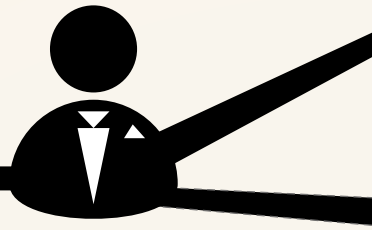
Pharmstandard is a socially responsible company providing regular support to healthcare institutions and the least protected social groups.

The Group's corporate social policy is targeted at higher operational efficiency, better employee social protection and team spirit. This in its turn helps attract qualified professionals, reduce personnel turnover and is a key to successful operations.

Social benefit and protection system is based on the Collective Bargaining Agreement whereby Pharmstandard Group social policy framework is established. This includes:

1. **Social support** for retired and current employees under material assistance programs.
2. **Employee health protection,** including first aid treatment, employee regular medical check-ups.
3. **Health resort treatment** for employees and their children.
4. **Voluntary medical insurance** and accident insurance for the Company employees.

Corporate Governance



Principles and Structure of Corporate Governance

Corporate Policy of the Company

The Company's corporate policy is based on the principle of respect for the rights and legitimate interests of its shareholders and is conducive to smooth and effective functioning of the Company including equity value growth, new job creation, financial stability and profitability.

The Company's successful operations and attractive investment case are supported by trust-based environment at all levels of corporate relations. The Company's corporate policy is focused on building trust-based relationships pertaining to the Company management.

In March 2007, the Company's shares were listed on RTS, followed by a GDR listing on the London Stock Exchange (LSE) through an Initial Public Offering (IPO).

Currently, the free float represents 45.68% of the Company's equity (27.56% LSE listed, 18.12% - on sale in the market). Augment Investments Limited controls 54.32% of the equity.

In January 2011, Pharmstandard-Leksredstva JSC announced an offer for up to 1,850 thousand Pharmstandard shares and in February 2011 informed its shareholders who had submitted their offers of the number of accepted shares (1,824,750 ordinary shares representing 4.8% of equity). Subsequently, under the same programme Pharmstandard-Leksredstva JSC purchased another 765,000 ordinary shares (2.02% of equity) as well as further 600,000 ordinary shares (1.59% of equity) in September 2012. As a result of these series of transactions, Pharmstandard-Leksredstva JSC holds 8.44% of Pharmstandard equity capital. Going forward, the Group can use the purchased shares as a currency for M&A transactions.

Annual General Meeting ("AGM")

AGM is the Company's highest governance body. Based on the Board decision the Company announces AGM date and location in a special press release. AGM takes place within the period from 2 to 6 months after the relevant financial year end. Any shareholder(s) holding at least 2% of voting shares in the Company are entitled to include items on AGM agenda and nominate candidates to the Board of Directors and the Audit Committee.

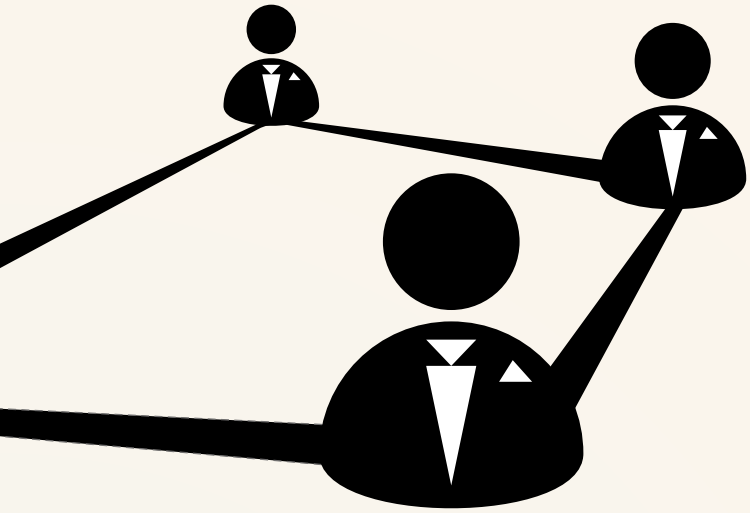
Extraordinary General Meetings of shareholders ("EGMs") are held by a decision of the Board based of the Board initiative, a request from the Audit Committee or the Company's auditor, or the shareholder(s) holding at least 10% of the Company's voting shares as of the date of submitting the request.

Notifications of a General Meeting ("GM") should be provided at least 30 days (or in some cases according to regulatory requirements, 70 days) prior to the scheduled date. The GM authorities and a decision making procedure are established by law and the Company's Charter.

The Board of Directors

The Board of Directors is responsible for overall corporate management. The Board of Directors determines the Company's priorities and approves business plans and feasibility studies for investment projects.

The Board includes 11 members with 4 independent directors.



Management Board

The Management Board is a collective executive body acting for the benefit of the Company's shareholders under the guidance of GM and Board decisions. The Management Board is responsible for daily implementation of the Company's objectives, growth strategy and policies. It provides day-to-day management of the Company's business. The Management Board authorities are specified in the Company Charter.

Key tasks of the Management Board:

- protection of the Company's shareholders' rights and legitimate interests;
- development of the Company's growth strategy solutions;
- implementation of financial and operating policy, decision-making on major issues related to the Company's daily business management and co-ordination of its business units;
- taking measures to improve efficiency of internal control and risk monitoring systems;
- ensuring high returns on the Company's assets and maximization of business profit

The Management Board is headed by the Chief Executive Officer and includes the following members:

1. **Igor Krylov** has been Chief Executive Officer and a member of the Board of the Company since 2006. He has over 16 years experience in the pharmaceutical industry. Previously, Mr. Krylov held senior positions with Eli Lilly and Sanofi–Aventis. He graduated with honors from the Kirov Military Medical Academy.

2. **Pavel Mileyko** is Assistant to Executive Director and has been a member of the Board since May 2006. Mr. Mileyko graduated from Novosibirsk State University.

3. **Olga Mednikova** Olga Mednikova has served as our Chief Sales and Marketing Officer since 2006. She has over 14 years experience in the healthcare industry. Previously, Ms. Mednikova held senior management positions at Glaxo Welcome and IVAX (Galena). Ms. Mednikova graduated from the Samara State Medical University and holds MD PhD degree.

Audit Committee

Members of the Audit Committee appointed in 2012:

1. **Roman Goryunov**
2. **Andrei Reus**
3. **Ivan Tyryshkin, Chairman**

The key function of the Audit Committee is to develop and submit to the Board of Directors its recommendations with respect to

- evaluation of candidates for the position of the Company auditor;
- review of auditor reports;
- assessment of internal controls efficiency and elaboration of measures for further improvements .

Remuneration and Nomination Committee

Members of the Remuneration and Nomination Committee appointed in 2012:

1. Yegor Kulkov
2. Ivan Tyryshkin
3. Alexander Shuster

Remuneration and Nomination Committee has been established to provide preliminary review and develop recommendations for the Board of Directors on Company's within the Board competence. Sole responsibilities of the Remuneration and Nomination Committee include:

- development of principles and criteria to determine the level of remuneration for Directors, management and a person authorized to act as the Company'ssole executive body;
- providing recommendations regarding material terms of contracts with Directors, management and a person authorized to act as the Company's sole executive body;
- development of selection criteria with respect to nominations to the Board of Directors, the Management Board and the position of a person authorized to act as the Company's sole executive body, as well as preliminary evaluation of relevant candidates;
- regular performance evaluation of the person authorized to act as the sole executive body (a Managing Body, a Manager) and the Company Management Board members and recommendations for the Board regarding their re-appointment.
- defining priorities in terms of HR policy and remuneration of its governance and supervision bodies and top management. Top management includes executives reporting directly to the Company CEO as per their job descriptions.

Membership of the Board of Directors

Members of the Board of Directors in 2012–2013

1. Elena Arkhangelskaya has served as Chief Financial Officer of the Company since 2006 and as a Board member since June 2008. She has 13 years of experience in the pharmaceutical industry. Previously, she held senior positions at Eli Lilly. Ms. Arkhangelskaya graduated from the State Financial Academy and holds a Master of Business Administration (MBA) degree.

2. Roman Goryunov has served as independent director since June 2008. Previously, he held executive positions with RTS, from August 2007 to December 2011 he was Chairman of NP RTS Stock Exchange Management Board. Since December 2011, he has been Senior Managing Director and First Deputy Chairman of the Board of MICEX-RTS. Mr. Goryunov graduated from the St. Petersburg Technical University.

3. Sergey Dushelikhinsky has served as our Chief Commercial Officer since 2006 and a Board member since June 2008. He has 13 years of experience in pharmaceutical sales. Previously, Mr. Dushelikhinsky worked for Veropharm and Vremya companies. Mr. Dushelikhinsky graduated from the Moscow Technical University.

4. Igor Krylov has been Chief Executive Officer and a member of the Board of the Company since 2006. He has over 16 years of experience in the pharmaceutical industry. Previously, Mr. Krylov held senior positions with Eli Lilly and Sanofi–Aventis. He graduated with honors from the Kirov Military Medical Academy.

5. Yegor Kulkov has served as a member of the Board of Directors since May 2006. Mr. Kulkov has held a number of senior financial positions with various companies and is currently Chief Executive Officer of Vita Realt. He graduated from Novosibirsk State University.

6. Pavel Mileyko is Assistant to Executive Director and has been on the Board of Directors since May 2006. Mr. Mileyko graduated from the Novosibirsk State University.

7. Andrei Reus has served as independent director since June 2010. Mr. Reus is Chief Executive Officer of Oboronprom United Industrial Corporation as well as United Engine-Building Corporation Managing Company. In 2012 he was appointed Chairman of the Board of Russian Helicopters.

8. Ivan Tyryshkin has served as independent director since October 2006. Previously, he was Managing Director and Chief Executive Officer of LLC ATON starting in 2006. Currently Mr. Tyryshkin is President and Board member at Rusgrain Holding. Mr. Tyryshkin graduated from the Russian Academy of Economics.

9. Viktor Fedlyuk has served as Head of Legal Department since 2006 and as a member of the Board since June 2008. He has over 11 years of legal experience in the pharmaceutical industry. He worked for Sibneft from 1996 to 2003. Mr. Fedlyuk graduated from the National Law Academy of Ukraine.

10. Viktor Kharitonin has served as Chairman of the Board of Directors since May 2006 and currently holds the position of the Company's Executive Director. Mr. Kharitonin graduated from the Novosibirsk State University.

11. Alexander Shuster has been a Board member since June 2011. He holds the position of Scientific Director at Masterclone. He graduated from the Chernigov State University.

Information for Shareholders and Investors

Shareholder structure as of 31 December 2012

Augment Investments Limited (Ordinary shares and GDRs*)	**54.32%**
Free float, including:	**45.68%**
LSE listed (GDRs*)	27.56%
RTS-MICEX listed (Ordinary shares)	9.68%
Stake owned by Pharmstandard-Leksredstva JSC subsidiary	8.44%
The total number of shares outstanding (100%)	**37,792,603**

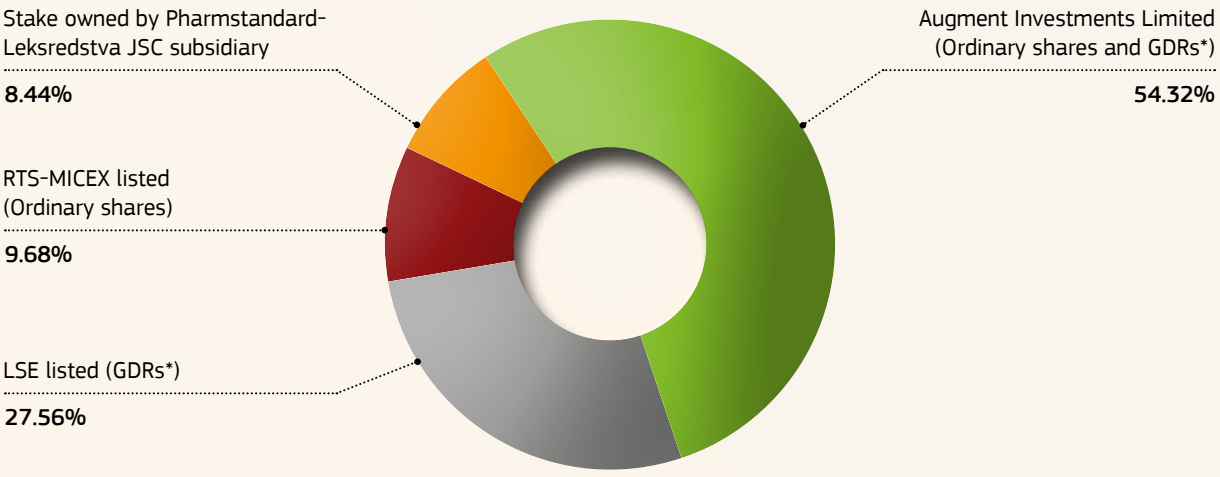
1 Ordinary share = 4 GDRs*

Dividend Policy

The Dividend policy reflects the Company's approach of profit distribution among its shareholders and is developed by the Board of Directors. Depending on the Company's objectives and current/forecast situation the Company's profit can be reinvested, retained as undistributed corporate earnings or paid out as dividends. Dividend policy is an integral component of the Company's general financial policy focused on the optimization of the utilized to capitalized profit ratio to maximize the Company's market value.

A decision on dividend payment for 2012 will be made by the Annual General Meeting of Shareholders (AGM) scheduled for 24 May 2012. The Board's recommendation to AGM is no dividend payments on ordinary shares for 2012 as to be able to finance potential M&A transactions and develop biotech projects.

Fig. 16. Shareholder structure as of 31 December 2012



* GDR – Global Depositary Receipt

Events after the reporting period

Buy-back Programme for 2013

Pharmstandard OJSC Board of Directors approved a buyback program in respect of ordinary shares of Pharmstandard OJSC (the "Shares) and/or Global Depositary Receipts representing Shares (each GDR representing 4 Shares) (the "Programme") in the aggregate amount of up to RUR 8 billion. Duration of the program: December 31, 2013

The Program has been designed in full compliance with applicable legal requirements following a review of best market practices for similar transactions. All purchases of Shares and/or GDRs will be made for the account of Pharmstandard-Leksredstva OJSC, an indirect wholly owned subsidiary of the Company (the "Purchaser").

Any Shares and GDRs acquired pursuant to the Programme may be used for purposes of financing the Company's operations or for M&A transactions.

Acquired Shares and GDRs will retain all rights.

IR Contacts

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Investor Relations
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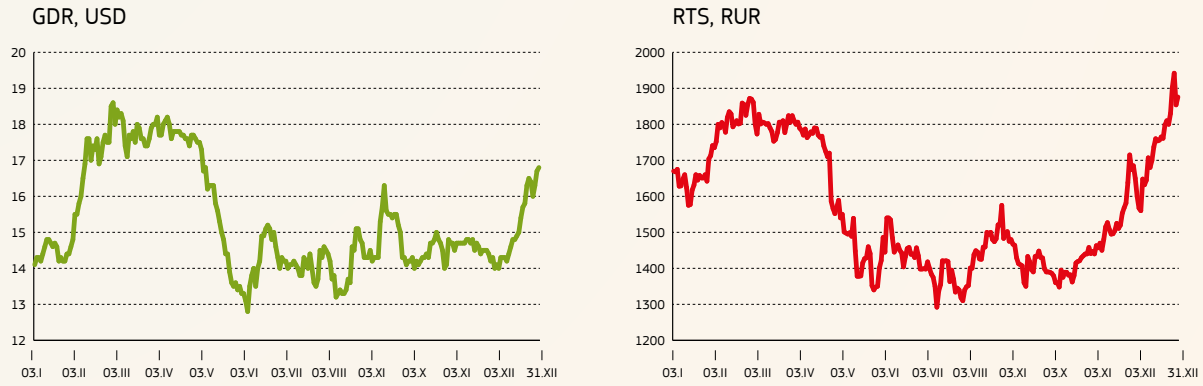
Fig. 17. Share price performance 2012. Ticker Code: LSE: PHST LI, MICEX-RTS: PHST RU



Risk Management

Operating environment

Economic reforms are still under way in Russia along with legal, tax and regulatory base development in line with market requirements. Future strength of the Russian economy is largely subject to these reforms and changes as well as the efficiency of the Government' economic, financial and monetary policy.

The Russian economy is directly impacted by the market recession and economic slowdown in other countries globally. The world financial crisis has driven to GDP decline, capital markets volatility, significant liquidity problems in the banking sector and tightening of credit conditions in Russia. Although the Russian Government has developed and implemented a number of stabilization measures targeted at liquidity provision for the Russian banks and corporates, some uncertainty still persists in terms of access to capital and cost of financing for the Group and its contract partners that can affect the Group's financial profile, performance and business outlook.

Since 2009, the Russian Government has taken a series of steps impacting pharmaceutical market. This includes the Law on the circulation of drugs, the Law on the fundamentals of public health protection, mandatory registration of VED prices, tightened control over manufacturers' and importers' pricing policy and distribution/retail mark-up setting policy, the Law on transfer pricing and OTC product list revision. However, we do not expect these measures to have any significant effect on the Group's financial stability and entire financial profile as the management has always timely responded to any changes by taking adequate actions both in terms of general Group management and adjustment of the existing business processes, procedures and policies.

