Pharmstandard

10 years of Leadership. New Horisons

annual report 2013

annual report 2013

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Pharmstandard Today

CEO Statement

To our shareholders

This year marked the 10th anniversary of Pharmstandard: 10 years of leadership, consistent development and active growth.

At Pharmstandard, our success is rooted in three core principles: innovation, efficiency, responsibility. We consistently adhered to our principles over these years and we believe that they were the founding basis for our fundamental growth.

I am very proud to say that our business once again has delivered strong results in 2013, led by favorable market performance and the strength of our key brands. 2013 revenue went up 10%, and reached RUB56bn. We maintained our very strong EBITDA margin at the level of 30%.

In parallel we achieved another key goal which was to prioritize our product portfolios and focus our energies in areas where we have the greatest opportunities to lead and meet the evolving needs of customers in Russia.

This year we also have made a strategic decision to reorganize our business by spinning-off the Branded over-the-counter business ("Branded OTC") into a separate company – OTCPharm PJSC. Branded OTC includes 27 actively developed OTC brands which are present in key therapeutic categories on the Russian pharmaceutical market and represent to 25% of Pharmstandard revenue in 2013. OTCPharm is headed by Olga Mednikova, previously Chief of Marketing in Pharmstandard.

The Company's management sees a potential strategic benefit in the spin-off as operating the Branded OTC business separately will be more efficient and a separate listing of OTCPharm PJSC may attract additional investor interest so that the combined value of Pharmstandard and OTCPharm has the potential for stronger value increase.

You will find more details on OTCPharm business further in this Annual Report.

This year the business of Pharmstandard has gone through a significant change and strategic-rethinking.

As always, we couldn't have achieved any of this without our people. We work hard to attract the very best people to Pharmstandard and to create a culture that encourages them to do their best work and fulfil their potential.

Our new horizons include focusing on our prescription business, both commercial and institutional with a strong accent on product localization and government procurement, as well as exploring many new exiting opportunities.

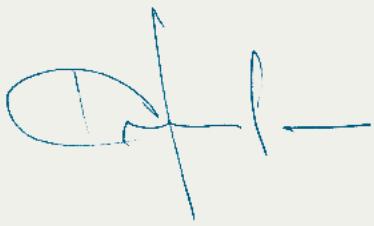
I would like to thank the whole team for their hard work and enthusiasm over the years, for their continued drive and determination.

I am pleased to express my heartfelt gratitude to shareholders and investors for their generous support. This support is critical as we address a variety of challenges in accomplishing our long-term strategic vision of developing Pharmstandard into a specialized pharmaceutical company with a significant market share by 2020.

We will continue to be guided by our core principles, innovation, efficiency, responsibility, as we work to implement of our medium-term plan and realization of the long-term strategic vision.

In these endeavors, we would like to ask for your continued support.

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.

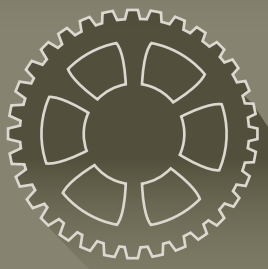
Efficiency

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



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:

Launch new pharmaceutical products in a timely manner to capture market share.

Maintain our focus on cost control

Grow through acquisitions and realize synergies

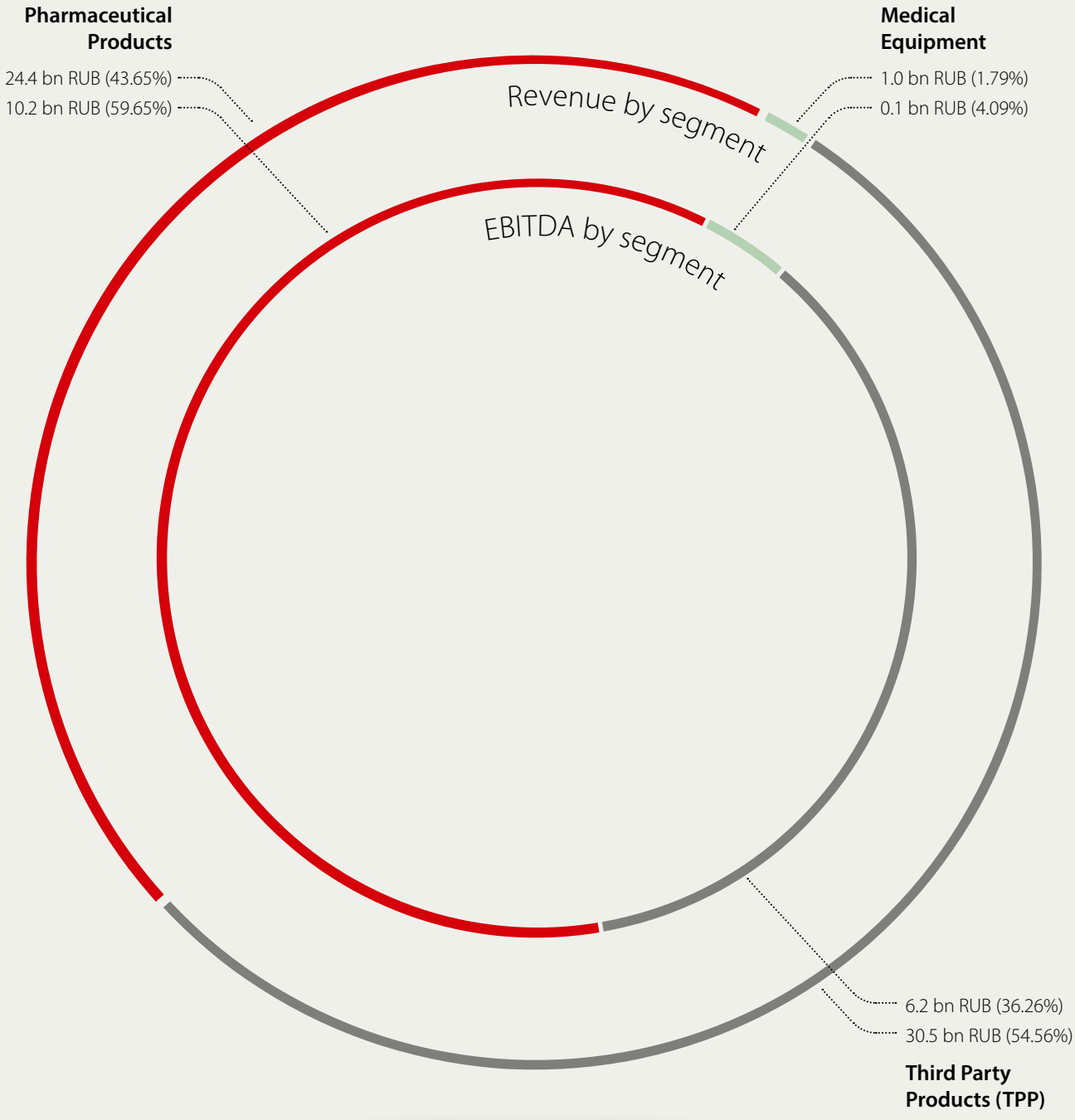
Exploit opportunities arising from government funding of healthcare

Cooperation with leading pharmaceutical companies

Expand our sales and marketing capabilities

Promote our market-leading brands to drive sales growth and profitability

Performance Highlights


Pharmaceutical Products
24.4 bn RUB (43.65%)
10.2 bn RUB (59.65%)
Medical Equipment
1.0 bn RUB (1.79%)
0.1 bn RUB (4.09%)
Revenue by segment
EBITDA by segment
6.2 bn RUB (36.26%)
30.5 bn RUB (54.56%)
Third Party Products (TPP)

The Leading local producer of pharmaceuticals

#1 **Local Company**
with a 16% market share

#3
in the Commercial segment with a market share of 4,3%

#3
market position among all drug/BAA producers with 3,7% market share

The only Russian pharmaceutical company among the top-10 largest players

In 2013, Pharmstandard covered 5,8% of the market in 117 competitive therapeutic categories in value terms with #3 market position

5
Pharmstandard products are included into top 25 commercial market brands

11 **new drugs**
have been registered and launched in 2013

Growth drivers

41%

Amixin®

4.0%
J05B – Antivirals, excluding antihiv productds

+352 RUB m

#9

57%

Acipol®

8.2%
A07F – Antidiarrhoeal microorganisms

+222 RUB m

#4

65%

Magnelis® B6

11.6%
A12C – OTHER MINERALS

+126 RUB m

#3

46%

Aphobazolum®

19.1%
N05B – Hypnotics / Sedatives
N05C – Tranquillisers

+401 RUB m

#2

NEW DRUG

270%

Next®

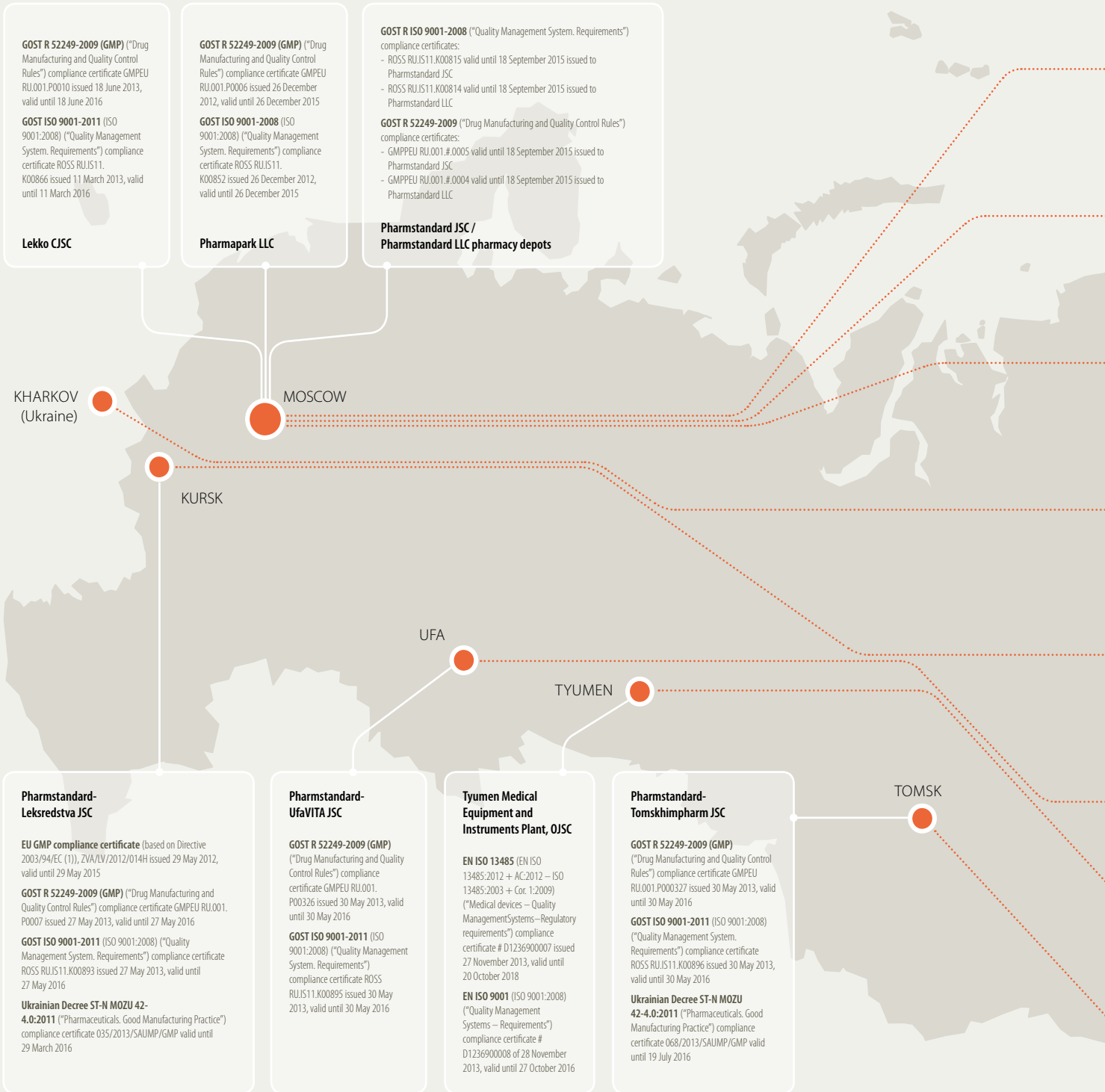
2.2%
N02B – Analgesics and antipyretics

+123 RUB m

#14

Map of operations

Information on compliance certificates issued to Pharmstandard OJSC operating companies



GOST R 52249-2009 (GMP) ("Drug Manufacturing and Quality Control Rules") compliance certificate GMPEU RU.001.P0010 issued 18 June 2013, valid until 18 June 2016

GOST ISO 9001-2011 (ISO 9001:2008) ("Quality Management System. Requirements") compliance certificate ROSS RU.IS11. K00866 issued 11 March 2013, valid until 11 March 2016

Lekko CJSC

GOST R 52249-2009 (GMP) ("Drug Manufacturing and Quality Control Rules") compliance certificate GMPEU RU.001.P0006 issued 26 December 2012, valid until 26 December 2015

GOST ISO 9001-2008 (ISO 9001:2008) ("Quality Management System. Requirements") compliance certificate ROSS RU.IS11. K00852 issued 26 December 2012, valid until 26 December 2015

Pharmapark LLC

GOST R ISO 9001-2008 ("Quality Management System. Requirements") compliance certificates:
- ROSS RU.IS11.K00815 valid until 18 September 2015 issued to Pharmstandard JSC
- ROSS RU.IS11.K00814 valid until 18 September 2015 issued to Pharmstandard LLC

GOST R 52249-2009 ("Drug Manufacturing and Quality Control Rules") compliance certificates:
- GMPPEU RU.001.#.0005 valid until 18 September 2015 issued to Pharmstandard JSC
- GMPPEU RU.001.#.0004 valid until 18 September 2015 issued to Pharmstandard LLC

Pharmstandard JSC / Pharmstandard LLC pharmacy depots

Pharmstandard-Leksredstva JSC

EU GMP compliance certificate (based on Directive 2003/94/EC (1)), ZVA/LV/2012/014H issued 29 May 2012, valid until 29 May 2015

GOST R 52249-2009 (GMP) ("Drug Manufacturing and Quality Control Rules") compliance certificate GMPEU RU.001. P0007 issued 27 May 2013, valid until 27 May 2016

GOST ISO 9001-2011 (ISO 9001:2008) ("Quality Management System. Requirements") compliance certificate ROSS RU.IS11.K00893 issued 27 May 2013, valid until 27 May 2016

Ukrainian Decree ST-N MOZU 42-4.0:2011 ("Pharmaceuticals. Good Manufacturing Practice") compliance certificate 035/2013/SAUMP/GMP valid until 29 March 2016

Pharmstandard-UfaVITA JSC

GOST R 52249-2009 (GMP) ("Drug Manufacturing and Quality Control Rules") compliance certificate GMPEU RU.001. P00326 issued 30 May 2013, valid until 30 May 2016

GOST ISO 9001-2011 (ISO 9001:2008) ("Quality Management System. Requirements") compliance certificate ROSS RU.IS11.K00895 issued 30 May 2013, valid until 30 May 2016

Tyumen Medical Equipment and Instruments Plant, OJSC

EN ISO 13485 (EN ISO 13485:2012 + AC:2012 – ISO 13485:2003 + Cor. 1:2009) ("Medical devices – Quality ManagementSystems–Regulatory requirements") compliance certificate # D1236900007 issued 27 November 2013, valid until 20 October 2018

EN ISO 9001 (ISO 9001:2008) ("Quality Management Systems – Requirements") compliance certificate # D1236900008 of 28 November 2013, valid until 27 October 2016

Pharmstandard-Tomskhimpharm JSC

GOST R 52249-2009 (GMP) ("Drug Manufacturing and Quality Control Rules") compliance certificate GMPEU RU.001.P000327 issued 30 May 2013, valid until 30 May 2016

GOST ISO 9001-2011 (ISO 9001:2008) ("Quality Management System. Requirements") compliance certificate ROSS RU.IS11.K00896 issued 30 May 2013, valid until 30 May 2016

Ukrainian Decree ST-N MOZU 42-4.0:2011 ("Pharmaceuticals. Good Manufacturing Practice") compliance certificate 068/2013/SAUMP/GMP valid until 19 July 2016

Pharmstandard OJSC operating companies

		Capacity utilisation
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	Tablets 30% Capsules 73% Syrups and liquid dosage forms 41% Powders 52% Aerosols and sprays 1%
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	Lyophilisates 30% Nitroglycerins 73% Syrups and liquid dosage forms 41% Ampoules 52% Interferons 1%
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	
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	Syrups and liquid dosage forms 7% Ampoules 2% Lyophilisates 5% Powders 6%
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 EU GMP certificates for 6 production lines	Syrups and liquid dosage forms 95% Tablets 53% Aerosols and sprays 99% Powders 24% Capsules 55%
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	Ampoules 36% Lyophilisates 99% Tablets 62% Vitamins (Ferrohematogen) 99% Insulin human 7%
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	Steam sterilisers, up to 100 l 25% Steam sterilisers, over 100 l 48% Distillers, water collections 47%
OJSC PHARMSTANDARD-TOMSKHIMFARM	Biggest manufacturer of finished pharmaceutical products in Western Siberia Production capacity: >300m packages/year	Syrups and liquid dosage forms 3% Tablets 18% Aerosols and sprays 13% Ointments 32%

Calendar of major events

February 15 — Share buy-back program

The Board of Directors approved a buyback program in respect of ordinary shares of Pharmstandard OJSC and Global Depositary Receipts representing Shares (each Share representing 4 GRDs) in the aggregate amount of up to RUB8bn. Duration of program: December 31, 2013. The decision of the Board of Directions to approve the Program was based on the belief that current share price dynamics do not reflect management's and BoD's views on the fundamental business value of Pharmstandard OJSC.

April 9 — Pharmstandard International S.A. acquisition

Pharmstandard OJSC acquires a 100% stake in Pharmstandard International S.A. The main purpose of acquisition – conducting international transactions in Pharmstandard OJSC interests.

May 24 — AGM

OJSC Pharmstandard holds Annual General Meeting of shareholders

July 5 — Decision on Spin-off

OJSC Pharmstandard Board of Directors decided to initiate necessary steps for a spin-off of Company's branded over-the-counter business into a separate legal entity whose shares will be proportionally distributed among the shareholders of the Company. The EGM was announced for September 27, 2013.

July 8 — Approval of Bever acquisition

Pharmstandard OJSC announces the extraordinary shareholder meeting for August 17, 2014 in anticipation of Bever Pharmaceutical PTE LTD (Singapore) acquisition. The Company's strategic rationale for the Transaction includes securing a long-term fixed-cost supply of critical active pharmaceutical ingredients for two flagship OTC brands Arbidol® and Aphobazolum® as well as significantly increasing the Company's profitability.

July 17 — Buy-back Program

Pharmstandard OJSC completes the buy-back Program. Pursuant to the Company's buyback program 15 009 162 GDRs and 140 000 ordinary shares were purchased on the open market as of July 16, 2013 in the amount of RUB 8 018 448 800,49.

Bever acquisition completed

Pharmstandard completes the transaction to acquire Bever Pharmaceutical PTE LTD (Singapore). Bever becomes a part of Pharmstandard with a view to be included in a proposed spin-off.

EGM. Spin-off approval

EGM approves the reorganization by spin-off of a new public joint-stock company "OTCPharm" by 94.9010% votes in favor of reorganization. Taken together, the attending shareholders who took part in the EGM through a collective meeting with attendance by the shareholders to discuss the agenda issues and to make a resolution on the issues put to vote, owned 33 366 951 votes or 88.2896% of the Company's voting shares. Certain shareholders who voted "against" or did not vote have the option to sell their shares in the Company to the Company.

Registration of Sirturo®

Pharmstandard announces registration of Sirturo® for MDR-TB. The indication registered in Russia is for pulmonary multi-drug resistant tuberculosis («MDR-TB»). This is the first TB drug registered in Russia with a new mechanism of action in nearly 40 years: it blocks the enzyme which gives energy for TB bacteria to survive.

August 17 | August 22 | August 27 | September 27 | November 11 | December 19 | December 23

EGM. Bever acquisition

EGM approves the acquisition of Bever Pharmaceutical PTE LTD (Singapore) with 52,8% of votes interested in transaction. Total consideration for the acquisition of Bever was agreed at US$590m and was funded by the combination of Pharmstandard's shares and GDRs owned by Pharmstandard-Leksredstva OJSC and cash.

Pharmstandard Commits US$30m to Argos Therapeutics Inc.

Pharmstandard International S.A.(Luxembourg) ("Pharmstandard Int.") has purchased 9,214,233 Series E Preferred Shares and 1,417,571 Warrants of Argos Therapeutics Inc. ("Argos") for the amount of US$12m for the purpose of financing the ongoing ADAPT pivotal Phase 3 clinical study of AGS-003 for metastatic renal cell carcinoma (mRCC).

Mandatory buy-out

Pharmstandard announces that it will buy-out 1 436 920 ordinary shares from certain shareholders who were entitled to demand buy-out. The list of shareholders entitled to demand Buyout was formed as of July 5, 2013. Shareholders who voted negatively or did not vote at the EGM regarding reorganization of the Company were entitled to demand buyout of all or some of their ordinary registered shares in the Company in the procedure stipulated by the laws of the Russian Federation until November 11, 2013

Spin-off completed

Pharmstandard completes reorganization by spin-off of OTCPharm PJSC ("OTCPharm"). OTC shares are to be distributed to all shareholders at the date of OTCPharm registration in proportion ¼, i.e. 1 Pharmstandard ordinary share = 4 OTCPharm ordinary shares.

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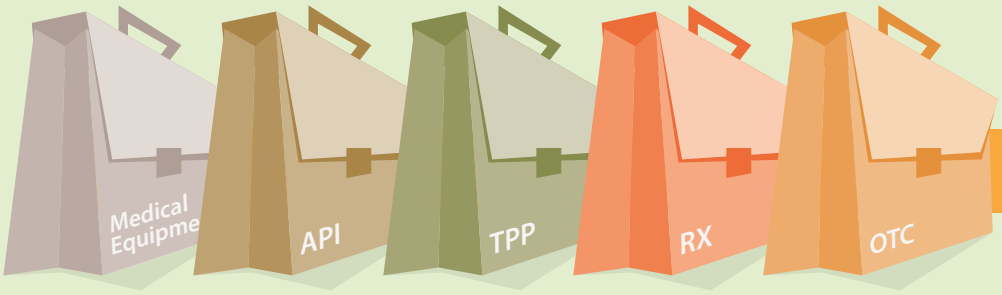
Reorganization. Spin-off

OTCPharm spin-off



Branded OTC

Chief of Sales and Marketing

Team

Pharmstandard-Tomskhimfarm JSC
Lekko CJSC
Pharmstandard-UfaVITA JSC
Pharmstandard-Leksredstva JSC

Services provided

otc pharm
ОТИСИФАРМ

Branded OTC

Owner of IP, registration, licence

27 brands in key therapeutic categories

>250 m packs

25% of Pharmstandard FY2013 sales revenue – RUB 14 bn

Second largest company on a Russian OTC market with a 5,4% share

CEO – Olga Mednikova

Fully fledged sales and marketing team

Best-in-class 400 marketing specialists historically responsible for Branded OTC Portfolio

CONTRACT MANUFACTURING

5 year contract manufacturing period

Fully operational entity with unique platform for further successful growth supported by long-term relationship Pharmstandard OJSC

Production | Quality control | Storage (products and APIs) | Logistics

OTCPharm spin-off

In 2013 Pharmstandard went through a reorganization process by spinning-off the Company's branded over-the-counter business ("Branded OTC") into a separate legal entity OTCPharm PJSC.

In the course of the last several years the Company has significantly diversified its business within the Russian pharmaceutical market and has moved away from being solely focused on the OTC market. For the year ended December 31, 2012, approximately 71% of the total revenues of the Company were derived from sales of third-party pharmaceutical products, prescription pharmaceuticals and medical equipment and from other activities.

The Company's management saw a potential strategic benefit in the spin-off because operating the Branded OTC business separately may be more efficient and a separate listing of OTCPharm may attract additional investor interest so that the combined value of Pharmstandard and OTCPharm may increase.

The decision of the Board of Directors to initiate necessary steps for a spin-off of Company's branded over-the-counter business took place on July 5, 2013 followed by an EGM announcement scheduled for September 27, 2013.

As a result of the EGM, the Reorganization was approved with 94.9% votes in favor of reorganization and the Board of Directors was elected.

The full name of the newly created company was defined as Public Joint Stock Company "OTCPharm". The Authorized capital of the PJSC "OTCPharm" was established at RUB 15 117 041.20 or 151 170 412 ordinary registered shares with par value of 10 kopecks each. Mednikova Olga, Chief of Sales and Marketing at Pharmstandard, was appointed CEO of PJSC "OTCPharm".

The decision of the BoD on spin-off was followed by an announcement of a potential acquisition of Bever Pharmaceutical PTE LTD (Singapore) ("Bever") controlled by Alexander Shuster, one of the Company's Directors. Bever is a single asset entity that holds a 20 year-length contract that provides exclusive purchase rights for unique raw materials - active pharmaceutical ingredients ("APIs") used for manufacturing of the Group's leading OTC products Arbidol® and Afobazol® and also sale of these API in Russia and CIS. This acquisition was related to the plan of spin-off of Branded OTC business. The acquisition was approved by the EGM on August 17, 2013. Bever was included into OTCPharm perimeter of operations.

About OTCPharm

The newly created OTCPharm was registered on December 23, 2013 and is an independent company which owns the rights for 27 trademarks and holds a pharmaceutical license. These 27 trademarks constitute the Branded OTC business – the business of OTC brands that are in active promotion.

These trademarks are: Arbidol®, Aphobazolum®, Amixin®, Asvitol®, Askophenum-P®, Acipol®, Aerovit®, Klarisens®, Codelac®, Complivit®, Lactazar®, Lactonorm®, Magnelis B6®, Maxycold®, Medira®, Next®, Neosmectin®, Nitrocor®, Noopept®, Pentalgin®, Rinostop®, Selmevit®, Spasmol®, Termicon®, Flucostat®, Ciklovita®, Cinocap®.

OTCPharm will manufacture its products on four Pharmstandard facilities under contract manufacturing agreements: Pharmstandard-Leksredstva OJSC, Pharmstandard-UfaVITA OJSC, Pharmstandard-Tomskhimpharm OJSC and LEKKO CJSC. The services provided by Pharmstandard will also include quality control, product and API storage and logistics.