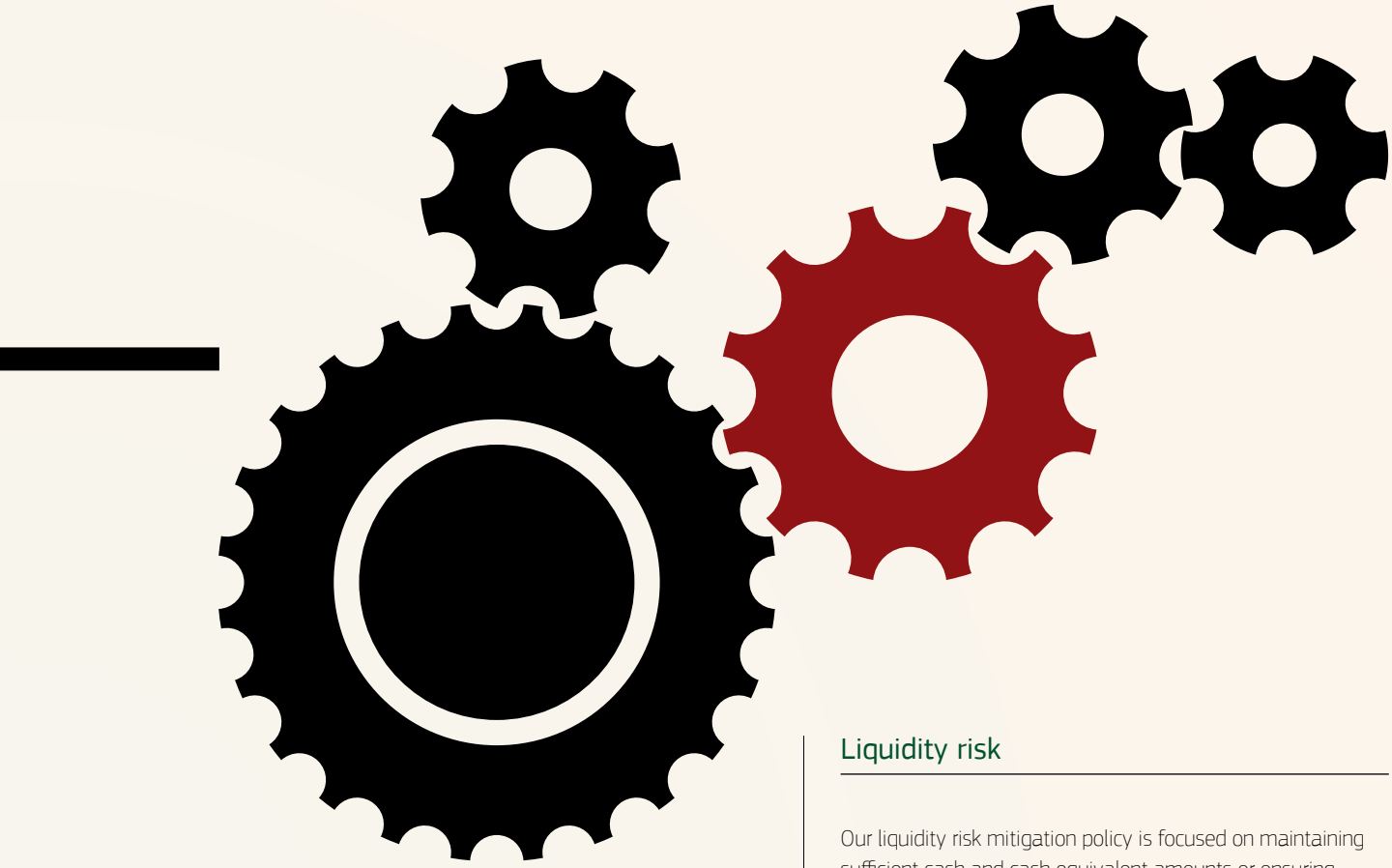
Credit risk

Our key credit risk is associated with potential distributors' default. According to the Group's business policy almost all of our commercial sales are credited. Credit terms are subject to our credit and marketing policy in relation to a specific customer. We take credit risks based on principles ensuring supplies solely to customers with acceptable credit history. Moreover, we conduct daily monitoring of sales and receivables by way of effective internal control procedures and take adequate measures based on internal analysis. Our Credit Committee represented by CEO, CFO and CCO, approves the credit policy to be adjusted subject to specific situation. According to this credit policy our customers are typically divided into three groups: (1) customers who are granted the highest credit limit, (2) customers whose credit limits are set by the Credit Committee, and (3) customers supplied against prepayment. Most of our sale and purchase contracts are with Group 1 customers (c.50-60% of our commercial sales in 2012 and 2011 were accounted for by five key distributors). Receivables balance sheet value less reserves represents the maximum credit risk exposure as of every quarter end. We believe that apart from 5 to 7 major client concentration we have no material credit risk concentration. Though receivables collection can be driven by various economic factors the Group management expects no substantial loss risks with respect to provisions of existing contracts.

A significant part of the Group's revenue is accounted for by sales under government contracts awarded to the Group as a result of open public tenders. Given sustainability and sufficiency of public healthcare financing in Russia we see no major risks for this sales channel.

Currency risk

Some part of our purchases and financial investments (e.g. bank deposits, loans and bills) are denominated in currencies other that the Russian Ruble (which is our functional and reporting currency used for consolidated financial accounts). We bear currency risks while making deals in any currency other than our functional currency. Our foreign currency operations accounting for a significant share of key raw material supplies, tangible and intangible asset acquisitions and some 2012 short-term financial investments, are settled in US dollars or Euro. Thus, COGS and operating expenses shown in our consolidated financial accounts as well as financial investments, accounts payable and loans reflected on the Group's balance sheet can be subject to FX movements. Nevertheless, as of 2012YE the Group had positive net currency position with high foreign currency assets to liabilities ratio. Currency risks are mitigated by FX monitoring



focused on currencies the Group's cash, accounts payable, loans and borrowings are denominated in. To minimize risks we use advanced forecasting methodologies and individual control over each foreign currency deal. Our efficient budgeting system supports the management in making timely decisions for all the Group companies. Despite recurring volatility driven by global economy external factors the Russian Ruble since 2011 has been generally stable vs major world currencies on the back of positive trends both in the global commodity and equity markets and in the Russian economy. We expect in 2013 the Russian Ruble will keep stable relative to US dollar and Euro. It is also important to note that while the Ukrainian Hryvnia is a functional currency for Biolik PJSC subsidiary, we do not expect any significant currency risk concentration here due to relative Ukrainian Hryvnia stability vs US dollar and Euro and limited weight of the subsidiary in the entire Group operations.

Interest rate risk

As of now, we believe the Group is not subject to serious interest rate risks through its interest cash flows and market value fluctuations since all our financial instruments as of 31 December 2012 had fixed interest rates and short-term nature. We currently have no reasons to expect any material short-term changes of effective market interest rates on deposits and debt financing.

Liquidity risk

Our liquidity risk mitigation policy is focused on maintaining sufficient cash and cash equivalent amounts or ensuring available financing through external debt required to cover our operating and financial liabilities. We conduct continuous monitoring of cash deficiency risk along with maturity schedule control. We also provide daily cash flow planning and control. The management believes that the Group has both sufficient free cash reserve in place and bank deposits required to maintain adequate liquidity level.

Capital management

The Company capital management policy is targeted at providing conditions for its further operating as a going concern to create shareholder value and maintain optimal capital structure supportive of lower cost of capital. The Company manages and controls its capital structure depending on external economic environment. To maintain or change capital structure the Company can adjust dividend amounts payable to shareholders, return capital to shareholders, issue new shares or dispose of assets in order to reduce debt or conduct minority share buybacks as it was done in 2011 and 2012 by Pharmstandard-Leksredstva OJSC.

Market risk

We do not expect that the Company can be subject to material risk concentration with respect to raw material price volatility as our business in general is not dependent on any specific type of materials or goods and there is no correlation between price rises and falls for various raw and other materials and goods purchased for re-sale.

Financial Review

Management Discussions and Analysis

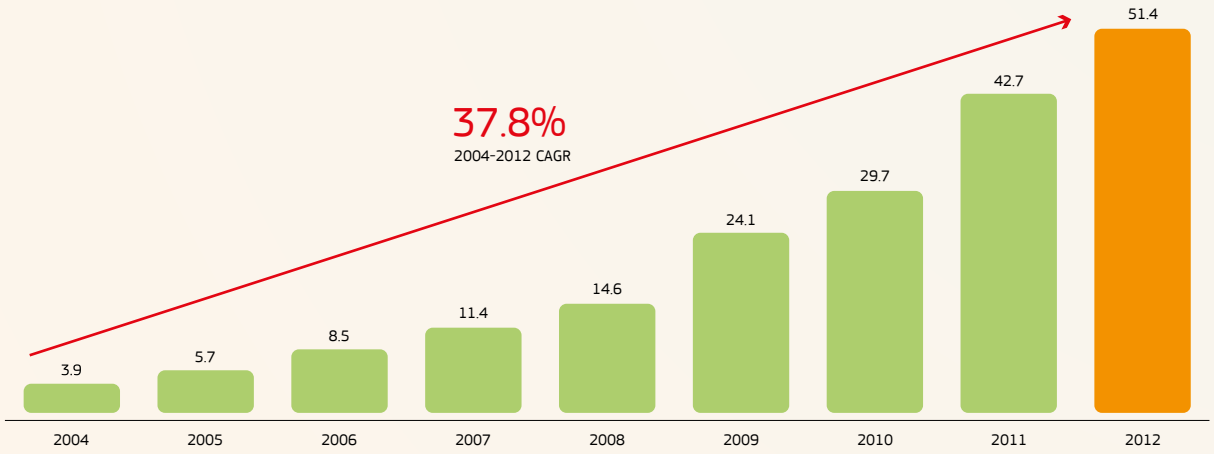
Further discussions of the Company's financial position and operating/financial performance should be considered in combination with the Consolidated financial accounts, notes on the accounts and other information disclosed in this annual report.

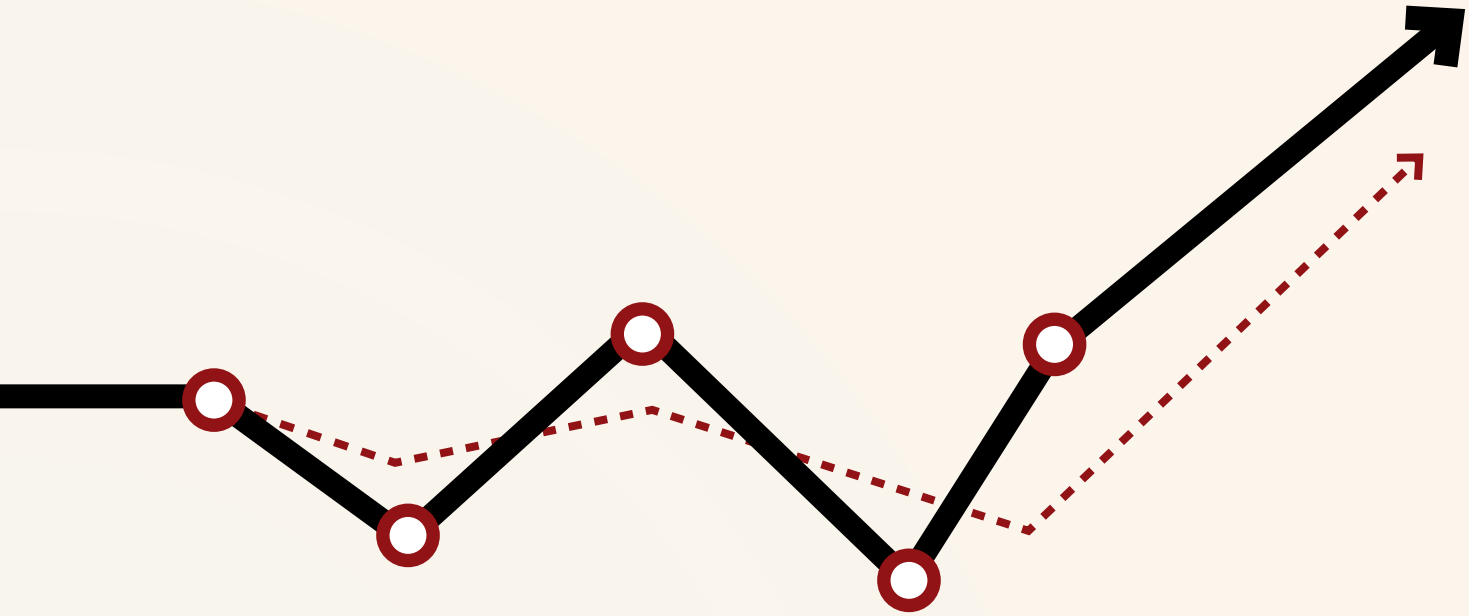
The Company performance

The Company's core business lies in the production and marketing of finished pharmaceutical products, substances and medical equipment. Pharmaceuticals account for 97.4% of the total sales with the remaining 2.6% covered by medical equipment. Drugs and medical equipment are primarily supplied based on direct contracts with wholesale distributors and/or healthcare institutions as well as contracts awarded under open public tenders. The table below contains 2012 vs 2011 comparative performance review (as of 31 December) in absolute terms and as percentage of sales.

Third party product ("TPP") sales are shown separately in the Table to reflect the Company business specifics in more detail. This approach to product portfolio structuring does not impact pharmaceutical sales results.

Fig. 18. Net Revenue, *RUR bn*





	Year ended 31 December 2012						Year ended 31 December 2011	
	Consolidated results		Consolidated results excluding Bioprocess[1] and, Lekko		Consolidated results of Bioprocess and Lekko			
	RUR million	%	RUR million	%	RUR million	%	RUR million	%
Revenue	**51,391.5**	**100.0**	**50,620.3**	**100.0**	**771.2**	**100.0**	**42,653.9**	**100.0**
Pharmaceutical products	**50,061.3**	**97.4**	**49,290.1**	**97.4**	**771.2**	**100.0**	**41,890.3**	**98.2**
OTC products	15,284.9	29.7	14, 793.6	29.2	491.3	63.7	15,497.3	36.4
Branded	12,461.6	24.2	12 447.1	24.6	14.5	1.9	13,270.5	31.1
Non-branded	2,823.3	5.5	2 346.5	4.6	476.8	61.8	2,226.8	5.2
Prescription products (Rx)	5,895.7	11.5	5,669.1	11.2	226.6	29.4	4,279.4	10.0
Branded	4,957.5	9.7	4, 779.4	9.4	178.1	23.1	3,509.4	8.2
Non-branded	938.2	1.8	889.7	1.8	48.5	6.3	770.0	1.8
Third parties products (OTC)	28,279.1	54.5	28,279.1	55.9	0	0	21,726.0	50.9
Other sales	601.6	1.2	548.3	1.1	53.3	6.9	387.6	0.9
Medical equipment	1,330.2	2.6	1,330.2	2.6	0	0	763.6	1.8
Cost of sales	(32 488.2)	(63.2)	(32 240.9)	(63.8)	(247.3)	(32.1)	(26,728.4)	(62.7)
Gross profit	**18,903.3**	**36.8**	**18,395.3**	**36.2**	**508.6**	**65.9**	**15,925.5**	**37.3**
Selling and distribution costs	(5 105.1)	(9.9)	(5,035.7)	(9.9)	(69. 4)	(9.0)	(3,642.1)	(8.5)
General and administrative expenses	(1,506.6)	(2.9)	(1 447.5)	(2.9)	(59. 1)	(7.7)	(1,196.1)	(2.8)
Other Income	449.7	0.9	426.2	0.8	23.5	3.0	294.7	0,7
Other expenses	(261.9)	(0.5)	(211.6)	(0.4)	(50.3)	(6.5)	(332.6)	0,8
EBITDA	13,504	26.3	13,078	25.8	426	55.2	11,929	28
Financial income	126.8	0.2	126.0	0.2	0.8	0.1	231.5	0.5
Financial expense	(35.6)	(0.1)	(33.4)	(0.1)	(2.2)	0.3	(43.2)	0.1
Profit before income tax	12 570.4	24.5	12 203.2	24.0	367.2	47.6	11,237.6	26.3
Income tax expense	(2.606.4)	(5.1)	(2,541)	(5.0)	(65.4)	8.5	(2,404.9)	5.6
Profit for the period	**9,964.2**	**19.4**	**9 662.2**	**19.1**	**301.8**	**39.1**	**8,832.6**	**20.7**
Profit for the period from ordinary activities	9,791.1	19.1	9,607.0	19.0	183.9	23.8	8,780.5	20.6
Non-controlling interest	173.1	0.3	55.2	0.1	117.9	15.3	52.1	0.1

Pharmstandard JSC ("Pharmstandard" or the "Company") sales reached RUR51,391.5 million in 2012 showing a substantial growth of 20.5% (RUR8,737.6 million) compared to 2011 sales of RUR42,653.9 million.

1 Bigpearl is the controlling shareholder in several companies involved in the production of various pharmaceutical products, vaccines and active production ingredients registered under the law of Russian Federation jointly known as Bioprocess Group, including two primary entities Biomed named after I.I.Mechnikov OJSC ("Biomed") and Pharmapark LLC ("Pharmapark") and three minor auxiliary companies (Pharmatsevticheskiye innovatsii, EKK OJSC and PKB named after I.I.Mechnikov CJSC)

ALL FURTHER DATA IS QUOTED EXCLUDING SYNERGY EFFECTS FROM ACQUISITION OF BIOPROCESS GROUP AND LEKKO CJSC, EXCEPT WHEN STATED OTHERWISE.

Pharmaceutical product sales

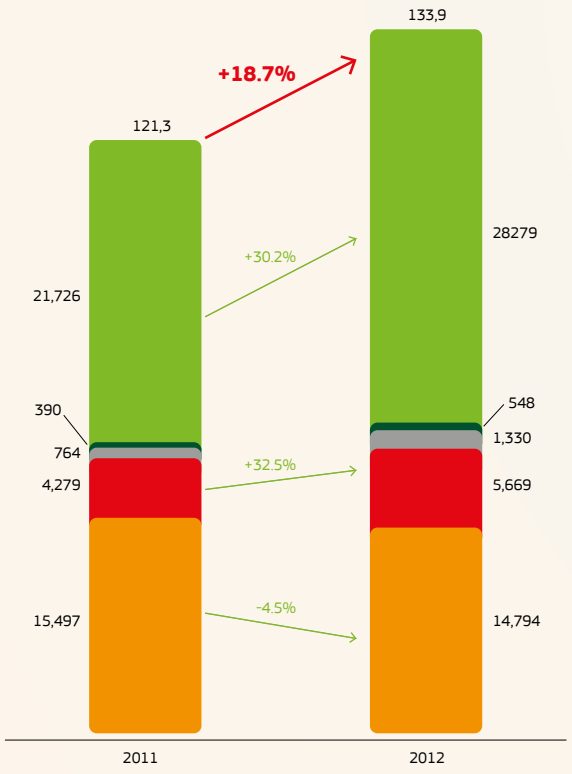
Sales data under this category include pharmaceutical products manufactured by Pharmstandard Group full operating cycle capacities, purchased from third parties for re-sale and manufactured by third parties based on the Company orders, excluding third party manufactured products distributed by the Company under public tenders in relation to 7 Nosologies Program.

In 2012, Pharmstandard JSC generated revenue of RUR50,620.3 million (18.7% growth vs 2011), excluding synergy effects from companies Bioprocess and LEKKO acquired in 2012.

In 2012, pharmaceutical product sales demonstrated 17.7% y/y growth (RUR7,399.8 million) to reach RUR49,290.1 million vs RUR41,890.3 million in the previous year, with 41.5% (RUR20,462.7 million) accounting for organic products, 57.4% (RUR28,279.1 million) for TPPs and 1.1% (RUR548.4 million) for substances.

Own pharmaceutical sales grew in 2012 by 3.5% (RUR686.1 million) up to RUR20,462.6 million with OTC products accounting for 72.3% (RUR14,793.6 million) and RX products – for 27.7% (RUR5,669 million).

Fig. 19. Revenue breakdown, *RUR million*



OTC sales showed 9.9% growth in 4Q 2012 with an 4.5% annual decline (RUR703.5 million) to RUR14,793.6 million from RUR15,497 million in 2011. The decline was mainly attributed to lower Arbidol® sales in 1Q 2012 (- RUR1,094 million) due to lack of epidemiological conditions in Russia and sufficient distributors' drug inventories to meet current consumption requirements. In 2012, the Company launched 6 new OTC products, i.e. Next®, Maxycold® (tablets), Cyclovita®, Neosmectin® (new flavour powder), Codelac® Neo (drops), Codelac® Neo (syrup) and Bromhexine (alcohol-free syrup). Aggregated revenue from these new products reached RUR70.3 million.

Arbidol®

Arbidol® sales reached RUR3 975 million in 2012 (25 million packs), almost flat vs 2011 (RUR4,011 million). In 4Q 2012, y/y sales growth was 47.9% in Ruble terms.

In 2H 2012, the product demonstrated positive dynamics in Ruble terms (over 14%) as a result of active marketing aimed at brand promotion and market share support in the combined anti-viral product market.

RX sales y/y growth was 32.5% (RUR1,389.7 million) in 2012 reaching RUR5,669.1 million. The Company's three top 10 products showed substantial above market y/y growth of over 25%: Phosphogliv® – 26% growth (vs hepatoprotector and lipotrope market average growth of only 18%); Combilipen® - 32% growth (vs 24.3% in the Vitamin B1 combinations market); Biosulin® - 27% (on the back of 5.5% general decline of the insulin market). The Company launched two new products in 2012: Akorta® (Rosuvastatin) and Glimepiride® (diabetes mellitus treatment) (4 mg tablets). Aggregate sales for the new RX products amounted to RUR16.6 million.

Pentalgin®, Codelac® and Terpincodum®

Based on the Russian Government Decree #599 of 20 July 2011, drugs with low codeine content are subject to prescription dispense from 1 June 2012. Accordingly, since 1 June 2012, the Company has accounted for Pentalgin®, Terpincodum®, Codelac® (low codeine content drugs) sales under RX category, while data on codeine-free drugs have been reflected under OTC sales. Since the introduction of legal restrictions with respect to codeine based drugs, the analgesics market has demonstrated 4% fall in value terms due to reduced share of codeine based analgesics.

Pentalgin®. From June 2012, the product demonstrated 0.6% growth in value terms. The launch of a new 24 double blister pack supported sales growth and covered 25% of the total Pentalgin® sales in December 2012.

In general, Pentalgin® as a compound brand achieved 2% growth in value terms as of 2012. Therefore we can confirm

a 100% conversion of codeine based Pentalgin® into a codeine-free version.

Codelac®. In 2012, the product demonstrated sales decline both in packs (-31%) and in Ruble terms (37%). That was partially because Codelac® Broncho, a new codeine-free product, despite a significant y/y growth in 2012 (146% in Ruble terms), covers only one antitussive market segment, i.e. productive or "wet" cough treatment. In 4Q 2012, Pharmstandard launched two new Codelac® brand presentations - Codelac® Neo drops and Codelac® Neo syrup for dry cough treatment.

Pentalgin® and Codelac® aggregate sales including both OTC and Rx products went down to RUR2,967.2 million in 2012 from RUR3,247.3 million in 2011 - 8.6% y/y decline.

Terpincodun®. The product has been fully transferred to Rx category with 2012 sales drop by 70% to RUR364.2 million compared to RUR1,207.1 million in 2011. The Company previously stated it had no plans to produce the product alternative versions and intended to make up for the losses by launching new products and expanding its current product portfolio of over 250 items.

Fig. 20. 2012FY/2011 Sales, *RUR bn*

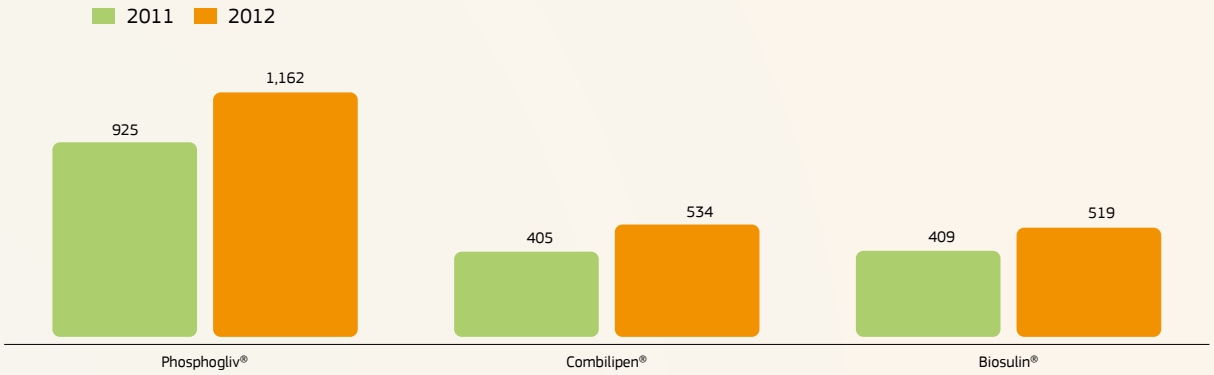


Fig. 21. 2012FY/2011 Sales, *million packs*

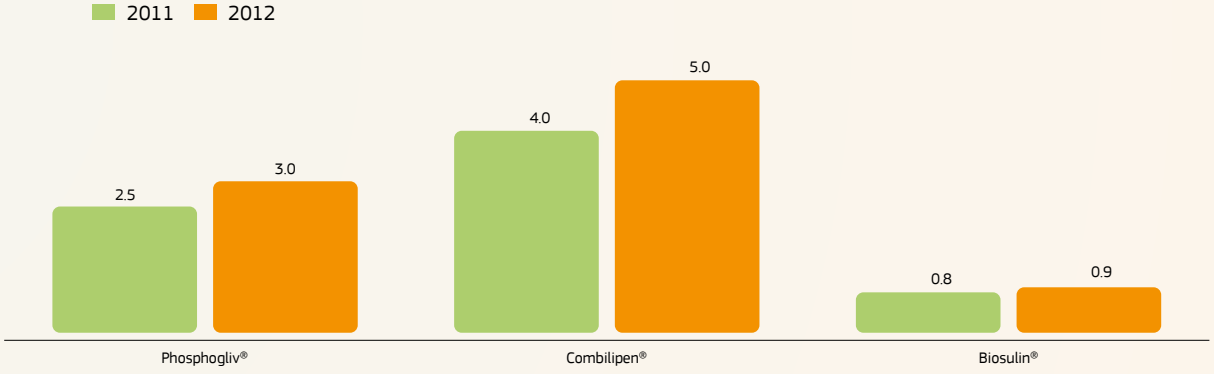
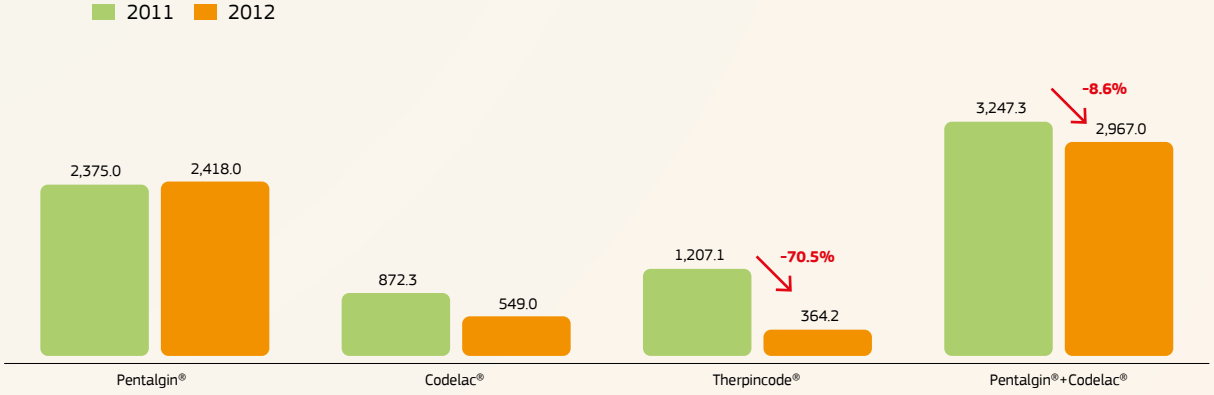


Fig. 22. Pentalgin, Codelac and Terpincodum sales, 2011-2011



The three brands aggregate sales decline was primarily driven by Terpincodum® sales drop.

Brand	2012		2011		Change, 2011/2012, %, m packs	Change , 2011/2012, %, RURm
	Sales, m packs	Sales, RURm	Sales, m packs	Sales, RURm		
Pentalgin® with codeine	12.2	688.5	33.3	1,854.1	(63%)	(-63%)
Pentalgin® codeine--free	24.8	1,729.5	8.6	520.9	189%	232%
Pentalgin® total	37.0	2,418.0	41.9	2,375.0	(-12%)	2%
Codelac® with codeine	2.6	238.2	8.1	750.3	(-68%)	(-68%)
Codelac® codeine-free	4.2	310.8	1.8	122.0	140%	(155%
Codelac® total	6.8	549.0	9.9	872.3	(-31%)	(-37%)
Therpincode®	2.3	364.2	7.8	1,207.1	(-70%)	(-70%)
Pentalgin® + Codelac® total	43.8	2967.0	51.8	3,247.3	(-15%)	(-8,6%)
Total	**46.1**	**3,331.2**	**59.6**	**4,454.4**	**(-23%)**	**(-25%)**

2012 TPP sales reached RUR28,279.1 million implying 30.2% (RUR6,553.1 million) growth vs 2011. 4Q 2012 sales also demonstrated strong y/y growth of 24.5% going up to RUR12,437.4 million. TPP substantial growth was driven by significantly increased government contract supplies.

Production localization. 7 Nosologies Federal Program

The Company manufactures products for tender based public procurement under the 7 Nosologies Federal Program. In 2012, this segment of the Company's TPP business showed 30% growth and accounted for 78.5% of the total TPP sales. The growth in this TPP segment was primarily driven by Velcade® (98.7%) and Prezista® (46.9%) produced in co-operation with Johnson & Johnson.

Brand	Category	2012		2011		Change	
		Sales, RURm	% of TPP	Sales, RURm	% of TPP	RURm	%
Mabthera®	Rx	8,503.7	30.1%	8,239.3	37.9%	264.4	3.2%
Velcade®	Rx	7,147.1	25.3%	3,596.4	16.6%	3,550.6	98.7%
Prezista®	Rx	1,827.5	6.5%	1,243.6	5.7%	583.8	46.9%
Coagil®	Rx	1,489.3	5.3%	1,707.3	7.9%	-218.0	-12.8%
Pulmozyme®	Rx	1,220.5	4.3%	1,612.1	7.4%	-391.6	-24.3%
Other TPP	OTC, Rx	1,886.8	6.7%	664.4	3.1%	1,222.4	184.0%
Total by segment	**OTC, Rx**	**22,074.8**	**78.1%**	**17,063.1**	**78,5%**	**5,011,7**	**29.4%**
Total TPP	**OTC, Rx**	**28,279.1**	**100.0%**	**21,726.0**	**100,0%**	**6,553,1**	**30.2%**

Commercial market sales

The Company also manufactures TPPs for distribution in the commercial market with Reduksin® and Mildronate ® leading the segment. Reduksin sales grew 88% in 2012, while TPP commercial sales demonstrated 33% growth to account for 21.9% of the total TPP sales.

Brand	Category	2012		2011		Change	
		Sales, RURm	% of TPP	Sales, RURm	% of TPP	RURm	%
Reduksin	OTC, Rx	2,741.8	9.7%	1,459.5	6.7%	1,282.3	87.9%
Mildronate	Rx	1,096.5	3.9%	1,071.8	4.9%	24.6	2.3%
Taufon	OTC	488.7	1.7%	414.6	1.9%	74.2	17.9%
Imudon	Rx	389.4	1.4%	689.3	3.2%	-299.9	-43.5%
Xylen	Rx	265.7	0.9%	0.0	0.0%	265.7	
Other TPP		1,222.2	4.3%	1,027.5	4.7%	194.6	18.9%
Total by segment	**OTC, Rx**	**6,204.3**	**21.9%**	**4,662.8**	**21.5%**	**1,541.5**	**33.1%**
Total TPP		**28,279.1**	**100.0%**	**21,726.0**	**100.0%**	**6,553.1**	**30.2%**

Medical equipment sales increased by 74,2% (RUR566.6 million) in 2012 to reach RUR1,330.2 million compared to RUR763.6 million in 2011. Medical equipment segment growth was driven by product mix expansion and more active participation in tender based procurement process through Pharmstandard-Medtechnika LLC.

VEDs (Vital & Essential Drugs)

As of 2012, the Company produced 241 registered VEDs (including all presentations and dosage forms) comprising 72 OTC and 169 RX products.

VED sales increased by 23.2% in 2012 vs 2011 up to RUR32,800.6 million. In 2012, VEDs (including TPPs) accounted for 68% of the total Pharmstandard Group sales.

In August 2012, the Russian Prime Minister Dmitry Medvedev approved the List of Vital & Essential Drugs for 2013 keeping it unchanged compared to the 2012 version.

The joint Order of the Russian Ministry of Healthcare and the Russian Federal Tariff Service # 400n/663-a of 8 October 2012, introduced changes in the Procedure for Setting Manufacturers' Sale Ceiling Prices for Pharmaceutical Products from the VED List approved by the joint Order of the Russian Ministry of Healthcare and Social Development and the Russian Federal Tariff Service #961n/527-a of 3 November 2010.

These changes separated manufacturer's ceiling price registration and re-registration processes and were intended to allow re-registration of previously registered Russian manufacturers' ceiling prices.

Pharmstandard OJSC submitted its VED price re-registration application in January 2013. The Federal Tariff Service reviewed document packages on Pharmstandard-Leksredstva OJSC and Pharmstandard-UfaVITA OJSC VED selling prices in February 2013. We expect the prices to be adjusted by 5.5% in line with estimated inflation rate.

Export sales

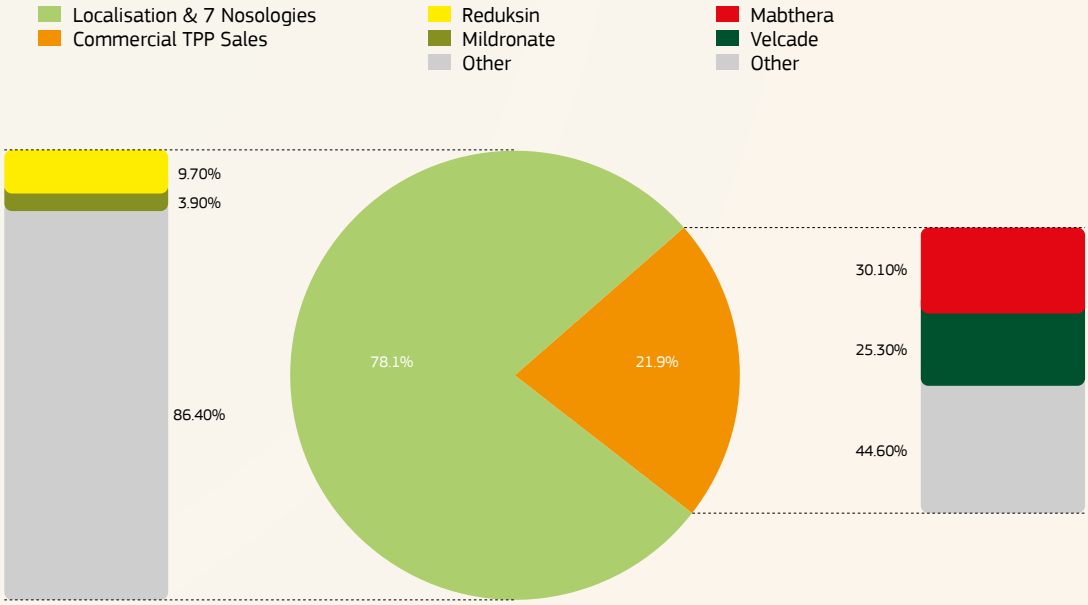
As of 2012, the Company's pharmaceutical export sales demonstrated 41.1% growth and reached RUR1,320.9 million compared to RUR935.9 million in 2011.

Top 10 export products account for c.80.8% of the Company's export generated revenue. Top 10 export products include Arbidol®, Mavthera®, Phosphogliv®, Aphobazolum®, Pentalgin®, Inhalypt®, Cocarboxylase hydrochloride, Complivit®, Carbo activatus, Codelac®.

The Company exports its products to 16 countries, primarily in CIS / FSU region: Ukraine – 48.9%, Uzbekistan – 30%, Belarus – 6.4%. Pharmaceutical export covered 2.6% of the total Company sales as of 2012.

The Company's strategic plans include its export business dynamic growth and expansion in Ukraine, Latin and South America (Venezuela, Argentina, Nicaragua), Africa (Nigeria, Egypt), Middle East (Iran, Iraq, Afghanistan, UAE).

Fig. 23. 2012FY TPP Sales, *RURm*



Cost of goods sold (COGS)

Consolidated accounts

Cost of Goods Sold (COGS) includes raw material costs, TPP purchase costs, manufacturing overheads, direct labour costs, D&A.

In 2012, COGS grew by RUR5,512.5 million or 20.6% y/y and amounted to RUR32,240.9 million vs RUR26,728 million in 2011. In general, COGS as percentage of sales went up to 63.74% in 2012 from 62.7% in 2011:

Item	2012 12m	% of Sales	2011 12m	% of Sales	VAR RUR	VAR %
Pharmstandard Group total sales	50,620	100.0%	42,654	100.0%	7,966	18.7%
COGS	32,241	63.7%	26,728	62.7%	5,513	20.6%
Gross profit	18,379	36.3%	15,926	37.3%	2,453	15.4%

Raw materials and TPP costs being the COGS components jointly accounted for 92% of total COGS. COGS growth was mainly driven by TPP purchase costs (up RUR4,621 million or 25% – from RUR18,323 million in 2011 to RUR22,944 million in 2012) which directly resulted from 30% sales growth in this product segment.

Organic pharmaceutical products

The Table below reflects revenue and COGS movements with respect to organic products (excluding TPPs):

Item	2012 12m	% of Sales	2011 12m	% of Sales	VAR RUR	VAR %
Pharmaceutical product sales	21,011	100.0%	20,164	100.0%	847	4.2%
COGS	8,426	40.1%	7,905	39.2%	521	6.6%
Gross profit	12,585	59.9%	12,259	60.8%	326	2.7%

Organic product COGS reached RUR8,426 million in 2012 (7% or RUR521 million increase vs 2011). Organic COGS as percentage of sales grew 0.9% to 40.1%.

Organic COGS growth was driven by a number of factors: (1) increased cost of raw materials purchased under foreign currency contracts due to foreign currencies appreciation vs the Russian Ruble, (2) higher utilities costs due to tariff rises, (3) labour cost growth due to scheduled wage indexation and increased contributions to extrabudgetary funds resulting from government rate rises, (4) increased costs for implementation of GMP standards on main production sites and (5) growth in reserves related to the impairment of inventories due to the limited shelf-life of some products.

Third party products (TPP)

The Table below demonstrates TPP revenue and COGS movements.

Item	2012 12m	% of Sales	2011 12m	% of Sales	VAR RUR	VAR %
TPP sales	28,279	100.0%	21,726	100.0%	6,553	30.2%
TPP COGS	22,944	81.1%	18,323	84.3%	4,621	25.2%
Gross profit	5,335	18.9%	3,403	15.7%	1,932	56.8%

TPP COGS share as percentage of the segment sales decreased in 2012 by 3.2% down to 81.1% showing growth of RUR4,621 million in absolute terms. This COGS growth can be attributed to a significant sales growth for the segment in 2012 (RUR6,553 million or +30%).

Decreased COGS share as percentage of sales was driven by changes in sales mix in 2012 with increased share of high margin products such as Velcade®, Prezista®, Mildronate®, Intellence®, Revlimid®.

Medical equipment

Items	2012 12m	% of Sales	2011 12m	% of Sales	VAR RUR	VAR %
Sales – medical equipment	1 330	100,0%	764	100,0%	567	74.2%
COGS	870	65,4%	500	65.4%	370	74.0%
Gross profit	460	34,6%	264	34.6%	197	74.6%

Medical equipment segment COGS growth of RUR370 million or 74% stemmed directly from a significant sales growth in this segment – by RUR567 million or 74%.