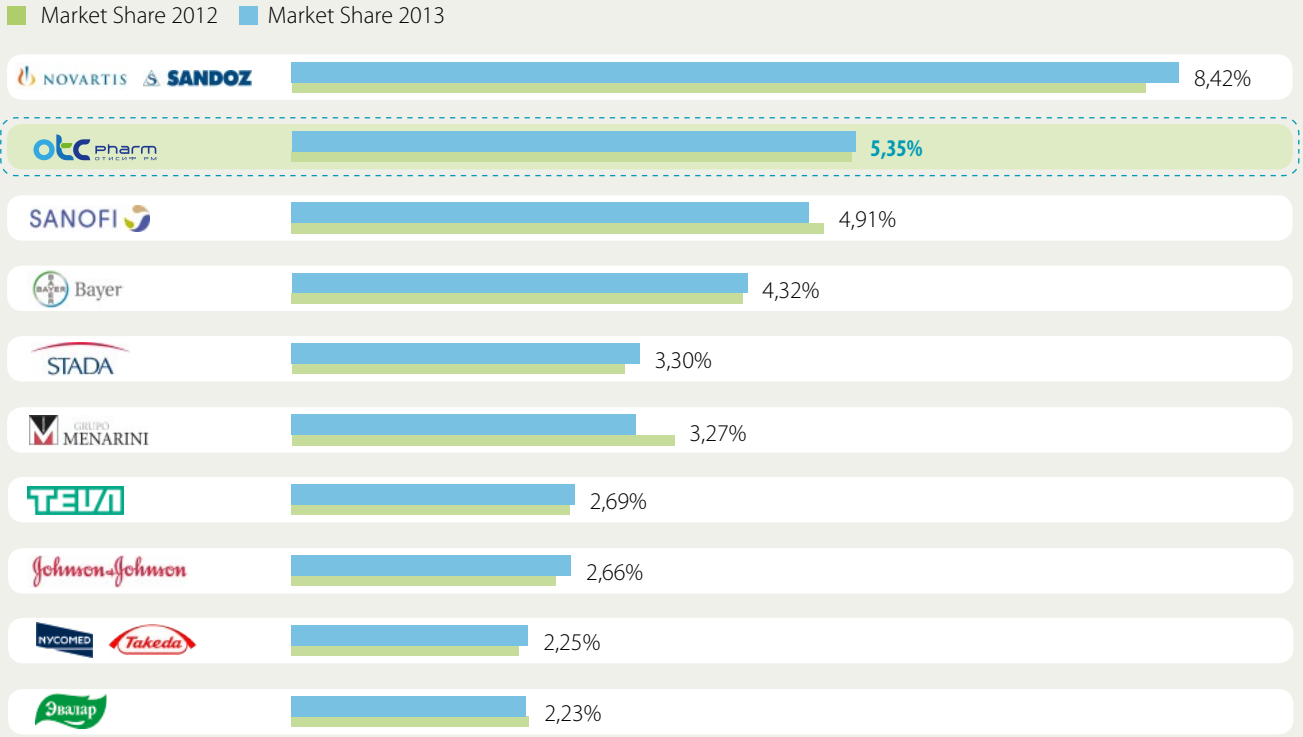
As a part of the spin-off process a separating balance sheet was formed as per August 23, 2013 which reflected the following assets:

- Shares of the following subsidiaries: Afofarm, Vindexfarm LLC, DONELLE COMPANY LIMITED and Bever Pharmaceutical Pte Ltd for the total sum of RUB22.6bn
- Cash for the total amount of RUB3.5bn: RUB1.5 for financing of the operating activity(salary, marketing expenses, rent etc) and RUB2bn – raw materials and finished goods (as per 3 months calculation)

OTCPharm on the Market

Based on 2013 results, OTCPharm is a #2 company in the retail market out of all OTC/BAA producers (according to IMS Health Russia) with almost unchanged estimated proforma market share of 5.3% vs 2012 (+ 0.04 percentage points), sales of RUB17.7 bn (in retail prices) and 13.1% YoY growth rate in value terms (compared to RUB15.6 bn and 5.3% market share in 2012). In physical terms OTCPharm's estimated proforma share on the OTC market would reach 3.6% with 121 bn packs.

With respect to OTC drugs/BAAs, OTCPharm is present in almost all significant therapeutic categories of the Commercial segment: the Company covers 26 out of 139 ATC3 categories accounting for 53% of the OTC/BAA section of the Commercial segment in value terms and 58% 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 2013 data, OTCPharm has 11% of the market for these 26 competitive therapeutic categories in value terms and holds #2 position.



OTCPharm Portfolio Overview

Two OTCPharm products– Arbidol® and Pentalgin® – made the top 10 OTC brands of the Commercial segment.

In the meantime, the top 25 list of local OTC brands in the Commercial segment included five products of the Company – Arbidol® (#1), Pentalgin® (#4), Complivit® (#7), Aphobazolum® (#9), Amixin® (#12) and Flucostat® (#20).

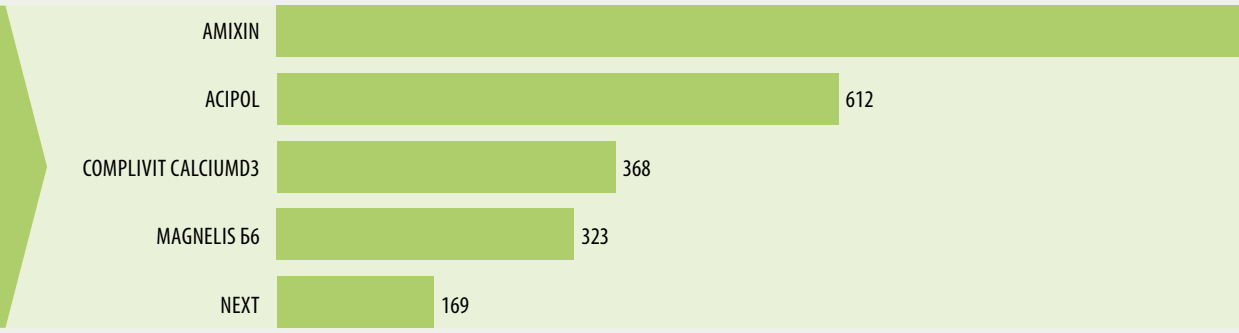
OTCPharm portfolio is balanced with market leading brands, high growth brands, small brands with growth potential and small brands with stable market share.

OTCPharm portfolio

2013 Net revenue, RUB m

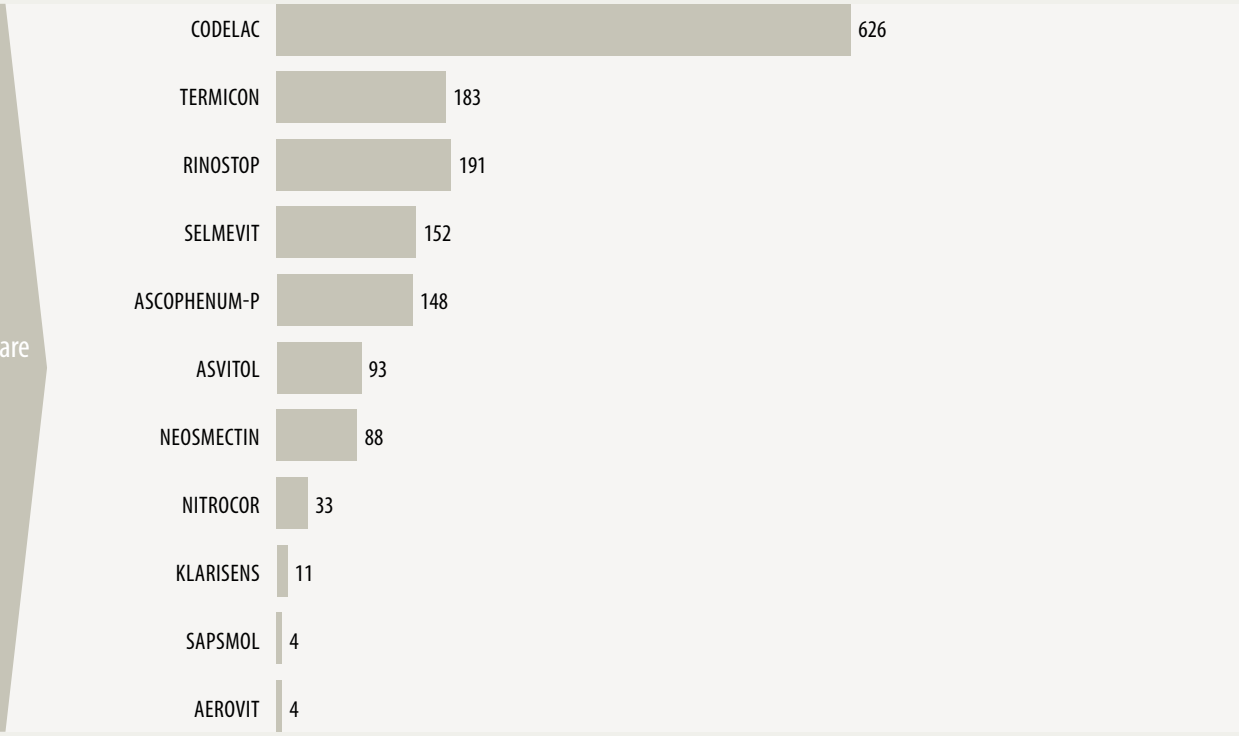
- Portfolio leaders
- Active marketing support
- 70% of 2013 Net Revenue

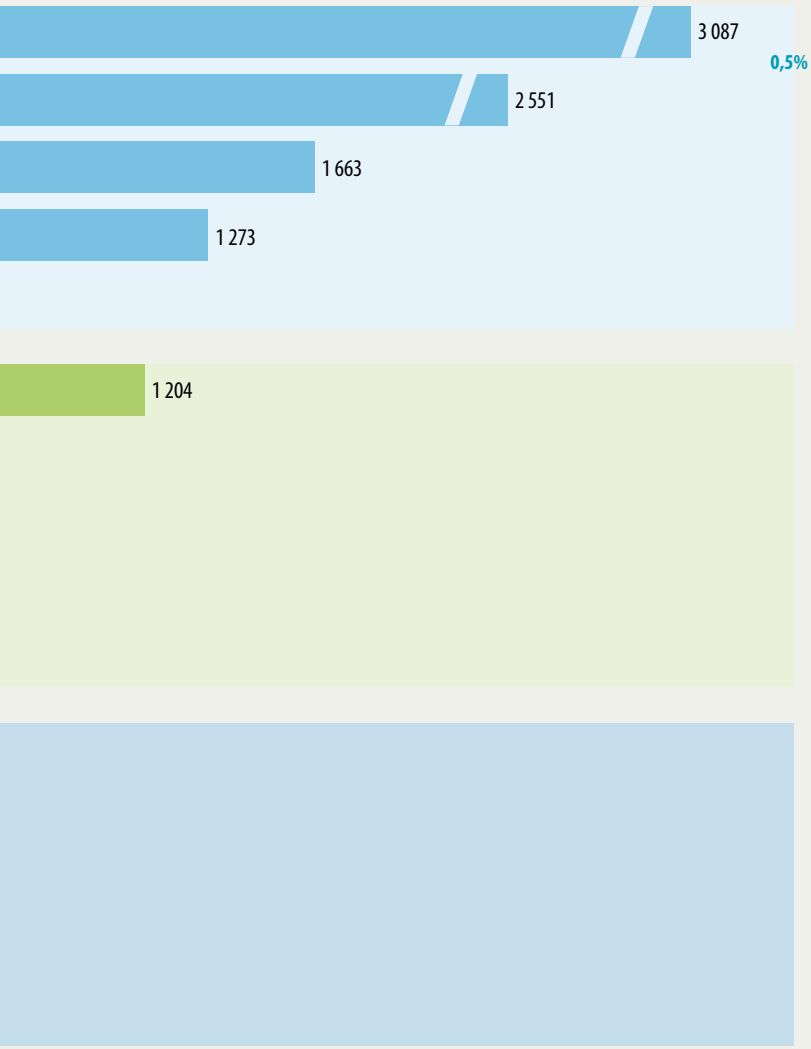
- High growth brands
- Active promotion
- 19% of 2013 Net Revenue



- Small brands with growth potential
- 1,4% of 2013 Net Revenue

- Small brands with stable market share
- 11% of 2013 Net Revenue





Market leading brands

Anti-Cold and Flu

- 12% ARBIDOL
- 0,5% MAXYCOLD
- 10% KAGOCEL
- 9% THERAFLU
- 7% ANAFERON
- 6% OCILLOCOCCINUM
- 5% INGAVIRIN
- 4% COLDREX
- 4% AMIXIN

Multivitamins and Minerals

- 25% VITRUM
- 18% SUPRADYN
- 18% COMPLIVIT
- 13% ELEVIT PRONATAL
- 9% MULTI TABS
- 4% MERZ SPECIAL
- 3% SELMEVIT
- 3% BIO MAX
- 2% PERFECTIL
- 1% TRIOVIT
- 4% OTHER