COGS share as percentage of sales in the medical product segment stayed unchanged in 2012 vs 2011.

Gross profit

Gross profit is calculated as sales revenue less COGS.

The Company's gross profit grew by RUR2,453 million or 15% from RUR15,926 million in 2011 up to RUR18,379 million in 2012. As percentage of sales total gross profit decreased from 37.3% in 2011 to 36.3% in 2012 due to increased shares of TPPs and medical equipment in the Company's sales structure.

Organic products

Gross profit associated with organic pharmaceutical products (excluding TPPs) reached RUR12,584 million in 2012 reflecting RUR325 million or 3% growth vs RUR12,259 million in 2011. Gross profit margin was 59.9% in 2012 vs 60.8% in 2011. The Company achieved high gross profit margin despite changes in its sales mix due to regulatory restrictions (i.e. transfer of codeine based drugs from OTC to Rx category in 2012).

Third party products (TPP)

TPP segment gross profit demonstrated 56.8% growth in 2012 vs 2011 and reached RUR5,335 million. Gross profit margin went up to 18.9% in 2012 through increased sales of high margin products in the segment.

Medical equipment

Medical equipment segment saw its gross profit growth of RUR197 million up to RUR460 million with gross profit margin of 34.6%. This positive change was possible as a result of significant sales growth in the segment.

Operating expenses

Operating expenses include: (1) sales and distribution expenses (S&D), (2) general and administrative expenses (G&A).

In absolute terms operating expenses showed RUR1,645 million or 34% growth – from RUR4,838.2 million in 2011 to RUR6,483.2 million in 2012. As percentage of sales operating expenses increased to 12.7% in 2012 vs 11.5% in 2011.

Organic and TPP segments account for the major part (96%) of operating expenses.

S&D expenses grew by RUR1,393.6 million or 38% up to RUR5,035.7 million in 2012 vs RUR3,642.1 million in 2011 with percentage of sales of 9.9% vs 8.5%, respectively.

Organic products

Organic product sales and marketing expenses (without TPPs) equaled to RUR4,441 million or 21% of the segment sales in 2012 compared to RUR3,221 or 16.0% in 2011.

(1) **Advertizing and promotion expenses** increased by RUR1,026 million or 63% making up to RUR2,644 million and accounting for 12.6% of organic product sales.

Major part of this cost item is accounted for by media support of high margin branded organic OTC products actively promoted through media advertising:

- launch of a new anaesthetic product in the Next® line;
- Codelac® Broncho media campaign (conversion of Codelac® line codeine based products into codeine-free Codelac® Broncho);
- intensification of advertizing campaign on the Company's key brands Arbidol®, Aphobazolum®, Complivit® and Acipol®.

(2) **Labour expenses** in 2012 demonstrated RUR151 million or 17% y/y growth to reach RUR1,049 million (representing 5% of sales). This is attributed to changes in sales force incentivization system to effectively support advertizing spendings, as well as increased mandatory contributions to social security funds due to changes in the rates set by the Government.

(3) **Other commercial expenses** grew by RUR14 million or 2% vs 2011 up to RUR719 million (3.4% of sales). Key growth factors for this item included: higher quality control and finished product certification expenses due to sales growth and increased travel expenses required for more aggressive product promotion.

Third party products

TPP sales and marketing expenses in 2012 amounted to RUR504 million or 1.8% of the segment sales from RUR357 million and 1.6% of sales in 2011.

(1) **Advertizing and promotion expenses** in 2012 grew by RUR30 million or 43% to RUR101 million or 0.4% of the TPP segment sales

(2) **Labour expenses** in 2012 grew by RUR77 million or 47% vs 2011 and reached RUR242 million (0.9% of TPP sales).

(3) **Other commercial expenses** increased by RUR40 million or 33% y/y up to RUR162 million (0.6% of TPP sales).

General and administrative expenses

General and administrative expenses (G&A) of the Company increased in 2012 by RUR251 million or 21% up to RUR1,448 million vs RUR1,196 million in 2011. G&A share in the total sales is 2.8% in 2012.

Organic products

G&A expenses in the organic segment (without TPP) changed in 2012 by RUR181 million y/y and reached RUR917 million or 4.5% of the total sales for the segment.

Labour expenses rose by RUR126 million from RUR445 million in 2011 to RUR571 million in 2012. The growth was primarily driven by the following factors: (1) 6.3% increase in administrative staff headcount; (2) higher social security system contributions due to regulatory changes.

Other G&A expenses demonstrated RUR47 million or 21.6% growth vs previous year and reached RUR265 million (1.3% of sales). The growth was mainly driven by material and utilities cost increase (+RUR23 million) due to increased office payments and a general increase in rates of utilities.

Third party products

TPP segment G&A expenses rose by RUR48 million or 12.8% up to RUR422 million (1.5% of sales) in 2012 vs RUR374 million (1.7% of sales) in 2011.

Operating income

Consolidated operating income (sales, COGS, operating expenses) demonstrated RUR809 million growth as of 2012 up to RUR11,896 million vs RUR11,087 million in 2011 (7,2% relative change). Operating income as percentage of sales was 24% in 2012 vs 26% in 2011. Major part of operating income was generated by organic sales.

Operating income in the organic product segment reached RUR7,256 million as of 2012 with operating income margin staying high at 35.1%. Operating income decline of RUR1,045 million in 2012 was driven by higher investments to support the Company's key brands and launch new products as well as regulatory restrictions on codeine based drugs mitigated through new product launches.

TPP segment operating income grew by RUR1,737 million or 65% up to RUR4,409 million in 2012 with 3.3% operating income margin growth to 15.6% vs 12.3% in 2011.

Operating income in the medical equipment segment increased significantly in 2012 up to RUR231 million vs RUR114 million in 2011 (102% relative change). As percentage of sales the segment operating income reached 17.4% vs 15.0% in 2011.

Other income and other expenses

The Company's other income reached RUR426.2 million in 2012 vs RUR294.7 million in 2011.

Other revenues were generated by the following non-core items: (1) agency fees of RUR341 million on third party contracts (2011: RUR144 million); (2) reversal of fixed asset and intangible asset impairment losses of RUR48 million (2011: RUR7 million) and (3) income from non-core activities including gain from sale of materials and production waste and income from production and communal services.

Other expenses in 2012 amounted to RUR211.62 million vs RUR332.6 million in 2011.

Key other expenses items: (1) other taxes and penalties RUR81 million (2) FX difference expense of RUR36 million vs FX gain of RUR9 million in 2011 (3) bank charges and bank warranties of RUR28 million.

EBITDA[1]

EBITDA demonstrated RUR1,149 million or 19.6% y/y growth up to RUR13,078 million with EBITDA margin of 25,8%.

EBITDA in the organic segment (excluding TPP) was RUR8,321 million with EBITDA margin of 39.6%.

Minor margins decline is accounted for higher TPP share in 2012 sales mix vs 2011 and above mentioned operating expense growth due to own brands promotion.

Financial income and expense

Financial expenses went down by RUR9.8 million or 22,7% from RUR43.2 million in 2011 to RUR33.4 million in 2012, mainly as a result of December 2006 syndicated loan re-demption in December 2011.

Financial revenues amounted to RUR126,0 million in 2012 vs RUR231,5 million in 2011. The change of RUR105,5 million can be explained by a higher proportion of financial instruments such as bank deposits and loans, denominated in U.S. dollars that have a lower interest rate compared to financial instruments denominated in Russian rubles.

Income tax expense

Accrued income tax for 2012 was RUR2,541 million vs RUR2,405 million in 2011 with effective tax rate of 20.8% in 2012 vs 21.4% in 2011.

Net income

The Company's net income rose by RUR829.6 or 9% to RUR9,662.2 million compared to RUR8,833.6 million in 2011. Net income margin in 2012 was 19% vs 20.7% in 2011.

Parent company shareholder return as of 2012 reached RUR9,607 million vs RUR8 781 million in 2011.

Minority stake reached RUR55 million vs RUR52 million in 2011.

EPS as of 2012 increased by 14.3%[2] to reach RUR276.7[3] vs RUR242.07 a year earlier.

1 EBITDA represents earnings before interest, taxes, depreciation and amortization and FX difference gains/losses

2 Weighted average number of ordinary shares in issue during 2012 was 35,385 (in 2011 it was 36,272). This change is attributable to a buy-back of OJSC Pharmstandard shares executed stepwise in 2012 by a subsidiary OJSC Pharmstandard-Lekredstva. These shares are registered as treasury shares; weighted average number of shares for 2012 and 2011 was calculated in compliance with the requirements of IAS33.

3 Including Bioprocess Group and Lekko CJSC

Liquidity and capital

Overview

Our liquidity requirements are primarily driven by the Company's working capital needs, capex financing, operational upgrades, share buy-back plans and product portfolio diversification based on targeted acquisition of tangible and intangible assets. During the period covered by the Company's consolidated financial statements we financed our operational and investment activity through free cash flows and short-term (generally up to 1 month maturity) borrowings. Going forward we intend to continue financing new acquisitions (if any) from internal funds and external loans, if required.

The table below shows summary cash flow statements for 2012 and 2011:

Cash flows	Year ending 31 December 2012, RUR million	Year ending 31 December 2011, RUR million
Net cash flow from operations	10,957.8	8,057.0
Net cash flow from investment activities	(4,952.2)	(1,680.3)
Net cash flow from financing activities	(2,720.9)	(5,153.0)
Cash and cash equivalents as of YE	8,664,0	4,156.3

Net cash flow from operations

In general, our cash flow from operations for the periods covered by the Group consolidated financial statements, was generated through the sale of pharmaceutical products and medical devices as well as agency fees for partners' pharmaceutical product distribution.

Standard commercial contracts with distributors provide for 90 to 120 day payment deferral from the delivery date, though we also offer individual credit terms for each of our distributors. For supplies under public tender contracts payment deferral is 0 to 90 days from the date of the Group's fulfillment of its obligations under a specific government contract. For supplies under joint commercial projects with third party manufacturers, payment deferral is set individually for each contract ranging from 60 to120 days from the delivery date. In 2011 and 2012, net cash inflows from operations reached RUR8,057 million and RUR10,958 million, respectively. The Group's net cash flow from operations in 2012 was driven by:

- sales growth related to "7 Nosologies" Federal Program, including increased drug supplies resulting from open public tenders won by the Company. Operating cash flow growth was particularly driven by substantial 4Q 2012 supplies under contracts awarded as a result of open public tenders to meet 2013 demand for pharmaceutical products. In 2012, the Company in co-operation with Johnson & Johnson increased the production of Velcade, Prezista® and Mabthera® under "7 Nosologies" Program;
- increased sales and distribution volumes under joint projects with third party manufacturers of Reduksin, Mildronate®, Intelence®, Taufon, Revlimid, Ronbetal, Glycin. Operating cash flow was positively impacted by the expansion of TPP portfolio to indlude Xylen, Pariet®, Vidaza®, Ellastenga®, Atimos, Clenil and Foster®;
- sales growth in the key proprietary RX and OTC brands such as Aphobazolum®, Complivit®, Pentalgin®, Amixin®, Biosulin®, Flucostat®, Phosphogliv®, Combilipen® and Octolipen®. Two factors should be emphasized in this respect: (1) notwithstanding prescription requirement introduced in Russia from 1 June 2012 for drugs with low codeine content, the Company in general managed to keep operating cash flow associated with Pentalgin® and Clenil® sales, and (2) despite certain marketing difficulties in 1Q 2012 due to lack of flu/ARVI epidemiological situation, the Company's leading brand Arbidol® generally maintained its operating cash flow achieved in 2011;
- substantial revenue growth from TPP distribution and sales under existing exclusive agency contracts;
- substantial increase in sales volumes and profitability in the medical device segment basically driven by further development of and synergies from a joint medical device distribution project with DGM Trading Limited, including expanded supplies under public tender contracts;
- synergy effect from Pharmapark and Biomed acquisition via acquiring 50.005% in Bigpearl Trading Limited that provided control over the operations of these companies.

Due to sales growth under commercial contracts granting trade credit to distributors, cash outflow from growing accounts receivable amounted to RUR467 million in 2012 vs RUR1,801 million in 2011. Cash outflow decline in 2012 is primarily attributed to the Group's proper credit control procedures ensuring timely receivables collection with respect to all contracts providing for material payment deferral.

Operating cash inflow associated with accounts payable grew in 2012 to RUR235 million compared to RUR 3 million in

2011, which was primarily driven by: (1) increased TPP purchases and sales in 2012 resulting in the growth of accounts payable to third party manufacturers as of 31 December 2012, and (2) increased own brand manufacturing in 4Q 2012 leading to the growth of accounts payable to major raw material suppliers as of 31 December 2012.

Cash outflow associated with the Company's inventory amounted to RUR1,288 million in 2012 compared to cash inflow of RUR416 million in 2011. This is mainly attributed to the increase in the Company's trade inventory ready for shipment in line with approved plans for product sales to meet market requirements as well and creation of trade stock required for supplies under awarded public tender contracts.

In 2012, cash inflow from advance payments made by the Company reached RUR476 million vs cash outflow of RUR497 million in 2011. This was primarily associated with prepayment effected in December 2011 for TPP supplies made in 2012.

In 2012, cash inflow from tax settlements, other than income tax, was RUR452 million (vs RUR76 million in 2011) basically because of VAT receivable growth due to significant sale volumes in 4Q 2012.

The Company's income tax payments in 2012 remained flat at the 2011 level, however due to significant shipments in 4Q 2012 we expect higher income tax payments in 2013.

Net cash flow from investment activities

In 2011 and 2012, net outgoing cash flows from investment activities amounted to RUR1,680 million and RUR4,952 million, respectively. Major investment projects in the above periods include asset acquisition, construction of new capacity and upgrade of existing facilities, equipment purchase, payments for new subsidiary acquisitions as well as short-term financial instruments, primarily bank bills, free cash bank deposits and lending operations. In 2011 and 2012, we spent RUR1,752 million and RUR1,462 million, respectively, on asset acquisition, construction and upgrade of operating capacity and equipment purchase. These investments were made predominantly as part of the Group's production and logistics capacity development to ensure compliance with GMP standards, including the following:

- Pharmstandard-UfaVITA: ampouled injection drug capacity reconstruction, buildings reconstruction to organize a new cytostatic capacity, a new building construction for multivitamin pills production, new integrated warehouse facility constriction commissioned in 2011, purchase of up-to-date equipment for the above production and logistics facilities in line with GMP requirements;
- Pharmstandard-Leksredstva OJSC (Kursk): a new integrated logistics facility construction commissioned in 2011, capacity expansion and upgrade to produce tableted drugs, including newly launched products, capacity reconstruction for spray/aerosol finished products, auxiliary operating units reconstruction and equipment purchase for operational units in line with GMP requirements;
- Pharmstandard Biolik PJSC (Kharkov, Ukraine): RIG production unit and filling, labeling and product review unit reconstruction, new equipment purchase;
- Continuous replacement of worn-out equipment for all operating companies of the Company.

2012 net cash outflow of RUR1,827 million occurred due to the acquisition of 50.005% in Bigpearl Trading Limited (Cyprus) controlling Bioprocess Group companies including Pharmapark LLC, Biomed named after I.I. Mechnikov OJSC, Pharm-Innovations LLC and other companies.

In 2012, the Company acquired 100% in LEKKO CJSC which resulted in RUR658 million net cash outflow.

Final settlement for 55% acquisition in Biolik was made by the Company in 2012 (RUR11 million guarantee payment) following RUR197 million payment in 2011 and partial down payment of RUR184 million in 2010.

In 2012, the Company granted a short-term US dollar denominated loan of RUR1,443 million (US$ 47,500 million) to its core shareholder Augment Investments Limited to finance business projects outside the Group's business. In December 2012 the Company also provided a short-term related party loan of RUR72 million to a contractor of the Group.

In 2012, outgoing cash flow from operations with short-term financial assets, such as US$ and Russian ruble denominated promissory notes, loans issued to related parties and deposits amounted to RUR2,646 million (vs RUR1,787 million in 2011). In 2012, incoming cash flow from operations with short-term financial assets, such as US$ and Russian ruble denominated promissory notes, loans issued to related parties and deposits amounted to RUR3,127 million (vs RUR2,012 million in 2011).

Net cash flow from financing activities

In 2011 and 2012, cash outflow related to financing activities reached RUR5,153 million and RUR2,721 million, respectively. In 2012, the Company executed a 3.6% share buyback through its Pharmstandard-Leksredstva OJSC subsidiary from the free float in the Russian stock market with a total payment of RUR1,976 million. In 2011, the Company made similar payments of RUR5,474 million based on offer terms for 4.8% buyback announced by Pharmstandard-Leksredstva OJSC in January 2011. The other cash flows from financing activities were basically associated with: (1) short-term debt (mostly up to 1 month maturity) raised in 2011 and 2012 for

RUR2,332 million and RUR3,049 million, respectively, to finance the Company's current operations and repay these short-term borrowings; total payments on these borrowings in 2011 and 2012 was RUR3,793 million and RUR1,600 million, respectively; and (2) repayment of 2006 Citibank US dollar denominated syndicated loan in December 2011 with full settlement of the Company's obligations on this loan.

Contract and other obligations

As of 31 December 2012, we had no other material contract obligations other than those occurred in the ordinary course of business, such as trade accounts payable, wage arrears and taxes payable.

As of 31 December 2012, the Group had the following contract obligations: 1) third party liability with respect to TPP supplies including Velcade®, Mabthera®, Pulmozyme®, Mildronate®, Coagil®, Reduksin®, for RUR 7,783 million (vs RUR8,318 million in 2011); (2) debt of Pharmstandard-Biolik PJSC subsidiary including USD and EURo denominated bills for the total amount of RUR379 million, mostly issued prior to Biolek acquisition by the Company and representing liability to companies affiliated with its former and minority shareholders (vs RUR432 million in 2011).

Consolidated Financial Statements and Auditor's Report

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Independent auditors' report

To the Shareholders and Management of OJSC "Pharmstandard"

We have audited the accompanying consolidated financial statements of OJSC "Pharmstandard" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity for the year 2012, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

Management of the audited entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

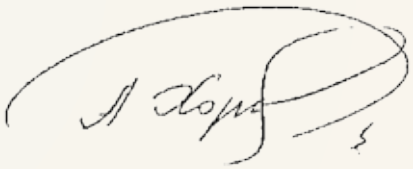
We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated 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 of the audited entity, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of OJSC "Pharmstandard" and its subsidiaries as at 31 December 2012, and their financial performance and cash flows for the year 2012 in accordance with International Financial Reporting Standards.



A. B. KHOROVITCH
Partner
Ernst & Young LLC

25 April 2013

DETAILS OF THE AUDITED ENTITY

Name: OJSC "Pharmstandard"
Information about the State Register of Legal Entities Concerning a Legal Entity: 02№005162109 от 05.05.2006
Address: 141701, Russia, Moscow region, Dolgoprudny, Likhachevsky drive, 5 "b".