Systemic agents for Fungal Infections

- 40% FLUCOSTAT
- 31% DIFLUCAN
- 8% FLUCONAZOLE
- 22% OTHER

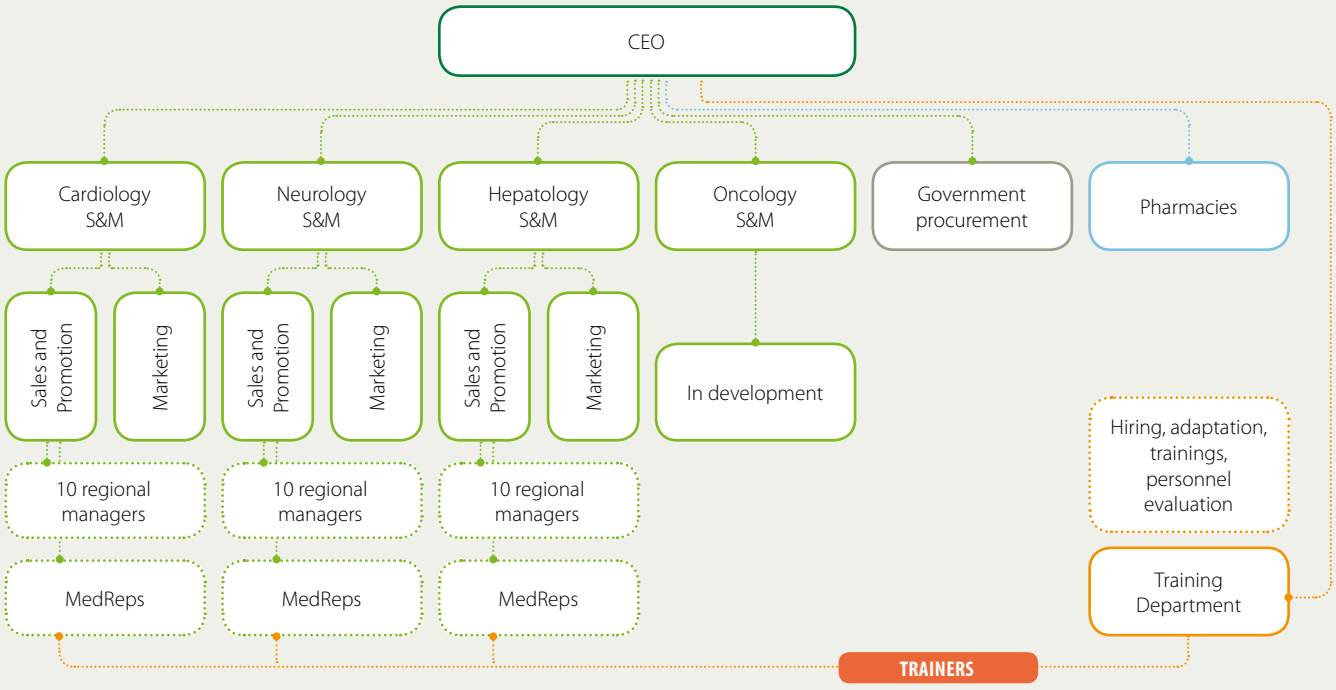
Analgetics

- 29% PENTALGIN
- 21% NUROFEN
- 7% TEMPALGIN
- 7% CITRAMON P
- 4% ANALGIN
- 3% ALKA SELTZER
- 3% SOLPADEINE FAST
- 3% NEXT
- 3% ACIDUM ACETYLSALIC
- 2% IBUCLIN
- 2% ASCOFEN-P
- 15% OTHER

Pharmstandard post spin-off

Prescription products (RX)

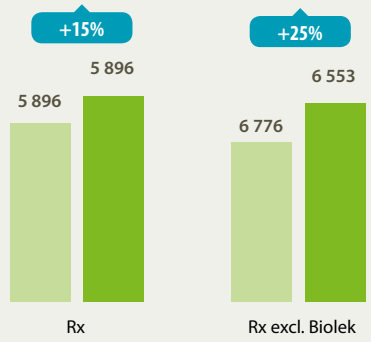
RX is headed by Pharmstandard's CEO Igor Krylov, supported by best-in-class sales and marketing team with a separate strategic focus on each therapeutic category.



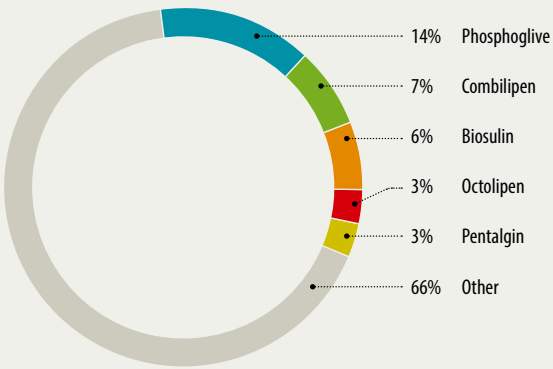
Rx FY2013 sales demonstrated 15% growth and reached RUB6 776 m, 25% excluding Biolek. Key growth drivers were Phosphogliv, Combilipen and Pentalgin.

Rx segment growth (excl. Biolek),

RURm 2012 2013



Rx segment – key product sales



As of 2013, 154 Rx products were included in the VED list
VEDs account for approx. 71% of the total Rx sales

Focus on prescription products

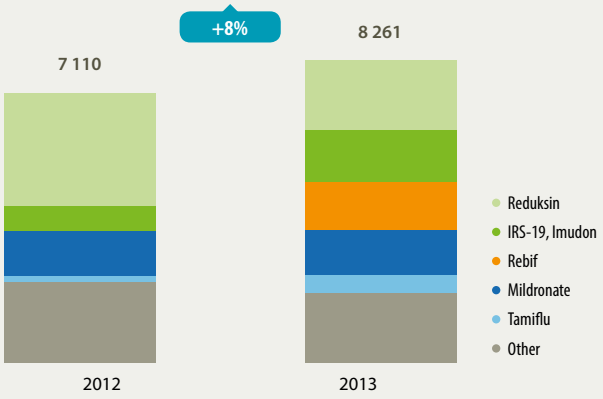
Third Party Products

A major trend currently witnessed in the Russian market – **co-operation development** between international and domestic pharmaceutical companies.

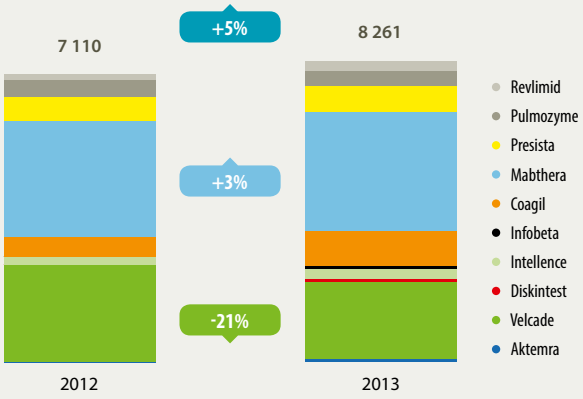
The main objective – product localization through manufacturing based on Pharmstandard Group's existing operations in Russia as well as distribution and marketing of strategically important Rx drugs. Since 2008, Pharmstandard has actively co-operated with major international pharmaceutical players, such F.Hoffmann-La Roche, Johnson & Johnson, Abbott Products, Grindex, etc.

TPP segment splits into government procurement and commercial sales

Commercial TPP sales reached RUR8,261m (+8%)
primarily driven by Reduksin®, Tamiflu and Rebif®

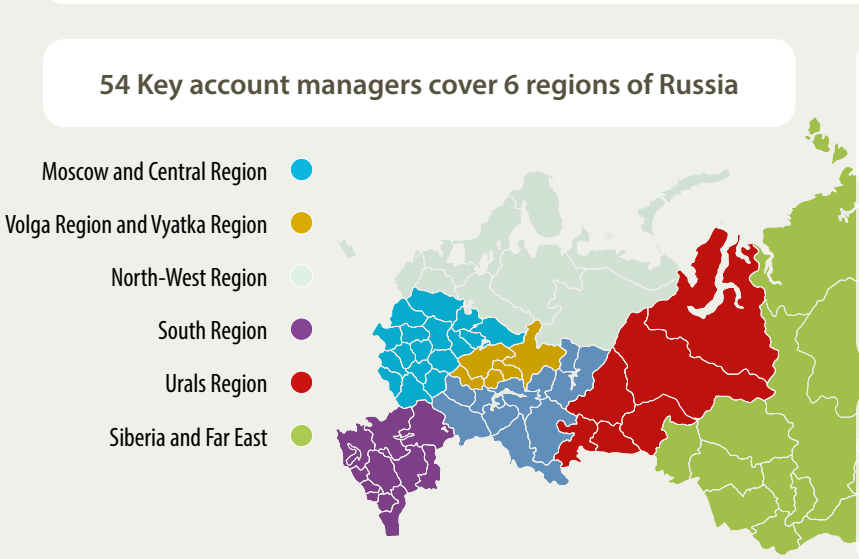


FY2013 government procurement TPP segment sales demonstrate 5% growth with Mabthera as a 2013 sales leader – 29% of TPP revenue



Government procurement business segment is fully supported by a professional team – a special department that manages government procurement and public auctions. Established in may 2012, the department proved to be highly competent and quite efficient reaching significant sales in 2012 that approximately account for 50% of Pharmstandard total sales. Government procurement team is present all over Russia with significant access to all opportunities.

54 Key account managers cover 6 regions of Russia



Accreditation on all available federal auction platforms:

- SBERBANK-AST
- RTS-TENDER
- ETP-MICEX
- GUP "Agency of the state order, Investment and Interregional Relations of the Republic of Tatarstan"
- UNITED ELECTRONIC MARKET PLACE

Presence in all major sale channels:

- REGIONAL PROGRAMS
- STATE DEPARTMENTS
- STATE DEPARTMENTS

3

Russian Pharmaceutical Market Overview

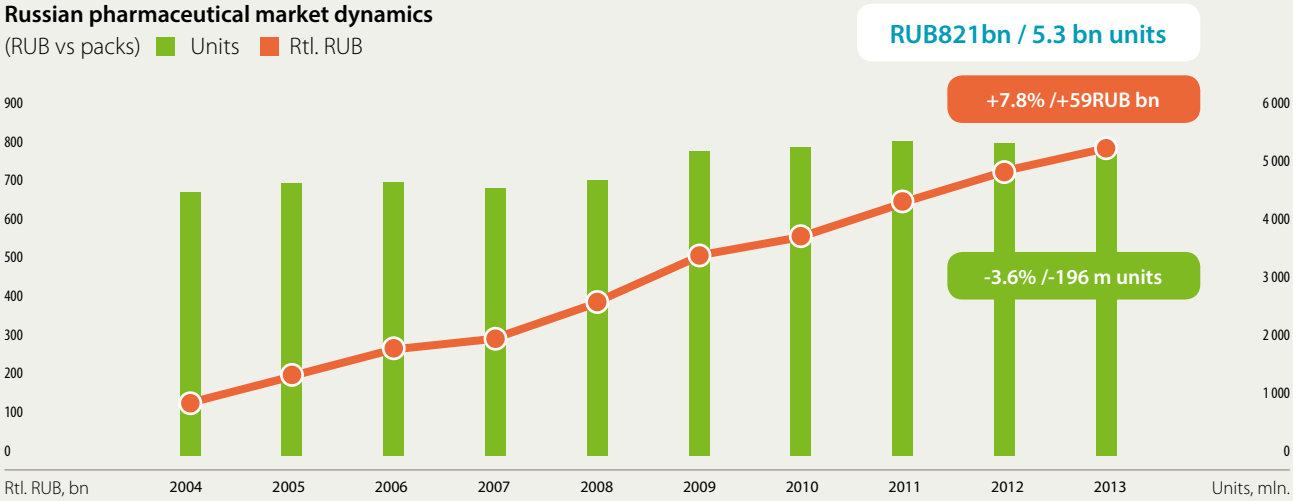
Market Review 2013

In 2013, the Russian drug and BAA market reached RUB821 bn (in consumer prices) and 5.28 bn packs showing significant growth in value terms and decline in physical terms vs 2012.

Pricing

- **Average price for a drug pack** reached RUB156 demonstrating 12% growth.
- **Price growth for products with uncapped markup** across the supply chain from manufacturer to end customer was 15.6% with the current average pack price of RUB156.
- **VED (Vital & Essential Drugs) segment** showed 7.4% price growth/

Russian pharmaceutical market dynamics

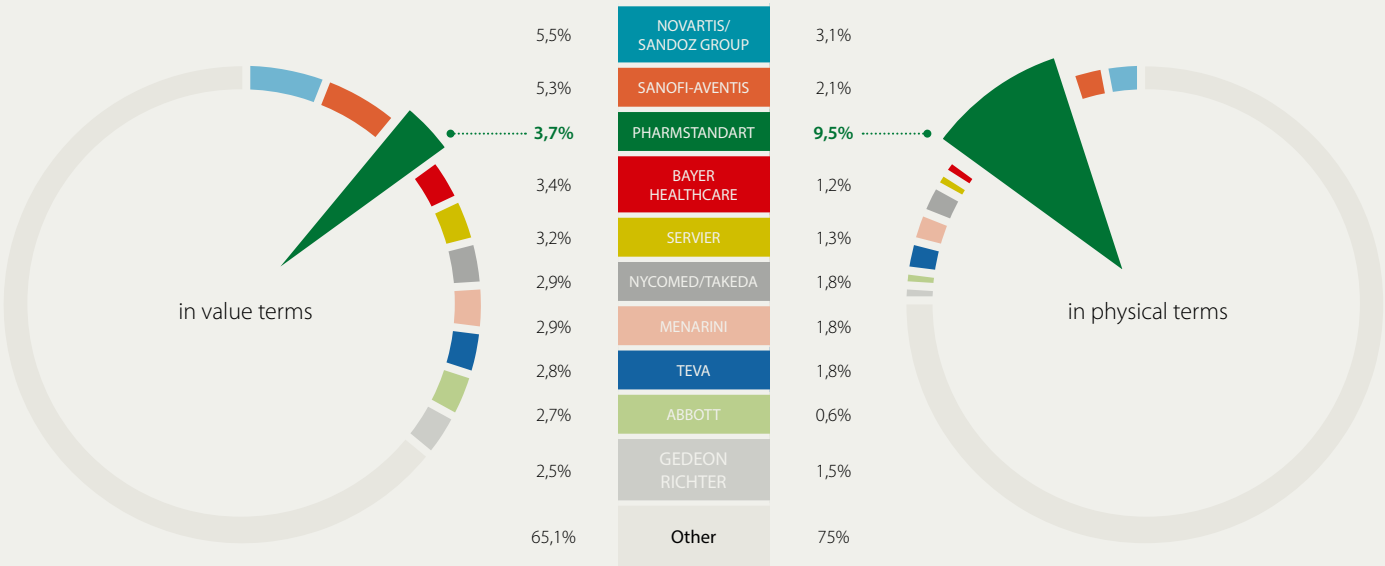


Pharmstandard on the Market

Based on 2013 performance, Pharmstandard maintains #3 market position among all drug/BAA producers (based on IMS Health Russia) with 3.7% market share (unchanged from 2012).

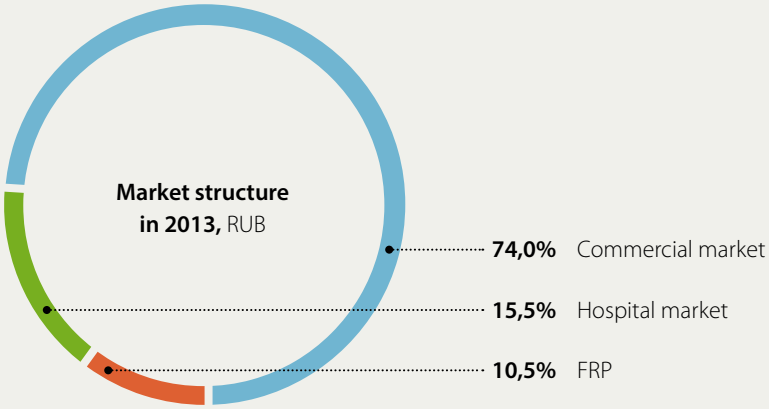
However, in terms of physical drug/BAA consumption Pharmstandard is the undisputed leader with a market share of 8.5% (9.5% in the Commercial segment with every 10th drug/BAA pack out of all consumer purchases in Russia produced by Pharmstandard).

Russian pharmaceutical market structure by company

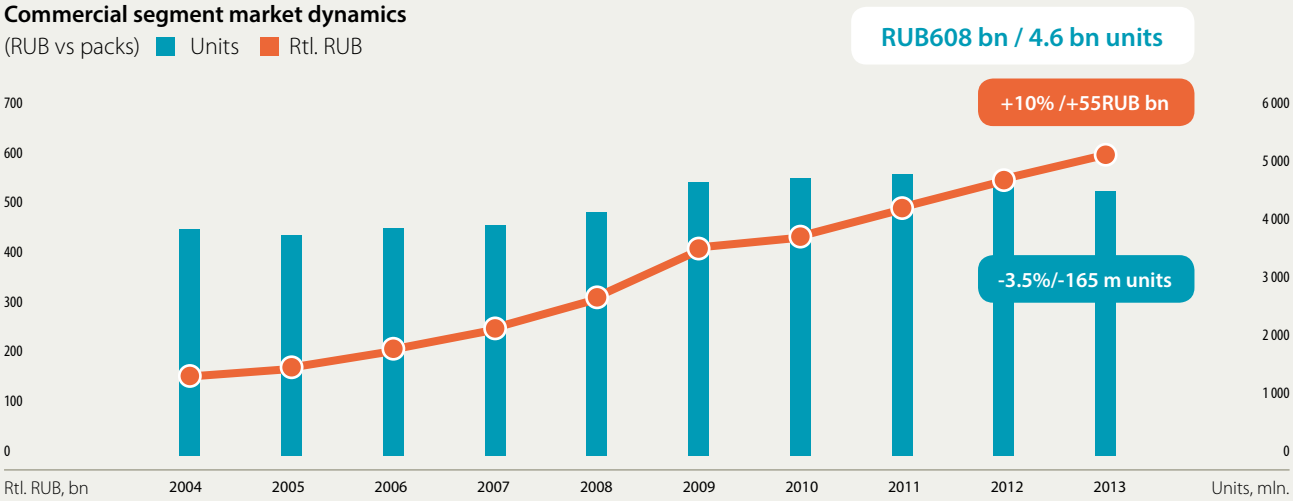


Market struture

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



Commercial segment market dynamics
(RUB vs packs) Units Rtl. RUB



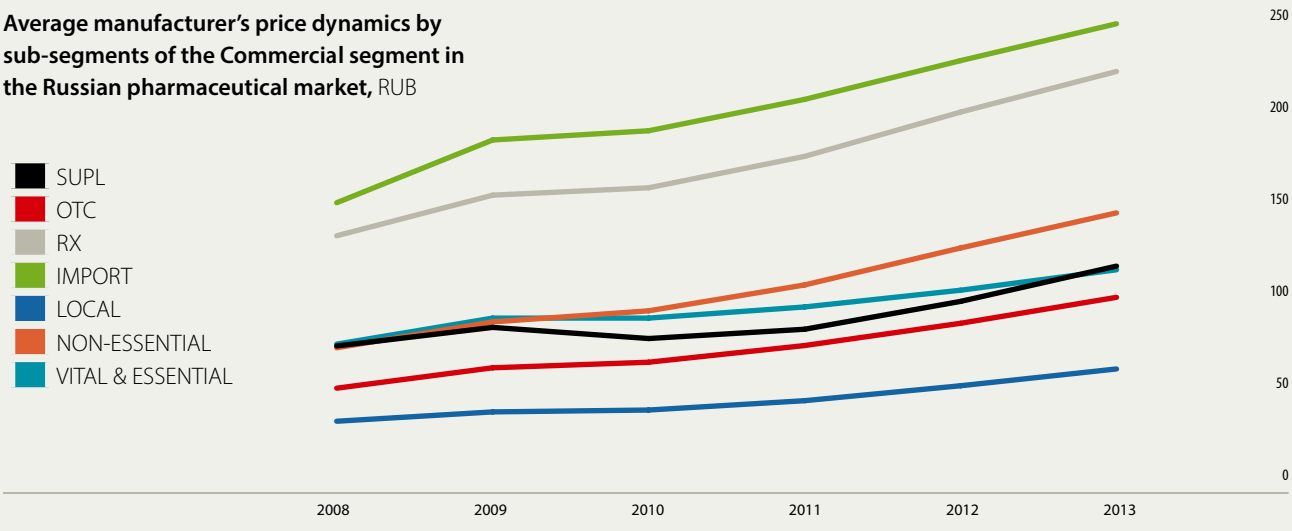
Commercial segment

Commercial segment is the largest part of the Russian pharmaceutical market. This is in line with the average growth rate for the last 10 years in absolute terms (RUB52 bn on average with the highest YoY growth of RUB104 bn seen in 2009). As such, the segment appears to be a strong growth driver for the whole pharmaceutical market in value terms (10% growth rate).

2013 saw physical consumption decline in almost all Commercial market segments (-3.5% on average vs 2012). Especially it refers to local products (-7.4% – the lowest growth rate in physical terms).

Positive growth rate in physical terms was only seen in BAA segment (+2.2%) which is of limited significance as it accounts for just 7% in the sales structure.

Average manufacturer's price dynamics by sub-segments of the Commercial segment in the Russian pharmaceutical market, RUB

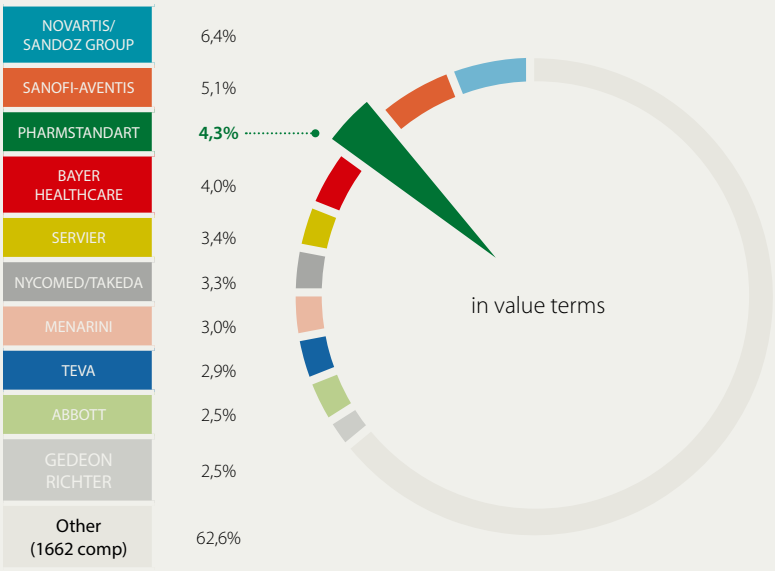


As of 2013, Pharmstandard holds #3 position in the Commercial segment with a market share of 4.3%.

In 2013, Arbidol® was the only Pharmstandard product among the top 10 brands of the Commercial segment, while the top 25 list of local brands in the segment included five Pharmstandard products, i.e. Arbidol® (#1), Pentalgin® (#3), Complivit® (N#9), Amixin® (#11), Aphobazolum® (#12).

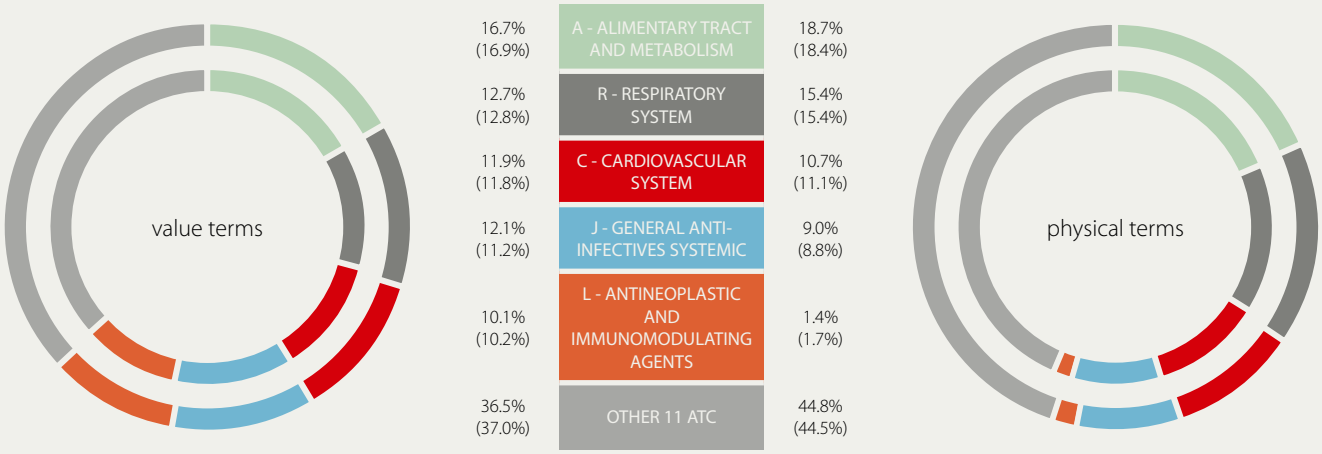
Pharmstandard is present in almost all significant therapeutic categories of the Commercial segment: the Company has products referring to 117 out of 309 ATC3 categories accounting for 75% of the Commercial segment in value terms and 88% in physical terms. The Company's aggregated market share with respect to these products is different from its share in the Commercial segment as a whole. As of 2013, Pharmstandard covered 5.8% of the market in these 117 competitive therapeutic categories in value terms with #3 market position.

Market shares in the Commercial segment of the Russian pharmaceutical market (drugs and BBAs) by company



The Company's products are broadly represented in the most significant categories of the Commercial segment, which helps reduce product portfolio concentration risks and expand the Company market presence without entry barriers.

Russian pharmaceutical market structure and dynamics by ATC classification categories



Hospital segment

This is the second largest segment with current 15.5% market share in value terms. In 2013, the segment size reached RUB127 bn with -1.2% growth rate vs 2012. In physical terms the segment accounted for 12% of the market (629 bn packs).

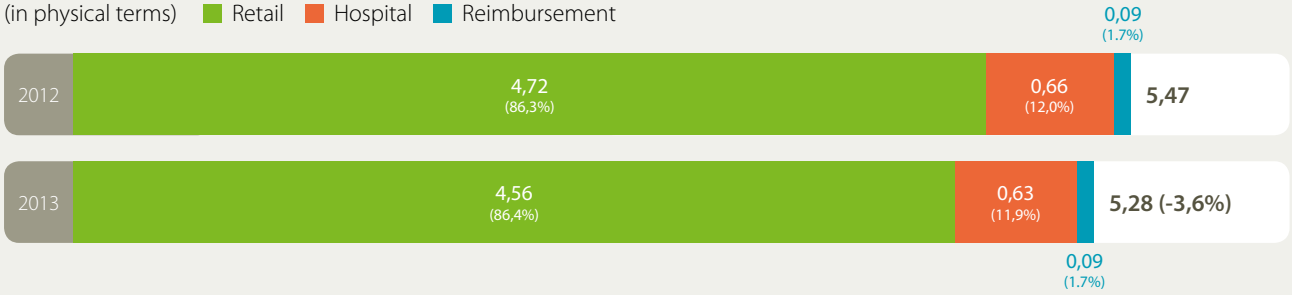
FRP segment

FRP segment demonstrated annual growth of 7.7% in value terms with a slight decline of -3.6% in physical terms vs 2012.