DETAILS OF THE AUDITOR

Name: Ernst & Young LLC
Main State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Non Profit partnership "Russian Audit Chamber" ("NP APR"). Ernst & Young LLC is registered in the register of auditors and audit organizations of NP APR, number 3028, and also included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

Consolidated statement of financial position as at 31 December 2012

(in thousands of Russian Roubles)

	Notes	2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	10	8,034,486	5,543,692
Intangible assets	11	8,042,938	6,717,624
		16,077,424	**12,261,316**
Current assets			
Inventories	12	8,529,963	7,145,291
Trade and other receivables	13	14,977,062	14,247,421
VAT recoverable		336,318	369,712
Prepayments	14	280,448	745,734
Short-term financial assets	16	4,469,872	3,446,041
Cash and short term deposits	15	8,663,983	5,383,072
		37,257,646	**31,337,271**
Non-current assets classified as held for sale		12,599	18,030
Total assets		**53,347,669**	**43,616,617**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	21	37,793	37,793
Treasury shares	7	(3,190)	(1,825)
Foreign currency translation reserve		(1,922)	24,923
Retained earnings		37,533,953	29,718,088
		37,566,634	**29,778,979**
Non-controlling interests		1,651,138	514,968
Total equity		**39,217,772**	**30,293,947**

	Notes	2012	2011
Non-current liabilities			
Long-term loans	9,17	48,750	–
Deferred tax liability	28	774,983	581,790
Other non-current liabilities	20	88,920	9,265
		912,653	**591,055**
Current liabilities			
Trade and other payables and accruals, and advances received	8,19	11,597,293	11,234,988
Short-term borrowings and loans	9,17	33,550	733,550
Income tax payable		495,776	163,792
Other taxes payable	18	1,090,625	599,285
		13,217,244	**12,731,615**
Total liabilities		**14,129,897**	**13,322,670**
Total equity and liabilities		**53,347,669**	**43,616,617**

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

Chief Executive Officer **I. K. Krylov**

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

25 April 2013

The accompanying notes on pages 85–123 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2012

(in thousands of Russian Roubles)

	Notes	2012	2011
Revenue	22	51,391,475	42,653,887
Cost of sales	23	(32,488,245)	(26,728,419)
Gross profit		**18,903,230**	**15,925,468**
Selling and distribution costs	24	(5,105,140)	(3,642,115)
General and administrative expenses	25	(1,506,604)	(1,196,149)
Other income	26	449,695	294,693
Other expenses	26	(261,891)	(332,596)
Financial income	27	126,767	231,519
Financial expense	27	(35,648)	(43,235)
Profit before income tax		**12,570,409**	**11,237,585**
Income tax expense	28	(2,606,403)	(2,404,948)
Profit for the year		**9,964,006**	**8,832,637**
Other comprehensive income			
Exchange differences on translation of foreign operations		(31,227)	29,136
Other comprehensive income for the year		**(31,227)**	**29,136**
Total comprehensive income for the year		**9,932,779**	**8,861,773**
Profit for the year			
Attributable to:			
Equity holders of the Parent		9,790,915	8,780,520
Non-controlling interests		173,091	52,117
		9,964,006	**8,832,637**

	Notes	2012	2011
Total comprehensive income for the year			
Attributable to:			
Equity holders of the Parent		9,764,070	8,805,688
Non-controlling interests		168,709	56,085
		9,932,779	**8,861,773**
Earnings per share (in Russian roubles)			
- basic and diluted, based on profit for the year attributable to equity holders of the Parent	21	276.69	242.07

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

Chief Executive Officer **I. K. Krylov**

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

25 April 2013

The accompanying notes on pages 85–123 are an integral part of these consolidated financial statements.

Consolidated cash flow statement for the year ended 31 December 2012

(in thousands of Russian Roubles)

	Notes	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		12,570,409	11,237,585
Adjustments for:			
Depreciation and amortisation	10,11	988,249	888,859
Change in allowance for impairment of financial assets	13,26	734	111,606
Write-down of inventories to net realizable value	12	244,754	52,778
Loss recognized on non-current assets classified as held for sale	26	–	16,537
Impairment charge and reversal of impairment – property, plant and equipment	10,26	(20,935)	45,736
Reversal of impairment – intangible assets	10,26	(25,000)	–
Loss (gain) from disposal of property, plant and equipment	26	3,436	(22,619)
Foreign exchange loss (gain)		102,450	(22,947)
Expense related to the joint venture	26	–	53,142
Financial income	27	(126,767)	(231,519)
Financial expense	27	35,648	43,235
Operating cash flows before working capital changes		**13,772,978**	**12,172,393**
Increase in trade and other receivables	13	(467,236)	(1,800,534)
(Increase) decrease in inventories	12	(1,288,011)	416,459
Decrease in VAT recoverable		43,413	111,789
Decrease (increase) in trade prepayments	14	476,036	(497,438)
Increase (decrease) in trade payables and other payables	19	234,733	(2,917)
Increase in taxes payable other than income tax		452,431	76,069
Cash generated from operations		**13,224,344**	**10,475,821**
Income tax paid	28	(2,438,060)	(2,546,132)
Interest paid		(35,477)	(40,839)
Interest received		206,946	168,077
Net cash from operating activities		**10,957,753**	**8,056,927**

	Notes	2012	2011
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	10	(1,461,910)	(1,751,518)
Payments for development expenditures	11	(28,760)	–
Net cash used in acquisition of subsidiaries, net of cash acquired	5	(2,495,317)	(196,524)
Proceeds from government grants	20	38,665	–
Cash received from sale property, plant and equipment		34,061	42,213
Cash received from sale of non-current assets held for sale		17,850	–
Cash received from sale of short-term financial assets	16	3,126,872	2,012,351
Cash paid for short-term financial assets	16	(2,645,728)	(1,786,820)
Loans provided to related parties	9,16	(1,537,945)	–
Net cash used in investing activities		**(4,952,212)**	**(1,680,298)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from loans and borrowings	17	3,048,750	2,332,250
Repayment of loans and borrowings	17	(3,793,189)	(2,010,994)
Cash paid for acquisition of treasury shares	7	(1,976,415)	(5,474,250)
Net cash used in financing activities		**(2,720,854)**	**(5,152,994)**
Net increase in cash and cash equivalents		**3,284,687**	**1,223,635**
Net foreign exchange differences		**(3,776)**	**3,179**
Cash and cash equivalents at the beginning of the year	**15**	**5,383,072**	**4,156,258**
Cash and cash equivalents at the end of the year	**15**	**8,663,983**	**5,383,072**

The accompanying notes on pages 85–123 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2012

(in thousands of Russian Roubles)

	Equity attributable to equity holders of the parent						
	Share capital	Treasury shares	Foreign currency translation reserve	Retained earnings	Total	Non-controlling Interests	Total equity
Balance at 1 January 2011	**37,793**	**–**	**(245)**	**26,409,993**	**26,447,541**	**428,214**	**26,875,755**
Profit for the year	–	–	–	8,780,520	8,780,520	52,117	8,832,637
Other comprehensive income for the year	–	–	25,168	–	25,168	3,968	29,136
Total comprehensive income for the year	**–**	**–**	**25,168**	**8,780,520**	**8,805,688**	**56,085**	**8,861,773**
Acquisition of subsidiary (Note 5)	–	–	–	–	–	30,669	30,669
Acquisition of treasury shares (Note 7)	–	(1,825)	–	(5,472,425)	(5,474,250)	–	(5,474,250)
Balance at 31 December 2011	**37,793**	**(1,825)**	**24,923**	**29,718,088**	**29,778,979**	**514,968**	**30,293,947**
Profit for the year	–	–	–	9,790,915	9,790,915	173,091	9,964,006
Other comprehensive income for the year	–	–	(26,845)	–	(26,845)	(4,382)	(31,227)
Total comprehensive income for the year	**–**	**–**	**(26,845)**	**9,790,915**	**9,764,070**	**168,709**	**9,932,779**
Acquisition of subsidiaries (Note 5)	–	–	–	–	–	967,813	967,813
Disposal of subsidiary	–	–	–	–	–	(352)	(352)
Acquisition of treasury shares (Note 7)	–	(1,365)	–	(1,975,050)	(1,976,415)	–	(1,976,415)
Balance at 31 December 2012	**37,793**	**(3,190)**	**(1,922)**	**37,533,953**	**37,566,634**	**1,651,138**	**39,217,772**

The accompanying notes on pages 85–123 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2012

1. Corporate information

OJSC "Pharmstandard" ("the Company") and its subsidiaries ("the Group") principal activities are production and wholesale distribution of pharmaceutical products and medical equipment. The Company is incorporated in the Russian Federation. Since May 2007, the Company's shares are publicly traded (Note 22). The Group's corporate office is in Dolgoprudny, Likhachevsky proezd, 5B, Moscow region, Russian Federation and its manufacturing facilities are based in Moscow region, Vladimir region, Kursk, Tomsk, Ufa, Tyumen (all Russian Federation) and Kharkov (Ukraine). The Company holds the shares in joint ventures and controlled the following major subsidiaries consolidated within the Group as at 31 December 2012 and 2011:

Entity	Country of incorporation	Activity	2012 % share	2011 % share
Subsidiaries:				
1. "Pharmstandard" LLC	Russian Federation	Central procurement	100	100
2. "Pharmstandard-Leksredstva" OJSC	Russian Federation	Manufacturing of pharmaceutical products	100	100
3. "Pharmstandard-Tomskhimpharm" OJSC	Russian Federation	Manufacturing of pharmaceutical products	91	91
4. "Pharmstandard-Ufavita" OJSC	Russian Federation	Manufacturing of pharmaceutical products	100	100
5. "Pharmstandard-Biolik" PJSC	Ukraine	Manufacturing of pharmaceutical products	55	55
6. "TZMOI" OJSC	Russian Federation	Manufacturing of medical equipment	100	100
7. Donelle Company Limited	Cyprus	Finance and holding Company	89	89
8. Aphopharm CJSC	Russian Federation	Assets holder	89	89
9. MDR Pharmaceuticals	Cyprus	Assets holder	50.05	50.05
10. Vindexpharm CJSC	Russian Federation	Assets holder	100	100
11. Bigpearl Trading Limited*	Cyprus	Assets holder	50.005	–
12. "Pharmapark" LLC*	Russian Federation	Manufacturing of pharmaceutical products	50.005	–
13. "Biomed named after I. I. Mechnikov" OJSC*	Russian Federation	Manufacturing of pharmaceutical products	49.795	–
14. "Pharmatsevticheskiye innovatsii"*	Russian Federation	Assets holder	50.005	–
15. "PKB named after I. I. Mechnikov" CJSC*	Russian Federation	Assets holder	49.795	–
16. "EKK" OJSC	Russian Federation	Auxiliary company	35.255	–
17. "Lekko" CJSC	Russian Federation	Manufacturing of pharmaceutical products	100	–
18. "Pharmstandard-Phitofarm-NN" LLC	Russian Federation	Manufacturing of pharmaceutical products	–	99
Joint ventures:				
19. "NauchTechStroy Plus" LLC	Russian Federation	Research and development Company	37.5	37.5
20. Moldildo Trading Limited	Cyprus	Intermediary holding company	75	75
21. "Pharmstandard-Medtechnika" LLC	Russian Federation	Distributing of medical equipment	75	75

These consolidated financial statements were authorised for issue by the Board of Directors of OJSC "Pharmstandard" on 25 April 2013.

* These subsidiaries were incorporated in "Bioprocess" group of companies acquired by the Company in July 2012. The Group exercises control over these entities through its controlling interest in Bigpearl Trading Limited. (see Note 5.2).

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") as issued by the International Accounting Standards Board (IASB).

Basis of accounting

The Group's Russian entities maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The Group's Ukrainian subsidiary maintains its accounting records in Ukrainian Hryvnia ("UAH") and prepares its statutory financial statements in accordance with IFRS (Provisions (Standards) of Accounting of Ukraine – prior to 2012). When necessary the statutory financial statements have been adjusted to present these consolidated financial statements in accordance with IFRS. These adjustments principally relate to valuation and depreciation of property, plant and equipment, valuation and amortisation of intangible assets, certain valuation allowances, using fair values for certain assets and derivative instruments, acquisition accounting for business combinations and the resulting income tax effects, and also to consolidation of subsidiaries.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, derivative instruments and certain short-term assets are recorded at fair value and non-current assets classified as held for sale are recorded at the lower of carrying amount and fair value less costs to sell.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial period except that the Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2012.

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

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

The amendment to IFRS 7 requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's consolidated financial statements to understand the relationship with their associated liabilities. In addition, the amendment requires disclosures about the entity´s continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011.

The amendment to IAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis of the assets. The amendment is effective for annual periods beginning on or after 1 January 2012.

The amendment to IFRS 1 clarifies that, when an entity's date of transition to IFRS is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011 with early adoption permitted.

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

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

IFRSs and IFRIC interpretations not yet effective

- IFRS 9 Financial Instruments – *Classification and Measurement* (effective for annual periods beginning on or after 1 January 2015) – Reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39.
- IFRS 10 *Consolidated Financial Statements (amended in July 2012)* replaces the consolidation guidance in IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2013) – Establishes a single control model that applies to all entities including special purpose entities.
- IFRS 11 *Joint Arrangements (amended in July 2012)* – Introduces new accounting requirements for joint arrangements (effective for annual period beginning on or after 1 January 2013).
- IFRS 12 *Disclosure of Interests in Other Entities (amended in July 2012)* – Requires enhanced disclosures about both consolidated and unconsolidated entities (effective for annual period beginning on or after 1 January 2013).
- IFRS 13 *Fair Value Measurement* – Definition, guidance and disclosure requirements about fair value measurements (effective for annual periods beginning on or after 1 January 2013).
- IAS 27 *Separate Financial Statements* – The consolidation guidance in IAS 27 is replaced by IFRS 10. The requirements relating to separate financial statements are unchanged (effective for annual periods beginning on or after 1 January 2013).
- IAS 28 *Investments in Associates and Joint Ventures* – Amendments for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12 (effective for annual periods beginning on or after 1 January 2013).
- IAS 1 *Presentation of Financial Statements* – Amendments to revise the way other comprehensive income is presented (effective for annual periods beginning on or after 1 July 2012).
- IAS 19 *Employee Benefits* – Amended standard resulting from the Post-Employment Benefits and Termination Benefit projects (effective for annual periods beginning on or after 1 January 2013).
- Amendments to IFRS 7 *Disclosures and IAS 32 Financial Instruments: Presentation* – Amendments for converged disclosures and offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013 and on or after 1 January 2014, respectively).
- Amendment to IFRS 1 *First time adoption of IFRS – Government loans.* This amendment was issued in March 2012 to provide relief from the retrospective application of IFRSs in relation to government loans (effective for annual periods beginning on or after 1 January 2013).
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine.
- In May 2012, the final 2009-2011 annual improvements of IFRSs were issued (with effective dates of annual periods on or after 1 January 2013). The table below shows the list of IFRSs where these narrow amendments have been made:

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

Adoption of new and revised International Financial Reporting Standards

The Group has not early adopted any other standards, interpretations or amendments that has been issued but is not yet effective. The Group does not intend to adopt these standards before their effective date.

Management anticipates that the adoption of these Standards and Interpretations in future periods will have no impact on the results and financial position of the Group presented in these consolidated financial statements except for IFRS 11 Joint Arrangements issued in May 2011.

IFRS 11 Joint Arrangements will replace IAS 31 Investments in Joint Ventures. The standard will remove the option to proportionately recognise the assets and liabilities of jointly controlled entities and equity accounting will be the only accounting treatment. The standard which will be applied retrospectively will result in a reduction in all assets, liabilities, income and expenses leaving net assets and profit for the period unchanged. The Group is currently in the process of quantifying the effect of introduction of IFRS 11 but the management believes that the adoption of this Standard will have no significant effect on the results and financial position of the Group.

3.1 Basis of consolidation

Subsidiaries

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. All intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to the Group. The interests of non-controlling shareholders are initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

Non-controlling interest is presented as an equity item, separately from the equity of the owners of the parent.

Business combinations

The acquisition method of accounting is used to account for business combinations by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. For each business combination, the Group measures the non-controlling interest in the acquired subsidiary at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

The excess of purchase consideration over the fair value of the Group's share of identifiable net assets is recorded as goodwill (Note 3.6). If the cost of the acquisition is less than the fair value of the Group's share of identifiable net assets of the subsidiary acquired the difference is recognised directly in the profit or loss.

Interest in joint ventures

The Group has interests in joint ventures which are jointly controlled entities, whereby the ventures have a contractual arrangement that establishes joint control over the economic activities of the entities. The Group recognises its interests in the joint ventures using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint ventures are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intra group balances, income and expenses and unrealised gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

3.2 Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and in hand, short-term deposits with an original maturity of three months or less and cash deposits placed to secure participation in the state open auctions with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement cash and cash equivalents consist of cash and short-term deposits as defined above net of outstanding bank overdrafts.

3.3 Value added tax

The Russian and Ukrainian tax legislation permits settlement of value added tax ("VAT") on a net basis within one legal entity.

VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the reporting date, is deducted from the amount of VAT payable.

Where allowance has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

3.4 Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost is determined on a first in, first out basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs. The cost of third parties products comprise expenditures directly attributable to purchase of these products. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

3.5 Property, plant and equipment

Property, plant and equipment are stated at 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, motor vehicles and other	2 to 7

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year end. Land is not depreciated.

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

3.6 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.

3.7 Intangible assets other than goodwill

Intangible assets acquired separately from business combinations are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination are initially recognised at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with a finite life are amortised on a straight-line basis over the useful economic lives (for trademarks useful economic life is estimated between 15 and 20 years; for patents useful economic life is estimated accordingly to period which is reflected in patent, but not more than 20 years) and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset.

Development is the application of research findings or other knowledge to a plan or design for the production of a new product before commercial production or use of the product

has begun. Development costs are all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Development costs are capitalised as an intangible asset if all of the following criteria are met:

a) The technical feasibility of completing the asset so that it will be available for use or sale;
b) The intention to complete the asset and use or sell it;
c) The ability to use or sell the asset;
d) The asset will generate probable future economic benefits and demonstrate the existence of a market or the usefulness of the asset if it is to be used internally;
e) The availability of adequate technical, financial and other resources to complete the development and to use or sell it; and
f) The ability to measure reliably the expenditure attributable to the intangible asset.

Amortisation of development costs starts upon receipt of regulatory approval when the asset becomes available for use and transferred to the designated category of intangible assets other than goodwill.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

3.8 Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Group does not have held-to-maturity investments and financial assets at fair value through profit or loss.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Interest receivable on deposits is classified as other receivables.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any other categories. After initial measurement available-for-sale investments are measured at fair value with changes in fair value recognised in other comprehensive income. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit or loss, is transferred from other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through the profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

Amortised cost

Loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in the profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can

be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the profit or loss. For more information in relation to trade receivables see Note 3.3.

3.9 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.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed.

3.10 Income taxes

Income tax expense comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities can be offset only if: (a) a Group entity has a legally enforceable right to set off current tax assets against current tax liabilities; and (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either: (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

The effect from a change in tax rates is recognised in profit or loss except to the extent that it relates to items previously charged or credited to other comprehensive income.

3.11 Leases

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

3.12 Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

3.13 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.

Expense relating to any provision is presented in profit or loss. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects where appropriate the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3.14 Equity

Share capital

Ordinary shares are classified as equity.

Dividends

Dividends declared by the Group are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Such dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Treasury shares

Own equity instruments that are reacquired are recognised at cost and deducted from equity. No gain or loss is recognised in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the face value of shares and the consideration paid for treasury shares is recognised in retained earnings.

3.15 Revenue recognition

Revenues are recognised when the title passes to the customer, assuming that collection is reasonably assured and sales price to final customers is fixed or determinable. Revenues are measured at the fair value of the consideration received or receivable excluding discounts and rebates.

3.16 Employee benefits

In 2012, the Group allocated social contributions for the Russian entities of the Group under provisions of the Russian legislation.

In 2012, under provision of the Russian legislation, social contributions are made through a social tax ("ST") calculated by the Group by the application of a ST rate 30% to the gross remuneration of each employee. The rate 30% was applicable only to the gross remuneration of each employee not more than RR 512 calculated from the beginning of the year. The Group allocates the ST to three social funds (state pension fund, social and medical insurance funds), where the rate of contributions to the pension fund was 22% depending on the annual gross salary of each employee (i.e. above RR 512 of annual gross salary in 2012 the contribution to pension fund is 10%, to social and medical funds – 0%). The Group's contributions relating to ST are expensed in the year to which they relate.

Total contributions for ST amounted to RR 689,718 during the year ended 31 December 2012 (2011: RR 537,901) and they were classified as labour costs in these consolidated financial statements.

In addition, in 2013 the Russian legislation primarily provides for a maintaining of the current ST rate at 30%. Furthermore, the ST rate of 30% will be applicable to the gross remuneration of each employee not more than RR 568 calculated from the beginning of the year and ST rate 10% will be applicable in excess of the gross remuneration of RR 568 from the moment of excess until the year end.

3.17 Foreign currency transactions

The consolidated financial statements are presented in Russian Roubles, which is the functional currency of the Company and its Russian subsidiaries. Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All resulting differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

At 31 December 2012, the exchange rates used for translation foreign currency balances were US$ 1 = 30.37 roubles; Euro 1 = 40.23 roubles; 1 Ukrainian Hryvnia = 4.01 roubles (2011: US$ 1 = 32.20 roubles; Euro 1 = 41.67 roubles; Ukrainian Hryvnia = 3.76 roubles).

3.17 Foreign currency transactions

The functional currency of the Ukrainian subsidiary is the Ukrainian Hryvnia (Note 5). The functional currencies of the other foreign operations are the United States dollar (US$) and the Russian Rouble (RR). As at the reporting date, the assets and liabilities of those subsidiaries are translated into the presentation currency of the Group (the Russian Rouble) at the rate of exchange ruling at the reporting date and its statement of comprehensive income is translated at the exchange rate prevailing at the date of transaction. The exchange differences arising on the translation are taken directly to a separate component of equity.

3.18 Impairment of non-financial assets

At each reporting date the Group assesses whether there is any indication that an asset or cash generating unit (CGU) may be impaired. The assets or CGUs 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 or CGU's recoverable amount. An asset's or CGU's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU 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 or CGUs.

3.19 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

4. Significant accounting judgements and estimates

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

Useful life of property, plant and equipment and intangible assets

The Group assesses the remaining useful lives of items of property, plant and equipment and intangible assets at least at each financial year end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and intangible assets and on depreciation and amortization recognised in profit or loss.

Impairment of non-financial assets, except for goodwill

The determination of impairments involves the use of estimates that include, but are not limited to, the cause, timing and amount of the cash flow. The determination of the recoverable amount of an asset or cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the asset or cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any asset impairment.

The following factors are considered in assessing impairment of major specific assets of the Group:

- *Property, plant and equipment:* changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists.

- *Trademarks:* changes in current competitive conditions, changes in the regulations, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, introduction of alternative products on the market and other changes in circumstances that indicate impairment exists.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 is RR 2,584,302 (2011: RR 1,561,361). More details are provided in Note 11.

Allowance for doubtful accounts receivable

The Group maintains an allowance for doubtful accounts receivable 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 receivable, 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 conditions of customers were to deteriorate, actual

write-offs might be higher than expected. As at 31 December 2012, allowances for doubtful accounts receivable amounted to RR 107,410 (2011: RR 135,600). More details are provided in Note 13.

Write-down of inventories to net realizable value

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

Current taxes

Russian and Ukrainian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. In Russia and Ukraine 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 2012 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 29.

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.

5. Business combinations

5.1 "Biolik" PJSC acquisition

In 4th quarter 2010 the Company signed contracts with shareholders of Public Joint Stock Company "Kharkov Enterprise on Imunobiological and Medical Substances Production "Biolik" ("Biolik") with the purpose to acquire 55% of the ordinary voting shares of Biolik, a company located in Ukraine involved in the production and distribution of various pharmaceutical products, for a total cash consideration of RR 397,017 (US$ 13,086 thousand). "Pharmstandard-Biolik" PJSC is an entity that is not listed on any public exchange. "Biolik" maintains their accounting records in Ukrainian Hryvnia.

Of the total consideration amount, guarantee payment of RR 39,670 (US$ 1,320 thousand) was contingent upon achievement by Biolik of certain operational and financial targets by 31 December 2011. In 2011 and 2012 that guarantee payment was fully settled by the Group (2011: RR 10,625). In January 2011, the Company finalized process of acquisition of 55% ordinary shares and on 18 January 2011, the acquired shares of Biolik were transferred to the Company. In June 2011, "Biolik" PJSC was renamed as "Pharmstandard-Biolik" PJSC.

In 2011, the Group completed (i) the reorganization of management and organizational structure of Biolik and (ii) implemented changes in Biolik internal control procedures consistent with the Group's corporate policies and procedures.

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

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

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

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

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

The Biolik's operations were consolidated with the Group's results from 1 January 2011 which approximates the date of acquisition.

5.2. Acquisition of Bioprocess

On 25 June 2012, the Company signed contracts with shareholders of "Bigpearl Trading Limited" ("Bigpearl"), a company registered under the law of Cyprus with the purpose of acquiring 50.005% of the outstanding Bigpearl shares for the total cash consideration of US$ 57 million (RR 1,910,589).

Bigpearl is the controlling shareholder in several companies involved in the production of various pharmaceutical products, vaccines and active production ingredients registered under the law of Russian Federation jointly known as "Bioprocess", including two primary entities "Biomed named after I.I.Mechnikov" OJSC ("Biomed") "Pharmapark" LLC ("Pharmapark") and three minor auxiliary companies ("Pharmatsevticheskiye innovatsii", "EKK" OJSC and
"PKB named after I.I.Mechnikov" CJSC).

On 20 July 2012, the Company finalized the acquisition and obtained control over Bioprocess.

The fair value of identifiable assets and liabilities of "Bioprocess" as at the date of acquisition was as follows:

	Fair value recognised on acquisition
Intangible assets	342,959
Property, plant and equipment	1,467,981
Trade and other receivables	252,337
Prepayments	10,798
Inventories	276,331
Cash and short-term deposits	83,819
Short-term financial assets	96,623
	2,530,848
Deferred tax liability	(303,572)
Other long-term liabilities	(45,077)
Trade and other payables	(139,073)
Short-term loans	(93,189)
Income tax and other taxes	(42,353)
	(623,264)
Fair value of net assets	**1,907,584**
Group's share of the fair value of net assets	939,771
Goodwill arising on acquisition	970,818
Purchase consideration	1,935,719
Minus pre-existing relationship settlements at fair value	(25,130)
Less cash acquired with acquisition of subsidiary	(83,819)
Net cash used in acquisition, net of cash acquired	**1,826,770**

The fair value of the trade and other receivables at the date of acquisition approximated their gross carrying amount of RR 252,337. None of the trade and other receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill of RR 970,818 comprises the value of expected synergies arising from the acquisition and opportunity for the Group to conclude sale contracts related to the existing and developing products of the acquired entities resulting in substantial growth of the business.

From the date of the acquisition to 31 December 2012, Bioprocess contributed RR 351,920 to the profit before income tax of the Group and RR 739,355 to the revenue of the Group. If the acquisition had taken place at the beginning of the year, the Group's profit before income tax in 2012 would have been RR 12,218,489 (i.e. aggregate profit of the Group and Bioprocess) and revenue of the Group in 2012 would have been RR 51,855,947.

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

5.3. "Lekko" CJSC acquisition

On 20 November 2012, the Company signed contracts with shareholders of "Lekko" CJSC ("Lekko"), a company registered under the law of Russian Federation with the purpose of acquiring of 100% of the outstanding Lekko shares for the total cash consideration of US$ 21.8 million (RR 691,206).

Lekko's manufacturing facilities are based in Vladimir region and this company is involved in the production of various pharmaceutical products. Prior to the acquisition Lekko was the Group's related party and manufactured at the Group's order certain pharmaceutical products (e.g. Acipol and Altevir). The management believes that this acquisition will expand the Group's porfolio and reduce manufacturing costs of the products manufactured by Lekko.

The Company obtained control over Lekko on 21 November 2012

The fair value of identifiable assets and liabilities of "Lekko" as at the date of acquisition was as follows:

	Fair value Recognised on acquisition
Intangible assets	264,698
Property, plant and equipment	190,614
Trade and other receivables	121,354
Inventories	89,974
Cash and short-term deposits	33,457
Other current assets	5,348
	705,445
Deferred tax liability	(41,502)
Trade and other payables	(45,135)
Income tax and other taxes	(8,165)
	(94,802)
Fair value of net assets	**610,643**
Goodwill arising on acquisition	75,563
Purchase consideration	686,206
Plus pre-existing relationship settlements at fair value	5,173
Less cash acquired with acquisition of subsidiary	(33,457)
Net cash used in acquisition, net of cash acquired	**657,922**

The fair value and gross amount of the trade and other receivables at the date of acquisition is RR 121,354. None of the trade and other receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill of RR 75,563 comprises the value of expected synergies arising from the acquisition and opportunity for the Group to extend its operating activity and portfolio of pharmaceutical products and to decrease manufacturing costs.

From the date of the acquisition to 31 December 2012, Lekko contributed RR 15,325 to the profit before income tax of the Group and RR 31,844 to the revenue of the Group. If the acquisition had taken place at the beginning of the year, the Group's profit before income tax in 2012 would have been RR 12,491,452 and revenue of the Group in 2012 would have been RR 51,807,027.

6. Joint ventures

6.1. Joint venture "NauchTechStroy Plus"LLC

The Group's share in aggregate amounts of "NauchTechStroy Plus" LLC assets, liabilities and expenses proportionately included in the Group's consolidated financial statements are detailed below:

	31 December 2012	31 December 2011
Current assets	35,011	101,562
Long-term assets	418,419	332,745
Current liabilities	(38,531)	(42,332)
Non-current liabilities	(43,045)	–
Income from non-core operations included in other income (Note 26)	2,842	–
Expenses	(24,021)	(27,494)

Neither NauchTechStroy Plus LLC, nor the Group have any commitments in respect of the operations of the joint venture.

6.2. Joint venture "Pharmstandard-Medtechnika" LLC

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

Pharmstandard-Medtechnika was formed as a trading and distributing company for the purposes of distribution of medical equipment as manufactured by the Group and by DGM.

Since 3rd quarter 2011 Pharmstandard-Medtechnika started its activity. The management of the Company considered the formation of new joint venture Pharmstandard-Medtechnika as an additional source of revenue and profitability in medical equipment operating segment.

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

	31 December 2012	31 December 2011
Current assets	368,225	198,048
Current liabilities	(177,392)	(86,661)
Revenue	609,474	119,188
Expenses	(616,986)	(136,611)

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

7. Treasury shares purchase

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

In 2012, the management of the Group approved a plan to purchase the Company's ordinary shares at Russian stock exchanges by the Company's subsidiary "Pharmstandard-Leksredstva"OJSC . In June 2012, "Pharmstandard-Leksredstva" OJSC purchased 765,000 ordinary shares of the Company representing about 2.02% of the Company's authorized share capital for a total cash consideration of RR 1,079,415. In August 2012, "Pharmstandard-Leksredstva" OJSC purchased 600,000 ordinary shares of the Company representing about 1.59% of the Company's authorized share capital for a total cash consideration of RR 897,000.

The difference between the face value of all purchased ordinary shares and consideration paid for those ordinary shares was debited directly to retained earnings.

After these transactions, "Pharmstandard-Leksredstva" holds 8.44% of issued shares of the Company as treasury shares.

8. Segment information

For the management purposes, the Group is organised into two reportable operating segments: (1) production and wholesale of pharmaceutical products and (2) production and wholesale of medical equipment. Before 30 June 2011, the medical equipment segment was primarily represented by "TZMOI" OJSC, as production subsidiary, and by equipment department of OJSC "Pharmstandard", as managing and logistics division. Since 3rd quarter 2011, staff of equipment department of OJSC "Pharmstandard" was transferred to "Pharmstandard-Medtechnika" LLC (Note 6.2), the joint venture representing management, distribution and logistics company specialized in trading of TZMOI and DGM products. In accordance with IAS 31, its financial results were proportionally included in the medical equipment segment's results.

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

Management monitors the segments' assets, liabilities, sales, gross profit, segments' results and budgets of these business segments separately for the purpose of making decisions about resource allocation and performance assessment. For the management purposes, budgets of income and expense are planned and analyzed for each of operating segments separately.

Segment result is segment revenue less segment expenses. Segment expenses consist of cost of sales, selling and distribution costs, general and administrative expenses and other income and expenses that can be directly attributed to the segment on a reasonable basis.

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, financial assets, receivables and operating cash. There were no assets unallocated to segments as of 31 December 2012 and 2011. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate liabilities. Capital expenditure comprises additions to property, plant and equipment.

There were no significant intercompany transactions between these operating segments.

The following tables present revenue and profit information regarding the Group's operating segments:

Year ended 31 December 2012	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Group
Sales to external customers	50,061,256	1,330,219	51,391,475
Total revenue	**50,061,256**	**1,330,219**	**51,391,475**
Gross profit	18,443,154	460,076	18,903,230
Segment result	**12,238,893**	**240,397**	**12,479,290**
Financial income, net			91,119
Profit before income tax			**12,570,409**
Income tax expense			(2,606,403)
Profit for the year			**9,964,006**
Segment assets	52,072,897	1,274,772	53,347,669
Total assets	**52,072,897**	**1,274,772**	**53,347,669**
Segment liabilities	**12,597,351**	**261,787**	**12,859,138**
Unallocated liabilities			1,270,759
Total liabilities			**14,129,897**
Acquisition of property, plant and equipment (Note 10)	1,462,550	37,871	1,500,421
Depreciation and amortisation	955,680	32,569	988,249
Reversal of impairment charge of property, plant and equipment (Note 10)	8,073	12,862	20,935
Reversal of impairment of intangible assets (Note 11)	25,000	–	25,000

As at 31 December 2012 the unallocated liabilities of RUR 1,270,759 consist of income tax payable of RR 495,776 and deferred tax liability of 774,983.

Year ended 31 December 2011	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Group
Sales to external customers	41,890,280	763,607	42,653,887
Total revenue	**41,890,280**	**763,607**	**42,653,887**
Gross profit	15,662,024	263,444	15,925,468
Segment result	**10,954,221**	**95,080**	**11,049,301**
Financial income, net			188,284
Profit before income tax			**11,237,585**
Income tax expense			(2,404,948)
Profit for the year			**8,832,637**
Segment assets	42,637,626	978,991	43,616,617
Total assets	42,637,626	978,991	43,616,617
Segment liabilities	**12,404,977**	**172,111**	**12,577,088**
Unallocated liabilities			745,582
Total liabilities			**13,322,670**
Acquisition of property, plant and equipment (Note 10)	1,755,710	14,732	1,770,442
Depreciation and amortisation	854,288	34,571	888,859
Impairment charge of property, plant and equipment (Note 10)	13,794	31,942	45,736

As at 31 December 2011 the unallocated liabilities of RUR 745,582 consist of income tax payable of RR 163,792 and deferred tax liability of RR 581,790.

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

Revenues from certain customers in the pharmaceutical products segment approximated or exceeded 10% of total Group's segment revenue.

The table below shows the revenue from these customers:

Customer	2012	2011
The Ministry of Health of Russian Federation (federal state open auctions)	13,042,525	13,289,821
Customer 1 (only third party products, Note 22)	7,147,055	3,615,047
Customer 2	5,408,139	4,008,796
Customer 3	4,904,393	3,547,568

The Group's sales to the Ministry of Health represent about 25% of the total Group's revenue for 2012 (2011: 30%).

In 2012 and 2011, the Group purchased Velcade® in-bulk form from the Customer 1, packed it on production facilities of "Pharm-standard-Ufavita" OJSC and sold back to the Customer 1 for RR 7,147,055 (2011: RR 3,596,447). Management applied judgment and concluded that all risks associated with ownership of goods were transferred to the Group upon purchase and to the Customer 1 upon sale. Therefore, these transactions were presented in the statement of comprehensive income on a gross basis.

9. Balances and transactions with related parties

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

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

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

Balances with related parties

2012	Short-term financial assets (a)	Cash and short-term deposits – (a) Note 15	Short-term and long-term loans and borrowings – (b)	Trade and other receivables – (a) Note 13	Trade payables, other payables and accruals – (c) Note 19
Other related parties[1]	3,063,711	5,158,196	81,650	87,017	684,666
Total	**3,063,711**	**5,158,196**	**81,650**	**87,017**	**684,666**

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

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

(b) This balance primarily represented (i) non-interest bearing loan received by "NauchTechStroy Plus" LLC from another participant of this joint-venture (Note 17); since July 2011, this participant is a member of the Board of Directors of the Company; and (ii) other interest bearing loan received by "NauchTechStroy Plus" LLC from a related party.

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

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

Cash balances with the related bank carry no interest. Short-term financial assets at 31 December 2012 and 2011 include cash deposits in the related bank and carry 3.5% interest p.a. for deposits denominated in US$ (2011: 6.5%-7.0% interest p.a. for deposits denominated in Russian Roubles). For more details see Notes 15 and 16.

Significant transactions with related parties

Statement of comprehensive income caption	Relationship	2012	2011
Revenue	Other related parties	51,227	4,620
Interest income from deposits placed in a related bank (included in financial income)	Other related parties	15,489	23,349
License fee (included in distribution costs) (A)	Other related parties	(11,314)	(30,470)
Warehouse rental expenses (included in distribution costs) (B)	Other related parties	(91,987)	(86,816)
Office rental expenses (included in general and administrative expenses) (B)	Other related parties	(55,368)	(48,277)
Cost of sales (C)	Other related parties	(1,663,570)	(1,827,287)
Agency fee income (included in other income) (D)	Other related parties	295,526	89,755
Consulting expenses (included in general and administrative expenses)	Other related parties	–	(3,300)
Interest income from loan provided to majority shareholder	Majority shareholder	34,541	–

(A) License fee

Licence fee is paid for use of several trademarks owned by an entity under common control. The license fee is paid on a quarterly basis as 5% of the licensed products output applying the standard price list of the Group.

(B) Rental expenses

The Group incurred warehouse and office rental expenses that is payable to the related parties.