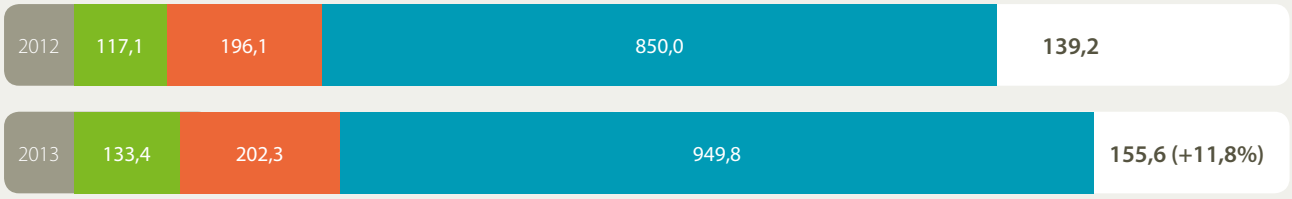
Market analysis

Russian pharmaceutical market structure and dynamics by segment, RUB bn
(in value terms) Retail Hospital Reimbursement

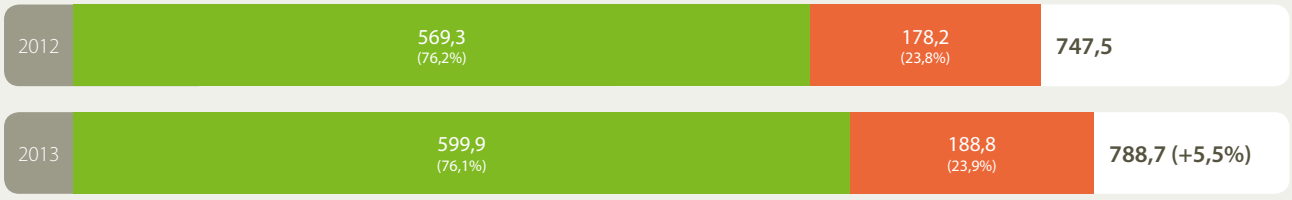
Russian pharmaceutical market structure and dynamics by segment, packs bn
(in physical terms) Retail Hospital Reimbursement



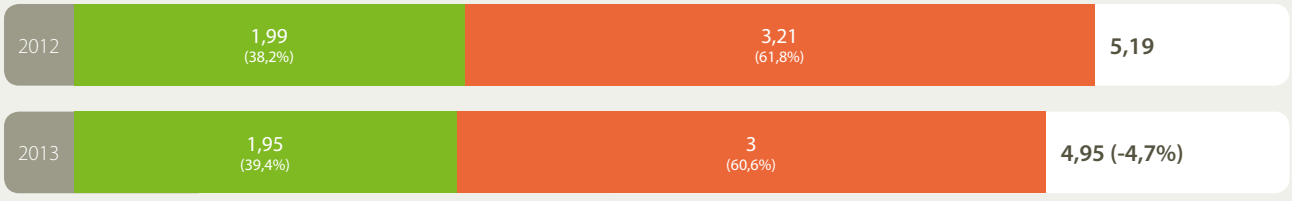
Average manufacturer's prices in the Russian pharmaceutical market by segment
(RUB/pack) Retail Hospital Reimbursement



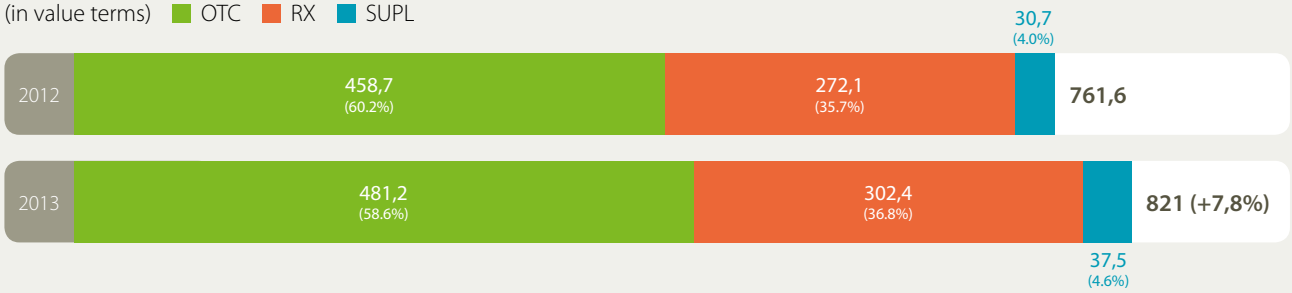
Russian pharmaceutical market structure and dynamics by manufacturer origin, RUB bn
(in value terms) Import Local



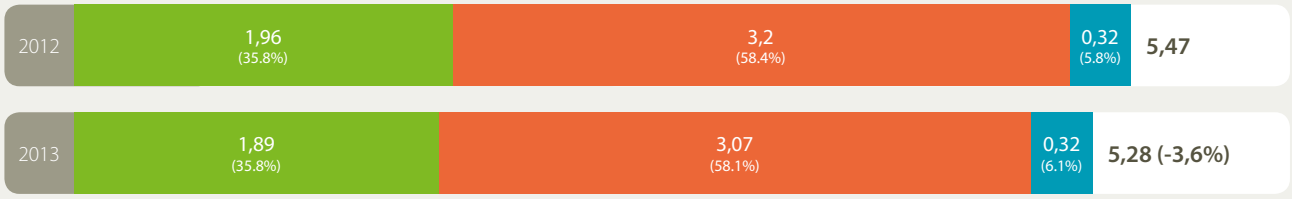
Russian pharmaceutical market structure and dynamics by manufacturer origin, packs bn
(in physical terms) Import Local



Russian pharmaceutical market structure and dynamics by drug status, RUB bn
(in value terms) OTC RX SUPL



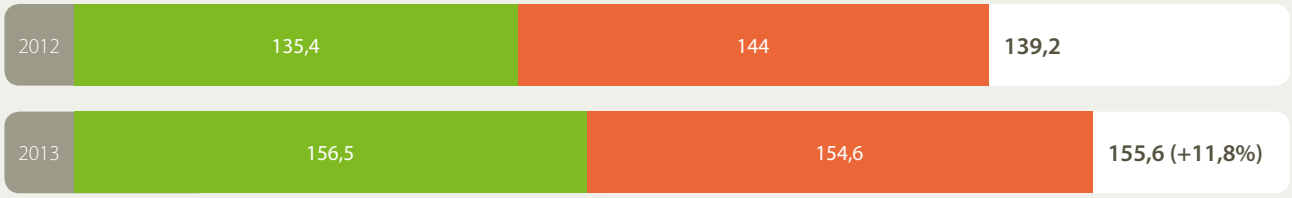
Russian pharmaceutical market structure and dynamics by drug status, packs bn
(in physical terms) OTC RX SUPL



Russian pharmaceutical market structure and dynamics by product inclusion in the VED List, RUB bn
(in value terms) NON-ESSENTIAL VITAL & ESSENTIAL

Russian pharmaceutical market structure and dynamics by product inclusion in the VED List, packs bn
(in physical terms) NON-ESSENTIAL VITAL & ESSENTIAL

Average manufacturer's prices in the Russian pharmaceutical market for VEDs vs other drugs
(RUB/pack) NON-ESSENTIAL VITAL & ESSENTIAL



* Source: IMS Health Russia

Key pharmaceutical products

Codeine containing products and their analogues

Pentalgin®

- Leader in segment N02B – NON-NARCOTIC ANALGESICS AND ANTIPYRETICS (other than dosage forms for children) – 29% share
- #1 among branded products
- #5 among all products in its category (with Pharmstandard's Citramon being #1) by physical consumption

Pharmstandard dominates this market segment in all aspects – 39% market share in value terms and 30% in physical terms. This segment is a top 10 therapeutic category in the Russian pharmaceutical market.

Codelac®

- second largest brand in the codeine-containing product group
- Codelac® product line includes several analogues: Codelac® Broncho (10- and 20-tablet packs, thymus based syrup), Codelac® Neo (drops, syrup)
- #6 in its market segment -R05C – EXPECTORANTS – in value terms (5% share)
- top 10 brand by physical consumption (5.2% share)
- 38,9% brand awareness

Total 2013 sales in R05C – EXPECTORANTS category (including all distribution channels) reached RUB16.73 bn in retail prices. This market segment is a top 5 therapeutic category.

Therpincodum®

- Therpincodum® brand referring to the above mentioned market segment has no analogues, therefore it demonstrated significant negative performance since the introduction of regulatory restrictions.

Our diversification strategy produced a visible effect in 2013: organic product group drove the growth in absolute terms with increased share in the Company's sales from 64% in 2012 to 70% in 2013. The group's sales growth of RUB3.28 bn in absolute terms made up for the decline in codeine-containing drug sales. Percentage wise, the growth was 26%. It should also be noted that OTC segment was the key contributor to the absolute growth with sales of RUB2,206 m which is twice as much as RX segment contribution of RUB1,081 m.

Arbidol®

- the Company's top selling product
- retained its share in the revenue structure currently accounting for 7% of sales
- 5 presentation forms: 2 paediatric – 50 mg 10 and 20 tablet packs and 3 adult – 100 mg 10, 20 and 40 capsule packs
- 12% - current market share in value terms
- #1 in its category by consumption level
- 58,7% - brand awareness among all consumers
- 40,8% - brand awareness among Russian population aged 16+
- J05B – ANTIVIRALS, EXCLUDING ANTI-HIV PRODUCTS category is a top 5 therapeutic category

Key Pharmaceutical Products: Growth Drivers

Segment	Sales, 2013 (RUB m)	% of total sales	Sales, 2012 (RUB m)	% of total sales	2013 YoY growth (RUB m)	2013 YoY growth (%)
PHS production, other products	**23 233,6**	**100%**	**20 774,9**	**100%**	**2 458,7**	**10,6%**
OTC products	**16 457,8**	**70,8%**	**14 879,3**	**71,6%**	**1 578,6**	**9,6%**
Complivit®	1 663,6	7,2%	1 605,4	7,7%	58,2	3,5%
Aphobazolum®	1 273,1	5,5%	872,2	4,2%	400,9	31,5%
Amixin®	1 203,6	5,2%	851,3	4,1%	352,4	29,3%
Flucostat®	849,6	3,7%	772,6	3,7%	76,9	9,1%
Acipol®	612,1	2,6%	390,3	1,9%	221,8	36,2%
Other	10 855,8	46,7%	10 387,4	50,0%	468,4	4,3%
RX products	**6 775,8**	**29,2%**	**5 895,7**	**28,4%**	**880,1**	**13,0%**
Phosphogliv®	1 372,8	5,9%	1 161,6	5,6%	211,2	15,4%
Combilipen	687,6	3,0%	534,1	2,6%	153,5	22,3%
Biosulin®	597,6	2,6%	519,3	2,5%	78,3	13,1%
Octolipen®	330,2	1,4%	278,4	1,3%	51,8	15,7%
Formetine®	226,7	1,0%	124,7	0,6%	102,0	45,0%
Other	3 560,9	15,3%	3 277,6	15,8%	283,3	8,0%

OTC

RX products contribute approx. one-third to absolute sales growth demonstrating high relative growth of 22.4%

RX

Aphobazolum®

- the Company's absolute growth leader (+RUB401 m or 46%)
- top 5 OTC brand referring to TRANQUILLISERS/SEDATIVES therapeutic category
- 49% brand awareness
- 11,5% customer loyalty
- 19,1% market share (category size – RUB8.1bn)

Amixin®

- one of the leaders by absolute growth (+RUB352.4 m or 41.4%)
- 16,4% brand awareness
- 4% market share
- #9 in category J05B – Antivirals, excl. antihiv products
- 3 presentation forms, including one intended for kids

Phosphoglive®

- The leader of the segment; A05B – HEPATIC PROTECTORS, LIPOTROPICS therapeutic category
- #4 position in value terms (8.1% market share)
- #4 position among the Company's growth drivers.
- 2013 sales growth RUB211 /+18%
- In 2013, the total brand sales exceeded RUB1.3 bn.

Acipol®

- #4 position in the entire therapeutic category – A07F – ANTIDIARRHOEAL MICRO-ORGANISMS
- 57% sales growth in 2013
- Company's top 5 OTC product

Complivit®

- 54% brand awareness
- #3 brand in A11A – MULTIVITAMINS WITH MINERALS therapeutic category with 18.7% market share
- Complivit® Calcium is #3 brand in value terms in A12A – CALCIUM PRODUCTS therapeutic category with 17.8% market share – key growth driver

Combilipen®

- successful RX product launch
- #2 brand in its therapeutic category by sales volume - A11D – VITAMIN B1 AND COMBINATIONS, 21,6% of sales
- one of the fastest-growing products in the category
- 2013 sales exceeded RUB600m/+29%
- #2 position with 21.1% share by consumption

Magnelis B6

- #3 brand in A12C – OTHER MINERALS therapeutic category with 11.6% share in value terms
- one of the leaders by absolute growth (+RUB126 m/+64%).

Flucostat®

- 40% share in J02A – SYSTEMIC AGENTS FOR FUNGAL INFECTIONS therapeutic category (category size in 2013 – RUB2,7bn
- 0% growth in 2013
- 45.5% brand awareness

Biosulin® – Genetically engineered drug

- the Company's 15 top selling products
- 2forms – bottles and cartridges accounting for 22% and 78% of the product sales, respectively.
- 15% growth / +RUB78.3 m in value terms.
- #2 position with 21.1% share by consumption

4

Pharmaceutical Portfolio Overview

New Products 2013

In 2013, the Company completed the development of, obtained registration for and launched commercial production of 11 new drugs (generics, new compositions of existing INNs and formerly manufactured products with new consumer characteristics or dosage modifications), including 6 Rx drugs, 2 OTC drugs and 3 biologically active additives (BAA).

Product	Group	Therapeutic segment	Actual launch Q1	Q2	Q3	Q4	Sales, RUB m
Maxycold® (topical spray)	OTC	Cold & flu					1234
Rinostop (nasal spray)	OTC	Cold & flu					1234
Validol-Pharmstandard (sublingual tablets, export to Bulgaria)	BAA	Cardiovascular system					1234
Complivit® Oftalmo (suspension powder for kids)	BAA	Eye health					1234
Ferrohematogen – Pharmstandard (pastilles)	BAA	Hematogenesis					1234
Azitrox® for kids (suspension powder)	RX	Antibiotics, colds					1234
Bloctran®GT (coated tablets)	RX	Cardiovascular system					1234
Bloctran® 12,5 mg (coated tablets)	RX	Cardiovascular system					1234
Octolipen® 600 (coated tablets)	RX	Polyneuropathy					1234
Termicon® 250 ml tablets (new dosage modification)	RX	Dermatology					1234
Termicon Spray, 15 ml (new dosage modification)	RX	Dermatology					1234

Three products – Codelac® Neo tablets, Azithromycin tablets, Codelac®-Pulmo cosmetic ointment – previously targeted for launch in 2013 will be registered and released in 2014 due to changes in their registration scenarios as a result of regulatory amendments in Russia. Codelac®-Chondro BAA registered in 2013 will be released in 2014 when the required capacity construction has been completed.