(C) Cost of sales

The Group holds a purchase contracts for supply of third-party product Koagil VII manufactured by a related party. The presented amount includes the cost of this product in the amount of RR 1,417,570 (2011: RR 1,608,196) sold by the Group primarily through open state auctions (Notes 22 and 23). As of 31 December 2012 the Group had RR 8,384 unsold inventory balances of Koagil VII. The remaining amount of RR 246,000 (2011: RR 219,091 included in the cost of sales line primarily represents the cost of raw materials purchased from a related party.

(D) Agency fee income

The Company holds an agency contract with the related party for distribution and sales of certain products owned by a related party.

Loans provided to majority shareholder

In April 2012, the Company's majority shareholder "Augment Investments Limited" ("Augment"), a company registered under the laws of Cyprus (see Note 21), applied to the Company with request to provide short-term interest loan for the purpose of financing the current business activity of Augment not related to the Group. The Group provided unsecured US$ denominated short-term loans to Augment with the initial maturity date of 28 February 2013 and fixed interest rate of 3.5% p.a. by two tranches::

- in April 2012, of US$ 27,500 thousand (RR 835,249 at the exchange rate as of 31 December 2012); and
- in June 2012, of US$ 20,000 thousand (RR 607,454 at the exchange rate as of 31 December 2012).

In February 2013 the Group postponed maturity dates for the both loans to 31 August 2013.

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

Loan provided to other related party

In December 2012, the Company provided an unsecured short-term loan to other related party of RR 72,000 with maturity date of 27 December 2013 and fixed interest rate of 12% p.a. This loan provided for the purpose of financing the current business activity of that related party.

Loan received from a related party

In December 2012, the Company's joint-venture "NauchTechStroy Plus" LLC received an interest bearing long-term loans of RR 130,000 from other related party (for more details see Note 17). The loan bears interest at 12% p.a. In accordance with the Group's accounting policies the Group recognized RR 48,750 of the total amount of these loans as a proportional part of the Group's liabilities in this joint-venture.

Compensation to key management personnel

Total compensation to key management personnel, amounted to RR 42,432 for the year ended 31 December 2012 (2011: RR 56,514). Such compensation represents the payroll and bonuses included in general and administrative expenses.

10. Property, plant and equipment

Property, plant and equipment consist of the following:

31 December 2012	Land	Buildings	Plant and machinery	Equipment, motor vehicles and other	Assets under construction	Total
COST						
Balance at 31 December 2011	46,153	2,976,431	3,156,272	510,718	1,453,656	8,143,230
Additions	628	276	62,790	94,813	1,341,914	1,500,421
Transfers	–	595,905	519,681	18,584	(1,134,170)	–
Disposals	–	(4,045)	(31,198)	(27,401)	(6,132)	(68,776)
Acquisition through business combinations (Note 5)	409,794	879,739	334,361	9,498	25,203	1,658,595
Transfers to non-current assets classified as held for sale	–	–	–	–	(7,251)	(7,251)
Foreign exchange differences	–	(8,845)	(8,489)	(693)	(5,657)	(23,684)
Balance at 31 December 2012	**456,575**	**4,439,461**	**4,033,417**	**605,519**	**1,667,563**	**11,202,535**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance at 31 December 2011	–	428,273	1,856,028	264,534	50,703	2,599,538
Depreciation charge	–	115,243	422,627	91,335	–	629,205
Disposals	–	(32)	(12,506)	(23,605)	(134)	(36,277)
Impairment and reversal of impairment (a)	–	(5,201)	(6,463)	18	(9,289)	(20,935)
Foreign exchange differences	–	(615)	(1,577)	(211)	(1,079)	(3,482)
Balance at 31 December 2012	**–**	**537,668**	**2,258,109**	**332,071**	**40,201**	**3,168,049**
NET BOOK VALUE						
Balance at 31 December 2011	46,153	2,548,158	1,300,244	246,184	1,402,953	5,543,692
Balance at 31 December 2012	**456,575**	**3,901,793**	**1,775,308**	**273,448**	**1,627,362**	**8,034,486**

31 December 2011	Land	Buildings	Plant and machinery	Equipment, motor vehicles and other	Assets under construction	Total
COST						
Balance at 31 December 2010	33,912	2,246,158	2,713,592	416,169	846,848	6,256,679
Additions	–	16,867	28,256	100,672	1,624,647	1,770,442
Transfers	16,702	643,741	332,418	26,029	(1,018,890)	–
Disposals	–	(6,602)	(24,367)	(38,992)	(4,228)	(74,189)
Acquisition through business combination (Note 5)	–	123,249	109,546	7,374	47,967	288,136
Transfers to non-current assets classified as held for sale	–	(52,297)	(6,042)	(614)	(6,249)	(65,202)
Effect from change of Group's share in joint-venture (b)	(4,461)	(2,622)	(4,591)	(523)	(41,148)	(53,345)
Foreign exchange differences	–	7,937	7,460	603	4,709	20,709
Balance at 31 December 2011	**46,153**	**2,976,431**	**3,156,272**	**510,718**	**1,453,656**	**8,143,230**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance at 31 December 2010	–	342,769	1,495,846	214,324	35,661	2,088,600
Depreciation charge	–	74,775	380,920	83,686	–	539,381
Disposals	–	(1,101)	(11,709)	(33,063)	–	(45,873)
Impairment and reversal of impairment (a)	–	38,232	(7,333)	2	14,835	45,736
Transfers to non-current assets classified as held for sale	–	(26,943)	(3,104)	(588)	–	(30,635)
Effect from change of Group's share in joint-venture (b)	–	(56)	(112)	(35)	–	(203)
Foreign exchange differences	–	597	1,520	208	207	2,532
Balance at 31 December 2011	**–**	**428,273**	**1,856,028**	**264,534**	**50,703**	**2,599,538**
NET BOOK VALUE						
Balance at 31 December 2010	33,912	1,903,389	1,217,746	201,845	811,187	4,168,079
Balance at 31 December 2011	**46,153**	**2,548,158**	**1,300,244**	**246,184**	**1,402,953**	**5,543,692**

(a) Impaired assets primarily represent equipment for production of medical disposables, including syringes, removed from active use due to decline in customer demand and low profitability of these disposables. In 2011, the management of the Group approved the plan to closing of production line of medical disposables. The impairment charge equals to the carrying value of those equipment and assets under construction. In 2012, the Group started to use some items of property, plant and equipment and reversed impairment previously recorded in relation to these items.

(b) In 2011 the Group's interest in the joint venture "NauchTechStroy Plus" LLC decreased from 50% to 37.5%.

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

The Group assets include only an insignificant portion of land on which the Group's factories and buildings, comprising the Group's principal manufacturing facilities, are located, whilst the major portion of the land is held under operating lease agreements with the state municipal bodies. The lease agreements specify lease terms between 1 and 20 years. Long-term agreements have an option to prolong the lease term for another 10 years and include a purchase option after termination of the lease. Purchase price will be determined based on fair value of the land as determined by the municipal authorities. The total amount of rental payments for the use of the land during 2012 was RR 8,214 (2011: RR 9,833). Such payments are reassessed by the state authorities on an annual basis. No such reassessment has been completed for 2013 and beyond as of the date of approval of these consolidated financial statements for issue.

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

11. Intangible assets

	Goodwill	Trademarks and patents	Development costs	Total
COST				
Balance at 31 December 2011	1,561,361	6,730,141	–	8,291,502
Acquisition through business combinations (Note 5)	1,046,381	456,057	151,600	1,654,038
Additions	–	–	28,760	28,760
Foreign exchange differences	(23,440)	–	–	(23,440)
Balance at 31 December 2012	**2,584,302**	**7,186,198**	**180,360**	**9,950,860**
ACCUMULATED AMORTISATION AND IMPAIRMENT				
Balance at 31 December 2011	–	1,573,878	–	1,573,878
Amortisation expense	–	359,044	–	359,044
Reversal of impairment (a) – Note 26	–	(25,000)	–	(25,000)
Balance at 31 December 2012	**–**	**1,907,922**	**–**	**1,907,922**
NET BOOK VALUE				
Balance at 31 December 2011	1,561,361	5,156,263	–	6,717,624
Balance at 31 December 2012	**2,584,302**	**5,278,276**	**180,360**	**8,042,938**

	Goodwill	Trademarks and patents	Total
COST			
Balance at 31 December 2010	1,180,469	6,730,141	7,910,610
Additions through business combinations (Note 5)	359,531	–	359,531
Foreign exchange differences	21,361	–	21,361
Balance at 31 December 2011	**1,561,361**	**6,730,141**	**8,291,502**
ACCUMULATED AMORTISATION AND IMPAIRMENT			
Balance at 31 December 2010	–	1,224,400	1,224,400
Amortisation expense	–	349,478	349,478
Balance at 31 December 2011	**–**	**1,573,878**	**1,573,878**
NET BOOK VALUE			
Balance at 31 December 2010	1,180,469	5,505,741	6,686,210
Balance at 31 December 2011	**1,561,361**	**5,156,263**	**6,717,624**

(a) The reversal of impairment mainly relates to increase in consumption of certain pharmaceutical Group's products in 2012. The recoverable amount was determined based on a value in use calculation using cash flow projections developed on the basis of financial budgets approved by management covering a five-year period and cash flows beyond the five-year period are extrapolated using a 5% growth rate that is the mid-term average growth rate for pharmaceuticals market. The discount rate applied to cash flow projections is 14.8%.

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

	Carrying amount		Remaining amortization period (years)	
Name	2012	2011	2012	2011
Afobazol®	1,642,942	1,747,256	16	17
Arbidol®	1,404,960	1,508,393	13	14
Acipol®	680,649	734,385	13	14
Flucostat®	546,549	586,786	13	14

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated for impairment testing purposes to the following groups of cash-generating units, which are also reportable segments of the Group:

- production and wholesale of pharmaceutical products group of units ("Pharmaceuticals"); and
- production and wholesale of medical equipment group of units ("Equipment").

Carrying amount of goodwill allocated to each group of cash generating units:

	Pharmaceuticals		Equipment		Total	
	2012	2011	2012	2011	2012	2011
Carrying amount of goodwill	2,365,448	1,342,507	218,854	218,854	2,584,302	1,561,361

The recoverable amount of the cash-generating units has been determined based on a value in use calculation using cash flow projections developed on the basis of financial budgets approved by management covering a five-year period and cash flows beyond the five-year period are extrapolated using a 5% growth rate that is the same as the mid-term average growth rate for pharmaceuticals and medical equipment market (2011: 5%). The discount rate applied to cash flow projections is 14.8% (2011: 14.3%).

Key assumption used in value in use calculations

The calculation of value in use for both Pharmaceuticals and Equipment groups of cash-generating units are most sensitive to the following assumptions:

- Discount rates;
- Raw material price inflation;
- Currency rates changes;
- Growth rate used to extrapolate cash flows beyond the budget period.

Discount rates – Discount rates reflect management's estimate of the risks specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for each group of units, regard has been given to the Capital Assets Pricing Model calculation at the reporting date.

Raw material price inflation – past actual raw materials price movements, including the effect of the devaluation of the Russian Rouble for US dollar denominated raw materials, have been used as an indicator of future price movements.

Currency exchange rates changes – estimated based on current trends on the foreign currency market.

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

Sensitivity to changes in assumptions

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the group of units to materially exceed its recoverable amount.

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

12. Inventories

Inventories consist of the following:

	2012	2011
Raw materials – at cost	3,158,610	3,369,275
Work in progress – at cost	347,898	211,645
Finished goods – at net realisable value (a)	5,023,455	3,564,371
	8,529,963	**7,145,291**

(a) On 31 December 2012, finished goods balance included third party products in the amount of RR 1,463,239 (2011: 2,566,037) designated for sale under the terms of the state open auctions won by the Company.

The write-downs of inventories to net realisable value and reversal of write-downs were as follows:

	2012	2011
Balance at 1 January	58,919	41,164
Additional write-downs	246,032	53,453
Unused amounts reversed	(1,278)	(675)
Utilised during the year	(68,975)	(34,959)
Foreign exchange differences	(309)	(64)
Balance at 31 December	**234,389**	**58,919**

13. Trade and other receivables

	2012	2011
Trade receivables (net of allowance for impairment of receivables of RR 107,410 (2011: RR 135,600))	14,905,394	13,973,032
Interest receivable – third parties	56,178	145,744
Interest receivable – related parties (Note 9)	15,490	8,450
Other receivables (a)	–	120,195
	14,977,062	**14,247,421**

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

At 31 December 2012 RR 193,979 of trade receivables were denominated in currencies other than Russian Roubles, primarily in US$ (RR: 114,632) and Ukrainian Hryvnia (RR: 79,146). At 31 December 2011 RR 287,216 of trade receivables were denominated in currencies other than Russian Roubles, primarily in US$ (RR: 163,302) and Ukrainian Hryvnia (RR: 122,976).

Movements in allowance for impairment of trade receivables were as follows:

	2012	2011
Balance at 1 January	135,600	48,781
Additional allowance	21,649	94,046
Unused amounts reversed	(45,915)	(7,440)
Utilised during the year	(2,782)	(819)
Translation differences	(1,142)	1,032
Balance at 31 December	**107,410**	**135,600**

14. Prepayments

	2012	2011
Trade prepayments for services and materials	280,448	245,734
Trade prepayments for third parties products	–	500,000
	280,448	**745,734**

15. Cash and short-term deposits

Cash and short-term deposits consist of the following:

	2012	2011
Cash in bank – Russian Roubles	2,841,147	5,273,076
Cash in bank – Ukrainian Hryvnia	13,944	7,072
Cash in bank – US$ and Euro	2,360,240	41,614
Short-term bank deposits with original maturity less than 90 days – Russian Roubles (a)	3,262,000	–
Short-term bank deposits with original maturity less than 90 days – Ukrainian Hryvnia (a)	82,698	30,042
Short-term bank deposits with original maturity less than 90 days placed in related bank – Russian Roubles (b)	28,327	–
Cash deposits on state open auctions – Russian Roubles (c)	75,627	31,268
	8,663,983	**5,383,072**

(a) Short-term bank deposits bear an interest rate of 5.59%-7.55% p.a. for deposits denominated in Russian Roubles and 20.3%-24.0% p.a. for deposits denominated in Ukrainian Hryvnia (2011: 10.5% p.a. for deposits denominated in Ukrainian Hryvnia).

(b) This item represents cash deposits restricted for use and placed in the related bank to secure certain bank guarantees obtained by the Group for participation in state open auctions announced by the Government of the Russian Federation. These cash deposits have a 2.2%-3.0% p.a. and released within 30 days from the date of deposit.

(c) This item represents cash deposits restricted for use and placed to secure participation in state open auctions announced by the Government of the Russian Federation. These cash deposits are interest free, payable on demand, and are usually released within 30 days from the date of placing the deposit.

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

16. Short-term financial assets

	2012	2011
Accounted for as loans and receivables:		
Promissory notes – Russian Roubles	990,790	586,820
Promissory notes issued by a related bank – US$ – Note 9	607,454	–
Short-term bank deposits – Russian Roubles	400,000	2,300,000
Short-term bank deposits placed in related bank – Russian Roubles – Note 9	–	200,000
Short-term bank deposits – US$	–	321,961
Short-term bank deposits placed in related bank – US$ – Note 9	941,554	–
Short-term loans (a)	–	25,000
Short-term loan provided to other related party – Russian Roubles – Note 9	72,000	–
Short-term loans provided to majority shareholder – US$ – Note 9	1,442,703	–
Accounted for as available for sale:		
Securities	13,513	9,340
Other	1,858	2,920
	4,469,872	**3,446,041**

(a) In 2012, the Group recognized an impairment loss of RR 25,000 (2011: RR 25,000) for loan provided by the Company in 2009. The impairment loss was recognised in other expenses (Note 26).

The short-term bank deposits denominated in Russian Roubles as of 31 December 2012 earn interest at a rate of 8.5% p.a. (2011: 8.0%-8.5% p.a.). The short-term bank deposits placed in related bank and denominated in US$ earn interest at a rate of 3.5% p.a.

17. Borrowings and loans

	2012	2011
Long-term borrowings and loans		
Loans from a related party – Russian Roubles (Note 9)	48,750	–
	48,750	–

Long-term debt is repayable as follows:

	2012	2011
1 to 2 years (a)	15,000	
2 to 2 years (a)	33,750	–
	48,750	–

	2012	2011
Short-term borrowings and loans		
Short-term loan – Russian Roubles (b)	–	700,000
Loan from related party – Russian Roubles (Note 9)	32,250	32,250
Other loans – Note 9	1,300	1,300
	33,550	**733,550**

(a) The unsecured loan in amount RR 33,750 was raised in October 2012. The unsecured loan in amount RR 15,000 was raised in December 2012. These loans bore a fixed interest rate of 12% p.a. The loan in amount RR 33,750 has maturity date 19 October 2015, the loan in amount RR 15,000 has maturity date 30 December 2014.

(b) This unsecured loan was raised in November 2011 to provide the Company's participation in certain state open auctions announced by the Government of the Russian Federation. This loan bore a fixed interest rate of 8.5% p.a. and was fully repaid by the Company in January 2012.

18. Other taxes payable

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

	2012	2011
Value-added tax	971,561	512,696
Social taxes	60,857	31,936
Property tax	17,488	14,101
Other taxes	40,719	40,552
	1,090,625	**599,285**

19. Trade and other payables and accruals, and advances received

	2012	2011
Trade payables	1,913,063	1,412,990
Payables for products procurement – third parties (a)	7,751,941	7,346,166
Payables for products procurement and other payables – related parties (Note 9, a)	684,666	1,391,371
Advances received	143,579	103,359
Issued promissory notes – US$ and Euro (b)	240,514	277,030
Other payables and accruals	863,530	704,072
	11,597,293	**11,234,988**

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

(b) This balance primarily represents the interest free promissory notes issued by the Company's subsidiary "Pharmstandard-Biolik" before the date of acquisition. The promissory notes are payable to the companies affiliated with the non-controlling shareholders of "Pharmstandard-Biolik". These promissory notes are payable on demand (Note 5).

At 31 December 2012 RR 2,052,699 of total payables were denominated in currencies other than Russian Rouble, primarily in US$ (2011: RR 1,597,538).

20. Other non-current liabilities

	2012	2011
Deferred income (a)	75,000	–
Other	13,920	9,265
	88,920	**9,265**

(a) The newly acquired subsidiaries of the Group "Pharmapark" LLC and "Biomed named after I.I. Mechnikov" OJSC (Note 5) receive government grants to finance certain development costs. This amount represents cash proceeds from government grants and it will be credited to profit or loss over useful life of the intangible asset recognised upon completion of the development stage (see Notes 3.7, 3.19 and 11).

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

21. Share capital

In accordance with its charter documents the share capital of the Company is RR 37,793. The authorised number of ordinary shares is 37,792,603 with par value of 1 (one) Russian Rouble. All authorised shares are issued and fully paid. There were no other transactions with own shares during 2012 and 2011 except for the acquisition of Company's treasury shares by "Pharmstandard-Leksredstva" OJSC as described in Note 7.

As of 31 December 2012 and 2011 54.32% of voting shares of OJSC "Pharmstandard" were held by Augment controlled by Victor Kharitonin, a Russian citizen.

In May 2007, 16,349,408 ordinary shares representing 43.3% of share capital of the Company were sold by Augment to public investors as a result of the Initial Public Offering conducted simultaneously at Russian stock exchanges (RTS and MICEX) where 18.3% of the shares were offered and at the London stock exchange (LSE) where the remaining 25% were offered.

In 2008 and 2009, 969,815 ordinary shares representing 2.56% of share capital of the Company were sold by Augment and were offered at LSE. Also, in 2009 Augment reacquired 55,000 ordinary shares. In 2011 and 2012, approximately 8.44% of the Company's shares were acquired by the Company's subsidiary "Pharmstandard-Leksredstva" OJSC and were recognized as treasury shares (for more details see Note 7).

After these transactions, "Pharmstandard-Leksredstva" OJSC holds 8.44% of issued shares as treasury shares, Augment holds 54.32% of share capital and 37.24% of share capital is publicly listed of which 27.56% is on the LSE.

In accordance with Russian legislation, dividends may only be declared from accumulated undistributed and unreserved earnings as shown in Russian statutory financial statements. The Company had approximately RR 27,363,676 (unaudited) of undistributed and unreserved earnings as of 31 December 2012 (2011: RR 20,559,281– unaudited). In addition, the Company's share in the undistributed and unreserved earnings of the subsidiaries and joint ventures was approximately RR 19,017,643 (unaudited) as at 31 December 2012 (2011: RR 14,883,682 – unaudited).

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

Earnings per share

Earnings per share are as follows:

	2012	2011
Weighted average number of ordinary shares outstanding (Note 7)	35,385,353	36,271,978
Profit for the year attributable to the shareholders	9,790,915	8,780,520
Basic and diluted earnings per share, Russian Roubles	276.69	242.07

22. Revenue

Revenue breakdown by product groups comprised the following:

	2012	2011
PHARMACEUTICAL PRODUCTS		
Over the Counter ("OTC")		
Branded	12,461,582	13,270,489
Non-branded	2,823,266	2,226,822
	15,284,848	**15,497,311**
Prescription		
Branded	4,957,477	3,509,433
Non-branded	938,200	769,996
	5,895,677	**4,279,429**
Third parties products (a)	28,279,120	21,725,971
Other – substances and APIs	601,611	387,569
Total pharmaceutical products	**50,061,256**	**41,890,280**
MEDICAL EQUIPMENT	1,330,219	763,607
	51,391,475	**42,653,887**

(a) Third parties products sales include sales of branded pharmaceutical products such as Velcade® (for more details see Note 9), Mildronate®, Coagil VII, IRS®-19, Imudon®, Prezista®, Mabtera®,Pulmozyme® and Reduxin manufactured by other pharmaceutical companies.

23. Cost of sales

The components of cost of sales were as follows:

	2012	2011
Materials and components	6,819,221	6,137,034
Third parties products	22,944,229	18,323,186
Production overheads	1,504,435	1,170,378
Depreciation and amortisation	847,094	792,840
Direct labour costs	373,266	304,981
	32,488,245	**26,728,419**

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

24. Selling and distribution costs

Selling and distribution costs were as follows:

	2012	2011
Advertising	2,753,636	1,692,558
Labour costs	1,366,104	1,092,143
Freight, communication and insurance of goods in transit	202,805	207,107
Trainings and other services	73,748	78,100
Certification expenses	98,774	87,620
Rent	93,229	88,034
Commission and license fee	132,110	78,987
Materials, maintenance and utilities	121,170	128,909
Travel and entertainment	141,760	92,295
Depreciation	79,343	59,860
Other expenses	42,461	36,502
	5,105,140	**3,642,115**

25. General and administrative expenses

General and administrative expenses were as follows:

	2012	2011
Labour costs	955,032	769,209
Services, legal, audit and consulting expense	104,701	97,698
Travel and entertainment	37,985	27,584
Taxes other than income tax	24,659	21,300
Property and other insurance	20,976	18,403
Freight and communication	30,870	28,169
Depreciation	61,812	36,159
Rent	83,107	58,928
Materials, maintenance and utilities	145,924	104,317
Other	41,538	34,382
	1,506,604	**1,196,149**

26. Other income and other expenses

Other income comprised the following:

	2012	2011
Foreign exchange gain, net	–	9,370
Gain from disposal of property, plant and equipment	–	22,619
Agency fee (a)	340,882	144,413
Income from non-core operations (b)	55,919	21,834
Cash rebates	–	63,478
Reversal of impairment – property, plant and equipment (Note 10)	23,087	7,333
Reversal of impairment – intangible assets (Note 11)	25,000	–
Other income	4,807	25,646
	449,695	**294,693**

(a) Agency fee was earned by the Company in respect of sale of certain third-parties products, including products manufactured by related parties.

(b) Income from non-core operations primarily includes (i) income from sale of materials and other assets not included in other categories (ii) income from tolling operation (iii) income from other non-core services such as manufacturing production and utilities.

Other expenses comprised the following:

	2012	2011
Foreign exchange loss	36,061	–
Loss from disposal of property, plant and equipment	3,436	–
Expense related to the joint venture	–	53,142
Charity	6,029	30,062
Bank charges (b)	28,463	32,878
Other taxes and penalties	81,044	60,128
Impairment of property, plant and equipment (Note 10)	2,152	53,069
Impairment of short-term financial assets (c)	25,000	25,000
Loss recognized on non-current assets classified as held for sale	–	16,537
Other	79,706	61,780
	261,891	**332,596**

(a) In May 2011 the Group's share in "NauchTechStroy Plus" LLC decreased from 50% to 37.5% (Note 6.1). As a result of a decrease of the Group's share in net assets of the joint venture, the Group recognised a loss in the amount of RR 53,142 presented as other expenses.

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

(c) In 2012 and 2011, the Group recognized an impairment loss in the amount of RR 25,000 per each year for the loan provided by the Company in 2009 (Note 16).

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

27. Financial income and expense

Financial income and expense comprised the following:

	2012	2011
Interest income:		
Income from changes in fair value of Interest Rate Swap (a)	–	11,249
Interest income from loans and deposits	125,306	220,270
Other	1,461	–
	126,767	**231,519**
Interest expense:		
Loss from Interest Rate Swap (a)	–	10,453
Interest expense on borrowings and loans	35,648	30,139
Other	–	2,643
	35,648	**43,235**

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

28. Income tax

	2012	2011
Income tax expense – current	2,758,284	2,484,941
Deferred tax benefit– origination and reversal of temporary differences	(151,881)	(79,993)
Income tax expense	**2,606,403**	**2,404,948**

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

	2012	2011
Profit before income tax	**12,570,409**	**11,237,585**
Theoretical tax charge at Russian statutory rate of 20%	2,514,082	2,247,517
Effect of the difference in tax rates in countries other than the Russia	1,529	701
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	90,792	156,730
Income tax expense	**2,606,403**	**2,404,948**

Movements in deferred tax balances were as follows:

	31 December 2010	Temporary differences recognition and reversal in profit and loss	Effect of business combination in 2011 (Note 5)	31 December 2011	Temporary differences recognition and reversal in profit and loss	Effect of business combinations in 2012 (Note 5)	31 December 2012
Tax effects of deductible temporary differences – asset (liability):							
Property, plant and equipment (Note 10)	(285,957)	15,713	(15,241)	(285,485)	(2,140)	(277,414)	(565,039)
Intangible assets (Note 11)	(484,497)	30,540	–	(453,957)	24,277	(86,165)	(515,845)
Trade and other receivables	23,971	(29,723)	3,389	(2,363)	26,973	7,622	32,232
Inventories	91,857	51,060	(11,036)	131,881	88,582	(15,531)	204,932
Trade and other payables	4,896	13,224	1,992	20,112	14,044	3,331	37,487
Financial instruments	2,250	2,963	45	5,258	(2,816)	–	2,442
Other	5,146	(3,784)	1,402	2,764	2,961	23,083	28,808
Total net deferred tax liability	**(642,334)**	**79,993**	**(19,449)**	**(581,790)**	**151,881**	**(345,074)**	**(774,983)**

The recognition and reversals of temporary differences primarily relates to the following:

- depreciation of property, plant and equipment in excess of the depreciation for tax purposes;
- fair value adjustments on acquisition;
- fair value of financial instruments in excess of the cost of these instruments for tax purpose;
- impairment of trade receivables;
- write down of inventory to net realizable value;
- amortisation of trademarks in excess of the amortisation for tax purposes; and
- deemed cost adjustments upon conversion to IFRS.

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised was approximately RR 11,552,934 as at 31 December 2012 (2011: RR 10,534,712).

29. Contingencies, commitments and operating risks

Operating environment of the Group

Russia, where majority of the Group's operations are located, continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2012, the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

The second largest market the Group operates is Ukraine. The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world and while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. The stability of the Ukrainian economy will be significantly impacted by the Government's policies and actions with regard to administrative, legal, and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets.

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

Taxation

Russian and Ukrainian 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 2012 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Because of the uncertainties associated with the Russian and Ukrainian 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 2012. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Should the 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 (in Russia amounting to 20% of such amount and interest at the rate of 1/300 of the Central Bank of the Russian Federation rate for each day of delay for late payment of such amount). Management believes that it is not probable that the ultimate outcome of such matters would result in a liability. Therefore, no provision for these contingencies was recorded in these consolidated financial statements.

Russian transfer pricing legislation

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the tax Russian authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if the amount of all transaction with related party exceeds
RUR 3 billion in 2012. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities according to the special notification issued by the authorized body in due course.

The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place in 2012 but also to the prior transactions with related parties if related income and expenses were recognized in 2012. Special transfer pricing rules apply to transactions with securities and derivatives.

In 2012 the Group determined its tax liabilities arising from "controlled" transactions using actual transaction prices.

Due to the uncertainty and absence of current practice of application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Group under the "controlled" transactions and assess additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the "controlled" transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

Insurance policies

The Group holds insurance policies in relation to its property, plant and equipment, which cover majority of property, plant and equipment items. The Group holds no insurance policies in relation to its operations, or in respect of public liability.

Operating lease agreements

The Group entered into a number of operating lease agreements for warehouses. Rental agreements are revised on an annual basis.

Commitment liabilities

In 2012, the Group provided certain unsecured guaranties in the total amount of RR 111,645 with maturity period from two years to three years for related parties to provide some state contracts signed by these related parties. The management believes that provided guarantees have remote financial risks for the Group. No liability related to guarantees was recognised in the statement of financial position as of 31 December 2012.

Statutory inspection of "Biolik"

In December 2012, the Ukrainian authorities performed an extraordinary inspection of Biolik compliance with the applicable production quality standards. The inspection revealed certain formal deficiencies in the controls over production quality resulting in suspension in Biolik production process until resolution of those deficiencies. Those deficiencies were primarily due to the reconstruction of production and maintenance work to improve the quality of Biolik's products. Management believes that the deficiencies will be resolved soon and Biolik production process will be renewed in the near future. In addition, management believes that the discussed circumstances will not have material adverse effects on the Group.

Significant litigations

The Company is involved in on-going litigation initiated by the Federal Anti-monopoly Service of Russia regarding breach by the Company of anti-monopoly legislation at the state open tender in 2009.

While there is uncertainty as to ultimate outcome of this litigation, the Group has reasonable grounds to conclude that the associated risks of imposing the applicable administrative fines up to RR 201,000 are not probable. Therefore, no provision for this contingent liability was recorded in these consolidated financial statements. Management estimates that the litigation will be finalized in 2013.

30. Financial instruments and financial risk management objectives and policies

Fair values

Management believes that fair value of cash and cash equivalents, loans receivable, promissory notes, short-term deposits, other receivable or payables and securities approximate their carrying amounts due to their short maturity.

Fair values of short-term borrowings and loans are approximately equal to their carrying value. Fair value of derivative financial instruments has been calculated by discounting the expected future cash flows at prevailing interest rates. The Group has no long-term borrowings and loans and derivative financial instruments as of 31 December 2012.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

31 December 2012:

	Total	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets				
Securities (Note 16)	13,513	9,842	–	3,671

31 December 2011:

	Total	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets				
Securities (Note 16)	9,340	8,380	–	960

Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans, short-term bank deposits and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations and investment activities. The Group has various other financial assets and liabilities such as promissory notes, trade receivables, trade and other payables, which relate directly to its operations. During the year the Group did not undertake active trading in financial instruments.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. Management reviews and agrees policies for managing each of these risks which are summarised below.

Interest rate risk

Management believes that the Group does not have significant interest rate risk as of 31 December 2012 The Group has certain short-term financial investments (loans and bank deposits, see Notes 15 and 16 at fixed interest rates based on current market rates and has no any borrowings and loans except for loans from related parties as described in Note 9. Therefore, the Group has no risk to interest rates changes due to possible changes in market interest rates.

Foreign exchange risk

The Group has certain US dollar denominated cash and cash equivalents, short-term bank deposits, promissory notes, trade payables, issued promissory notes and other payables (Note 19), trade receivables (Note 13) and other liabilities. Therefore, the Group is exposed to foreign exchange risk.

The Group monitors the foreign exchange risk by following changes in exchange rates in the currencies in which its cash, payables and borrowings are denominated. However, the Group does not have formal arrangements to mitigate this foreign exchange risk.

The tables below shows the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax:

	Increase/decrease in US$ rate	Effect on profit before tax
As at 31 December 2012		
US$/Roubles exchange rate	+10%	406,227
US$/Roubles exchange rate	-10%	(406,227)
As at 31 December 2011		
US$/Roubles exchange rate	+10%	(51,621)
US$/Roubles exchange rate	-10%	51,621

	Increase/decrease in US$ rate	Effect on profit before tax
As at 31 December 2012		
US$/Ukrainian Hryvnia exchange rate	+7%	(13,570)
US$/Ukrainian Hryvnia exchange rate	-7%	13,570

	Increase/decrease in US$ rate	Effect on profit before tax
As at 31 December 2011		
US$/Ukrainian Hryvnia exchange rate	+2%	(6,371)
US$/Ukrainian Hryvnia exchange rate	-2%	6,371

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its operating and financial commitments. The Group performs continuous monitoring of cash deficit risks and continuous monitoring of repayment of its financial liabilities on time. The Group performs daily planning and control cash flow procedures.

The table below summarises the maturity profile of the Group's non-derivative financial liabilities based on contractual undiscounted payments including interest except for trade and other payables which normally have average maturity periods shorter than four months.

As at 31 December 2012	Total	Less than 3 months	3 to 6 months	6 to 12 months	More than 12 months
Borrowings and loans (Note 10 and 18)	82,300	–	–	33,550	48,750
Other current liabilities	25,159	25,159	–	–	–
Other non-current liabilities	5,225	–	–	–	5,225
Total	**112,684**	**25,159**	**–**	**33,550**	**53,975**

As at 31 December 2011	Total	Less than 3 months	3 to 6 months	6 to 12 months
Guarantee payment for Biolik acquisition (Note 5)	10,625	10,625	–	–
Borrowings and loans (Note 9 and 17)	735,828	702,278	–	33,550
Other current liabilities	26,669	26,669	–	–
Total	**773,122**	**739,572**	**–**	**33,550**

Credit risk

Financial assets, which potentially are subject to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Sales to customers are made in accordance with annually approved Marketing and Credit policy. The Group daily monitors sales and receivables conditions using appropriate internal control procedures.

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

The carrying amount of accounts receivable, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk. Although collection of receivables could be affected by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

Cash and deposits are mainly held in related bank, so the Group assessed the credit risk as low.

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

			Not impaired but past due				
	Total	Neither impaired nor past due	less 1 month	1-2 months	2-3 months	3 to 6 months	>6 months
31 December 2012	**14,977,062**	**14,222,302**	**516,441**	**168,713**	**39,735**	**21,879**	**7,992**
31 December 2011	14,247,421	12,055,149	1,948,540	165,888	23,543	7,964	46,337

Sales concentration to a small group of customers

The Group works with six distributors that together represent more than 50% of the Group's revenue for 2012 (seven distributors in 2011). It is common practice of the Russian pharmaceutical market to work with the limited number of large distributors.

Capital risk management

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

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio not more than 60%. The Group includes within net debt borrowings and loans, trade and other payables less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent.

	2012	2011
Borrowings and loans	82,300	733,550
Trade and other payables	11,453,714	11,131,629
Less: cash and short-term deposits	(8,663,983)	(5,383,072)
Net debt	2,872,031	6,482,107
Equity	37,566,634	29,778,979
Capital and net debt	40,438,665	36,261,086
Gearing ratio	7%	18%

31. Events after the reporting period

Treasury shares purchase

On 15 February 2013, the management of the Group announced a plan to purchase the Company's ordinary shares at Russian stock exchanges and/or at London stock exchange in the form of Global Depositary Receipts by the Company's subsidiary "Pharmstandard-Leksredstva" OJSC. The total amount of funds allocated for the treasury shares purchase is limited to RR 8,000,000 and the plan should be fulfilled by 31 December 2013.

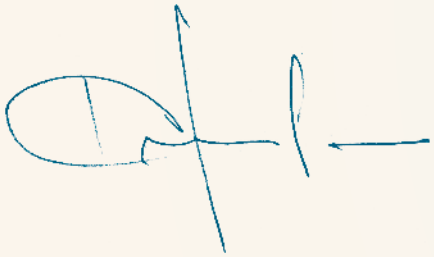
1 Excluding sales to the Ministry of health and social department under state open auctions.

Responsibility Statement

Directors are responsible for preparing this Annual Report of Pharmstandard OJSC ("Pharmstandard" or "the Company") including consolidated financial statements in accordance with applicable laws and regulations. Each of the current Directors whose names and functions are listed in the Corporate governance section of the 2012 Annual Report confirms that, to the best of his or her knowledge:

- the Company's IFRS consolidated financial statements provide a true and fair view of its assets, liabilities, financial position and earnings;
- the business section of the Annual Report includes a fair review of the Company's business development and performance, its industry position as well as a description of key risks and uncertainties impacting the Company's business.

Chief Executive Officer
Igor Krylov



Glossary

Terms and abbreviations

API	Active Pharmaceutical Ingredients
ARVI	Acute respiratory viral infection
BAA	Bio Active Additive
CAGR	Compound Annual Growth Rate
CJSC	Closed Joint Stock Company
CMR	Market Research Centre Pharmexpert
COGS	Cost of Goods Sold
EBITDA	Earnings before Taxes, Depreciation and Amortisation. Throughout the report EBITDA means adjusted EBITDA to foreign exchange gain/loss
FRP	Federal Reimbursement Programme
FSU	Former Soviet Union
G&A	General and Administrative Expenses
GDR	Global Depositary Receipt
GMP	Good Manufacturing Practice
INN	International Nonproprietary Name
LLC	Limited Liabilities Company
LSE	London Stock Exchange
OJSC	Open Joint Stock Company
ONLS	Essential Drug Management Program
Organic Sales	Pharmstandard own products
OTC	Over-the-Counter - Non-prescription drugs
P&L	Profit& Loss
RIG	Rabies immunoglobulin
RTS	Russian Trading System
RUR	Russia Ruble
Rx	Prescription drugs
S&D	Sales and Distribution Expenses
SKU	Stock keeping unit
TPP	Third Parties Products
US$	United States Dollar
VAT	Value added tax
VED	Vital and Essential Drugs
vs	versus

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