In 2013, the Company continued previous and started new joint pharmaceutical production projects in co-operation with a number of international pharmaceutical companies and some local producers: completed secondary packaging and release quality control localization projects for the production of drugs to treat HIV infections, hepatitis C and MDR tuberculosis in the form of tablets/coated tablets on Pharmstandard operating platform (3 products); completed regulatory stages of secondary packaging localization with respect to anticancer drugs in the form of injection solutions (6 products). Full production cycle localization for anticancer injectable drugs in the form of coated tablets (4 products), infusion solutions (7 products) and injection solution lyophilizate (1 product) is still under way, as well as full production cycle localization projects for HIV infection/MDR tuberculosis drugs (tablets/coated tablets).

New Products 2014

In 2014, we plan to launch 16 new products including 6 Rx drugs, 3 OTC drugs, 5 BAAs and 2 cosmetic products. Most of these products represent the expansion of existing brands, i.e. Complivit®, Rinostop®, Codelac®, Pentalgin®, Bloctran®, Azitrox®, Termicon®, Octolipen®.

Product	Group	Therapeutic segment	Planned launch
			Q1 Q2 Q3 Q4
Codelac® Neo tablets (tablets)	OTC	Cold & flu	Q3
Magnelis® B6 Forte (coated tablets)	OTC	Multivitamins & minerals	Q3
Mycoderil cream 1% (15 g, 30 g for outward application)	OTC	Dermatology	Q4
Mycoderil solution 1% (10 ml, 20 ml, 30 ml for outward application)	OTC	Dermatology	Q4
Ibuprofen suspension 100 mg/5 ml	OTC	Anti-inflammatory	Q4
Corvalol (tablets)	OTC	Cardiovascular system	Q4
Codelac-Pulmo (ointment)	OTC/ Cosmetic	Cold & flu	Q3
Complivit CHONDRO (coated tablets) (BAA)	BAA	Healthy joints	Q2
Complivit Superenergy (coated tablets)	BAA	Multivitamins & minerals	Q4
Complivit Calcium D3 for women 45+ (tablets)	BAA	Women health	Q3
Complivit Hair Repair (capsules)	BAA	Beauty & health	Q4
Ferrohematogen – Pharmstandard (pastilles 25 g, 30 g, 50 g) – production at the new site	BAA	Hematogenesis	Q4
Ferrohematogen for kids (pastilles 25 g, 50 g) – production at the new site	BAA	Hematogenesis	Q4
PEG Altevir (lyophilizate for injection solutions 50 mcg, 80 mcg, 100 mcg, 120 mcg, 150 mcg)	RX	Viral hepatitis	Q3
Biosulin N, R (one piece syringe injection solution)	RX	Diabetes	Q3
Azithromycin (tablets)	RX	Antibiotics	Q3

The Company's plans for 2014 include the following projects: completion of secondary packaging and release quality control localization for 9 products of 7 third party producers (including tablets/coated tablets and syrups for digestive diseases; tablets/HDCs for HIV infections, impaired circulation, oncohematological diseases; injectable drugs for severe viral upper respiratory tract infections and oncohematological diseases); mastering of full production cycle for 8 products of 3 third party producers (including a syrup for upper respiratory tract diseases, 3 tableted anticancer drugs, a tableted medication for diabetes insipidus, 3 concentrates for anticancer infusion solutions).

Vital and Essential Drugs, 2013–2014

Price regulation with respect to products included in the List of Vital and Essential Drugs ("VED") in 2013 was based on statutory rules and methodologies established in 2012. Regulatory framework for setting VED manufacturer's ceiling prices was amended in 2012.

VED List for 2013 was kept unchanged (as per Executive Order of the Russian Government of 7 December 2011 # 2199-r).

The Joint Order of the Russian Ministry of Healthcare and the Russian Federal Tariff Service of 8 October 2012 #400n/663-a introduced some changes 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 of 3 November 2010 #961n/527-a (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 adjustment. The previous version of the Procedure also provided for possible price adjustment, though due to conflicting clauses this provision didn't work. The previous version only indicated the possibility of price re-registration based on inflation rate forecast, 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).

As such, 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 OJSC submitted appropriate document packages to the Ministry of Healthcare applying for inflation rate adjustment (5.5%) with respect to 106 VED prices. All applications submitted in 2013 for price re-registration based on inflation rate adjustment were accepted by the Federal Tariff Service that confirmed re-registration of 106 VED ceiling prices for 45 INNs or 49 brand names.

Breakdown by operating company looks as follows:

Pharmstandard Group operating companies	Number of prices re-registered in 2013
Pharmstandard-Leksredstva OJSC	62
Pharmstandard-UfaVITA OJSC	28
Pharmstandard-Tomskhimpharm OJSC	10
Pharmapark LLC	4
Lekko CJSC	2
Total	**106**

#	INN	Brand name	Number of re-registered inflation rate adjusted prices in 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	Beclometasone	Clenil®	1
8	Generic name	Neosmectin	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	Interferon alfa-2b	Altevir®	4
17	Potassium-magnesium asparaginate	Asparcam	1
18	Co-trimoxazole [sulfamethoxazole + trimethoprim]	Co-trimoxazole	3
19	Xylometazoline	Rinostop®	2
20	Lenalidomide	Revlimid	4
21	Lidocaine	Lidocaine	1
22	Losartan	Bloctran	2
23	Loratadine	Klarisens®	2
24	Meldonium	Mildronate®	1
25	Metronidazole	Metronidazole	1
26	Nitroglycerin	Nitroglycerin	1
		Nitrocor®	1
		Nitrospray	1
27	Oseltamyvir	Tamiflu®	9
28	Pancreatin	Pancreatin	1
29	Paracetamol	Paracetamol	3
		Paracetamol for kids	1
30	Propranolol	Anaprilin	2
31	Rituximab	Mabthera®	6
32	Smectit dioctaedric	Neosmectin®	5
33	Somatropin	Rastan®	3
34	Tiloron	Amixin®	3
35	Thioctic acid	Octolipen®	2
36	Tocilizumab	Actemra®	3
37	Trihexyphenidyl	Cyclodol®	1
38	Umifenovir	Arbidol®	5
39	Filgrastim	Neupomax	2
40	Fluconazole	Flucostat®	4
41	Formoterol	Atimos	1
42	Phospholipides + Glycyrrhizinic acid	Phosphogliv	3
		Phosphogliv® forte	1
43	Furosemide	Furosemide	1
44	Chloramphenicol	Levomycetin	1
45	Enalapril	Renipril®	2
Total			**106**

In 2013, 29 sale ceiling prices for VED names manufactured or owned by Pharmstandard Group companies were entered in the state register (16 INNs or 17 brand names).

#	INN	Brand name	Number of VED prices registered in 2013
1	-	Anatoxinum diphtherico-tetanicum purificatum (ADT-M Anatoxinum)	1
2	Azithromycin	Azitrox®	2
3	Activated Charcoal	Activated Charcoal	1
4	Bortezomib	Velcade®	3
5	Doxorubicin	Doxorubicin	2
6	Immunoglobulin antirabies	Immunoglobulin antirabies serum equinum liquidum	1
7	Interferon alfa-2b	Altevir®	1
8	Interferon leukocytic human	Interferon leukocytic human fluid	2
9	Xylometazoline	Rinostop	2
10	Losartan	Bloctran®	2
11	Paracetamol	Paracetamol	1
		Paracetamol for kids	3
12	Pyracetam	Pyracetam	1
13	Suxamethonium iodide	Suxamethonium	2
14	Thioctic acid	Octolipen®	3
15	Epoetin beta	Epostin®	1
16	Etravirine	Intelence®	1
Total			29

VED price registration in 2013 took place for the following reasons:
- price registration for newly launched products (20 prices);
- price registration due to change/refinement of a dosage form (6 prices);
- price registration due to change of original package (3 prices).

As of 1 March 2014, Pharmstandard Group has 439 VED ceiling prices registered (including third party products and the entire range of product forms and dosages).

VED sales in 2013 grew by RUB6,325.0 m or 19% vs 2012 and reached RUB39,126.3 m which accounts for 70% of the total 2013 sales.

In 2013, VEDs accounted for 46% of Pharmstandard Group's total organic sales and 80% of TPP sales.

The number of VED List product names sold by Pharmstandard in 2013 grew by 25% yoy and reached 217 items. This growth refers to all product groups (OTC and RX, organic and third party products).

Product type	Marketing status (OTC/RX)	2012		2013		%
		Number of products	% of total	Number of products	% of total	Change
All types (organic +TPP)	**OTC**	54	31%	63	29%	17%
	RX	119	69%	154	71%	29%
Total:		**173**	**100%**	**217**	**100%**	**25%**
Organic products	**OTC**	49	39%	48	36%	-2%
	RX	77	61%	85	64%	10%
Total:		**126**	**100%**	**133**	**100%**	**6%**
TPPs	**OTC**	5	11%	15	18%	200%
	RX	42	89%	69	82%	64%
Total:		**47**	**100%**	**84**	**100%**	**79%**

Price changes in 2014

No regulatory changes with respect to registration/re-registration of VED sale ceiling prices have been introduced in 2014 YTD. Prices for products included in the VED List have been regulated based on the approach and methodology enacted in 2012.

Since January 2014, Pharmstandard OJSC in line with statutory requirements has submitted appropriate documents to the Ministry of Healthcare for re-registration of 84 prices adjusted to inflation rate (39 INNs or 42 brand names) of which 25 prices refer to TPPs and 59 to organic products.

Based on the Federal Law on the Federal Budget estimated inflation rate for 2014 financial year is set at 5%.

The application for Epostin® sale ceiling price re-registration (pre-filled syringe solution for intravenous and subcutaneous injections (2000 IU/ml) produced by Pharmapark LLC) was rejected on the ground that the current regulation does not contain a procedure for decreasing a registered sale ceiling price of any VED List item.

Reduced number of price re-registration applications in 2014 vs 2013 can be explained by the following reasons:

- lower statutorily inflation rate set for 2014 (5% vs 5.5% in 2013). As per regulatory restrictions, if the difference between the actual weighted average sale price and the registered price exceeds the estimated inflation rate the price is not subject to re-registration – 12 brands fall into this category
- 5 out of 29 VED prices registered in 2013 refer to products manufactured by foreign companies (Onco Generics LLC, Pharmstandard-Biolek PJSC) – according to state registration rules prices for foreign products are not subject to re-registration.

#	INN	Brand name	Number of prices to be re-registered in 2014
1	-	Anatoxinum diphtherico-tetanicum purificatum (ADT-M Anatoxinum)	1
2	-	Anatoxinum tetanicum purificatum adsorptum fluidum (AT Anatoxinum)	1
3	Azithromycin	Azitrox®	5
4	Activated Charcoal	Activated Charcoal	2
5	Aminophilline	Euphyllin	1
6	Ascorbic acid	Ascorbic acid	1
7	Acetylsalicylic acid	Acetylsalicylic acid	2
8	Generic name	Neosmectin	1
9	Darunavir	Prezista®	2
10	Digoxin	Digoxin	1
11	Drotaverine	Spasmol®	2
12	Isosorbide dinitrate	Nitrosorbide	1
13	Interferon leukocytic human	Interferon leukocytic human fluid	2
14	Potassium-magnesium asparaginate	Asparcam	1
15	Calcium gluconate	Calcium gluconate	1
16	Co-trimoxazole [sulfamethoxazole + trimethoprim]	Co-trimoxazole	2
17	Xylometazoline	Rinostop®	2
18	Lenalidomide	Revlimid	3
19	Lidocaine	Lidocaine	1
20	Losartan	Bloctran	2
21	Metronidazole	Metronidazole	1
22	Nitroglycerin	Nitrocor®	1
		Nitrospray	1
		Nitroglycerin	1
23	Pancreatin	Pancreatin	1
24	Paracetamol	Paracetamol	2
25	Propranolol	Anaprilin	2
26	Smectit dioctaedric	Neosmectin®	5
27	Thioctic acid	Octolipen®	2
28	Trihexyphenidyl	Cyclodol®	1
29	Umifenovir	Arbidol®	5
30	Phospholipides + Glycyrrhizinic acid	Phosphogliv	1
		Phosphogliv® forte	1
31	Furosemide	Furosemide	1
32	Chloramphenicol	Levomycetin	1
33	Enalapril	Renipril®	2
34	Etravirine	Intelence®	1
35	Oseltamyvir	Tamiflu®	9
36	Rituximab	Mabthera®	6
37	Tocilizumab	Actemra®	3
38	Formoterol	Atimos	1
39	Epoetin beta	Epostin®	2
Total			84

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Business Overview

GMP

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, Drug Manufacturing and Quality Control Organization Rules approved by the Order of the Ministry for Industry and Trade of the Russian Federation 14 June 2013 # 916, Russian national standards GOST R 52249-2009 (GMP) "Drug Manufacturing and Quality Control Rules" and GOST R ISO 9001-2008 (ISO 9001:2008) "Quality Management System. Requirements". The quality management system operating at the Tyumen Medical Equipment and Instruments Plant complies with EN ISO 13485 (EN ISO 13485:2012 + AC:2012 – ISO 13485:2003 + Cor. 1:2009) "Medical devices – Quality Management Systems – Regulatory requirements" and EN ISO 9001 (ISO 9001:2008) "Quality management systems – Requirements".

In 2013, All-Russia Research Certification Institute (VNIIS), the Russian management system certification authority:

- recertified Pharmstandard Group companies Pharmstandard-UfaVITA JSC, Pharmstandard-Leksredstva JSC and Pharmstandard-Tomskhimpharm JSC for their compliance with GOST ISO 9001-2011 (ISO 9001:2008) "Quality Management System. Requirements" and GOST R 52249-2009 "Drug Manufacturing and Quality Control Rules (GMP)" and issued new compliance certificates;
- certified LEKKO CJSC operations as compliant with GOST ISO 9001-2011 (ISO 9001:2008) "Quality Management System. Requirements" and GOST R 52249-2009 "Drug Manufacturing and Quality Control Rules (GMP)" and issued relevant compliance certificates;
- re-inspected Pharmapark LLC operations for their compliance with GOST ISO 9001-2011 (ISO 9001:2008) "Quality Management System. Requirements" and confirmed the validity of existing compliance certificates;
- re-inspected pharmacy depots of Pharmstandard OJSC and Pharmstandard LLC for their compliance with GOST ISO 9001-2011 (ISO 9001:2008) "Quality Management System. Requirements" and GOST R 52249-2009 "Drug Manufacturing and Quality Control Rules (GMP)".

Pharmstandard's efforts in complying with GxP practices is key to expanding co-operation with EU producers.

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

The State Training Center for Good Manufacturing/Distribution Practice, a branch of the Ukrainian State Pharmaceutical Quality Institute, inspected Pharmstandard pharmaceutical operations for their compliance with the Ukrainian GMP requirements and issued relevant compliance certificates to:

- Pharmstandard-Leksredstva JSC – in March 2013;
- Pharmstandard-Tomskhimpharm JSC – in July 2013.

The Commission of the Ministry for Industry and Trade of the Russian Federation inspected Pharmstandard-Leksredstva JSC (December 2013), Pharmstandard-UfaVITA JSC (January 2014) and Pharmstandard-Tomskhimpharm JSC (January 2014) for their compliance with drug manufacturing license requirements, in particular Drug Manufacturing and Quality Control Organization Rules approved by the Order of the Ministry for Industry and Trade of 14 June 2013 # 916 effective from 19 November 2013, and confirmed the compliance of drug production and quality control system established for Pharmstandard operations with the above requirements.

In December 2013, the Ukrainian State Pharmaceutical Service inspected Pharmstandard-Biolek's drug filling, sublimation and preparation shop and drug package unit and confirmed their compliance with the Ukrainian GMP requirement. The construction of a new capacity for the production of Ectericidum external use solution has now reached its completion stage. In co-operation with the Department for Good Manufacturing Practice (GMP) Pharmstandard OJSC has developed and proceeds with measures to improve pharmaceutical quality system.

In 2013, a new company OTCPharm OJSC was set up to focus on the distribution of contract-based OTC drugs.

OTCPharm's co-operation with Pharmstandard plants is based on contract manufacturing. OTCPharm places orders for drug production on Pharmstandard operating platform on a contract basis.

In the course of OTCPharm creation, the Department for Good Manufacturing Practice (GMP) carried out sample inspections of documents related to quality management system (raw material and finished product specifications, drug stability documents, drug quality reviews) of Pharmstandard Group operating companies that would act as providers under distribution contracts.

In addition to that, expert assessment was carried out with respect to necessary changes in the Company's operations in terms of production and quality control organization for the compliance with the Russian and European GMP requirements; a unified approach to calculating the number of tests per product line was developed with a new calculation methodology introduced; sanitation methods applied by the Company were inspected with appropriate steps for their standardization for each operating facility identified. The Company also budgeted the costs associated with the purchase of new equipment and instruments, as well as construction and re-construction of buildings and engineering systems required to ensure planned improvements.

While establishing the new company co-operation procedures between OTCPharm and Pharmstandard operating companies were developed, including standard contractor, storage and quality agreements fully reflecting the parties' liabilities for all aspects related to product manufacturing, quality control and sales.

In accordance with the requirements of the Order of the Ministry for Industry and Trade of 14 June 2013 # 916 "On the Approval of Drug Manufacturing and Quality Control Organization Rules" and the Russian national standard GOST R 52249-2009 (GMP) "Drug Manufacturing and Quality Control Rules", Pharmstandard Group companies arranged for Authorized Persons' certification. As of February 2014, Pharmstandard-UfaVITA employees had been successfully certified as Authorized Persons by the Russian Healthcare Ministry's Certification Commission.

All Pharmstandard companies undergo regular external inspections/audits both by the Russian regulators (Drug Licensing Division of the Department for Pharmaceutical and Medical Industry Development of the Ministry for Industry and Trade; Federal Healthcare Supervision Service) and independent European and Russian auditors.

Information on compliance certificates issued to Pharmstandard OJSC operating companies:

Pharmstandard-Leksredstva JSC
- EU GMP compliance certificate (based on Directive 2003/94/EC (1)), ZVA/LV/2012/014H issued 29 May 2012, valid until 29 May 2015
- GOST R 52249-2009 (GMP) ("Drug Manufacturing and Quality Control Rules") compliance certificate GMPEU RU.001.P0007 issued 27 May 2013, valid until 27 May 2016
- GOST ISO 9001-2011 (ISO 9001:2008) ("Quality Management System. Requirements") compliance certificate ROSS RU.IS11.K00893 issued 27 May 2013, valid until 27 May 2016
- Ukrainian Decree ST-N MOZU 42-4.0:2011 ("Pharmaceuticals. Good Manufacturing Practice") compliance certificate 035/2013/SAUMP/GMP valid until 29 March 2016

Pharmstandard-UfaVITA JSC:
- GOST R 52249-2009 (GMP) ("Drug Manufacturing and Quality Control Rules") compliance certificate GMPEU RU.001.P00326 issued 30 May 2013, valid until 30 May 2016
- GOST ISO 9001-2011 (ISO 9001:2008) ("Quality Management System. Requirements") compliance certificate ROSS RU.IS11.K00895 issued 30 May 2013, valid until 30 May 2016

Pharmstandard-Tomskhimpharm JSC:
- GOST R 52249-2009 (GMP) ("Drug Manufacturing and Quality Control Rules") compliance certificate GMPEU RU.001.P000327 issued 30 May 2013, valid until 30 May 2016
- GOST ISO 9001-2011 (ISO 9001:2008) ("Quality Management System. Requirements") compliance certificate ROSS RU.IS11.K00896 issued 30 May 2013, valid until 30 May 2016
- Ukrainian Decree ST-N MOZU 42-4.0:2011 ("Pharmaceuticals. Good Manufacturing Practice") compliance certificate 068/2013/SAUMP/GMP valid until 19 July 2016

Lekko CJSC:
- GOST R 52249-2009 (GMP) ("Drug Manufacturing and Quality Control Rules") compliance certificate GMPEU RU.001.P0010 issued 18 June 2013, valid until 18 June 2016
- GOST ISO 9001-2011 (ISO 9001:2008) ("Quality Management System. Requirements") compliance certificate ROSS RU.IS11.K00866 issued 11 March 2013, valid until 11 March 2016

Pharmapark LLC:
- GOST R 52249-2009 (GMP) ("Drug Manufacturing and Quality Control Rules") compliance certificate GMPEU RU.001.P0006 issued 26 December 2012, valid until 26 December 2015
- GOST ISO 9001-2008 (ISO 9001:2008) ("Quality Management System. Requirements") compliance certificate ROSS RU.IS11.K00852 issued 26 December 2012, valid until 26 December 2015

Tyumen Medical Equipment and Instruments Plant, OJSC:
- EN ISO 13485 (EN ISO 13485:2012 + AC:2012 – ISO 13485:2003 + Cor. 1:2009) ("Medical devices – Quality Management Systems – Regulatory requirements") compliance certificate # D1236900007 issued 27 November 2013, valid until 20 October 2018
- EN ISO 9001 (ISO 9001:2008) ("Quality Management Systems – Requirements") compliance certificate # D1236900008 of 28 November 2013, valid until 27 October 2016

Pharmstandard JSC /
Pharmstandard LLC pharmacy depots:
- GOST R ISO 9001-2008 ("Quality Management System. Requirements") compliance certificates:
  - ROSS RU.IS11.K00815 valid until 18 September 2015 issued to Pharmstandard JSC
  - ROSS RU.IS11.K00814 valid until 18 September 2015 issued to Pharmstandard LLC
  - GOST R 52249-2009 ("Drug Manufacturing and Quality Control Rules") compliance certificates:
  - GMPPEU RU.001.#.0005 valid until 18 September 2015 issued to Pharmstandard JSC
  - GMPPEU RU.001.#.0004 valid until 18 September 2015 issued to Pharmstandard LLC

Validation Unit

Pharmstandard Group companies' validation process is carried out in accordance with Validation Master Plans based on validation V-model with validators' involvement in the process from the earliest stage of a validation object life cycle.

This includes User Requirement Specifications (URS) development and continuous change control and management. Regular validators' participation in FAT/SAT tests allows to comply with Good Engineering Practice requirements.

An important part of the process is control and monitoring of cold chain conditions in the production, storage and transportation of heat liable drugs. Pharmstandard' extensive experience in this area supports successful execution of the most complex projects, including joint projects with international companies associated with the production, storage and transportation of heat liable drugs.

All operations by Pharmstandard OJSC validators are performed using up-to-date validation instrumentation supplied by global leading producers of such equipment that is subject to regular calibration/verification in order to guarantee unequivocal information from validated objects and optimize labour efforts in the validation process.

Validators actively participate in the development and introduction of computerized production process management and monitoring systems and electronic record systems at Pharmstandard Group operating companies in accordance with GAMP 5 international requirements.

As Pharmstandard OJSC is an open company, its validators are happy to share their expertise with their counterparts from other pharmaceutical companies and institutions by assisting them in validation procedures and providing valuable advice.

Validators's performance both at the operating company and the holding company level is supported by continuous training at the leading training centers in Russia and abroad as well as constant focus on the compliance with the best global validation practices.

Pharmstandard growth plans

In accordance with the Company growth plans a number of new production units/sites for the launch of new products or existing capacity expansion have been built with some of them still under construction.

The Company purchased new process and laboratory equipment for product manufacturing and quality control.

Total investments in 2013 reached RUB1,177 m.

Pharmstandard-Leksredstva JSC:
- put in operation a new spray/aerosol production unit in September 2013
- put in operation a new sampling unit at the raw material warehouse in December 2013
- completed laundry building reconstruction
- purchased new packaging equipment for liquid drugs
- purchased new equipment for production facilities, quality control division and central laboratory
- developed raw & packaging material warehouse reconstruction design
- developed metered aerosol production project based on GMP standards

Pharmstandard-Tomskhimpharm JSC:
- purchased new equipment for production facilities, quality control division and central laboratory
- provided additional equipment/facilities for water purification & storage system
- entered into an agreement for a gas boiler house design

Pharmstandard-UfaVITA JSC:
- completed construction and assembly stage at cytostatics shop with cleanroom qualification, engineering system and process equipment installation stages still under way
- is currently in the process of reconstructing operating areas of insulin drugs production unit
- continues construction and engineering stages of prefilled syringe unit
- continues injection drug unit reconstruction including equipment replacement and small batch manufacturing organization
- continues the construction of eye drops unit
- continues the construction of a new building for finished drug products, central laboratory and quality control division
- purchased new process equipment as well as laboratory equipment for central laboratory and quality control division

Procurement

Pharmstandard 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 2013, the Company purchased over 450 items of various raw materials for the total amount of RUB4.1 bn (excluding TPP), of which RUB3.7 bn accounted for active pharmaceutical ingredients (APIs).

Top 10 suppliers having long-term co-operation experience with the Company accounted for 51.5% of the total purchased material volume. Raw materials for pharmaceutical production are primarily supplied from China, Europe, Russia, India and other countries

Procurement breakdown by type of raw materials purchased for the Company's pharmaceutical production and substance sales (excluding TPP):

Raw material mix	2012, %	2013, %	2013, RUB'000
Raw materials of which:	82%	79%	4,130,976
Active pharmaceutical ingredients (APIs)	74%	70%	3,673,969
Other	7%	9%	457,007
Supporting materials	0.2%	0.2%	10,864
Packaging	18%	21%	1,102,924
Total	**100%**	**100%**	**5,244,764**

Breakdown of raw material procurement contracts for the Company's pharmaceutical production and substance sales in 2013 by currency type (excluding TPP):

Currency	2012, %	2013, %	2013, RUB'000
Euro	15.0%	17.2%	901,329
USD	53.0%	40.7%	2,132,045
RUB	32.0%	42.2%	2,211,390
Total	**100.0%**	**100.0%**	**5,244,764**

In line with its plans to spin off the OTC business Pharmstandard has been taking appropriate measures to reorganise its API purchase procedure. In 2014, the current Pharmstandard management will continue controlling raw material procurement with respect to products included in OTCPharm portfolio.

Pharmaceutical substance sales in the Russian market

A department for pharmaceutical substance and support raw material sales to third parties was established in February 2010.

In 2013, Pharmstandard continued developing its API distribution business based on direct supply primarily from Chinese, Indian and West European producers.

Pharmaceutical substance sales decreased by 7% vs 2012 and amounted to RUB422.8 m, however, sales profit increased by 5%.

The Company offers over 130 items of pharmaceutical substances for sale.

We have more than 50 Russian pharmaceutical companies among our partners.

Top 10 substances supplied in 2013 by profit:

No	Substances	Unit	Sales Aount ex VAT, RUB m
1	Alphalipoic acid	kg	22.318
2	Rutin	kg	46.935
3	Paracetamol	kg	51.397
4	Oeprazole	kg	22.867
5	Chloraphenicol (Norsist)	kg	29.747
6	Acetylsalicylic acid	kg	24.661
7	Terbinafine hydrochloride	kg	7.475
8	Ascorbic acid	kg	16.338
9	Metaizole sodiu	kg	19.542
10	Fozinopril sodiu	kg	9.136

Growth strategy for 2014-2015:

PHARMSTANDARD LLC contributes to the overall growth of the Russian finished pharmaceutical product (FPP) industry by developing its business in the following areas:

- Bringing new pharmaceutical substances to the market based on comprehensive market research
- Providing prompt and efficient authorisation and quick promotion of pharmaceutical substances
- In line with new product introduction by Russian producers, identifying and selecting high-quality raw material producers which meet all relevant requirements and ready to register their products and provide appropriate documents.

Government Procurement – 2013 Performance Report

One of the key Company's priorities is to consolidate partner relationships with global market leaders in production localization of socially significant drugs mostly with no locally produced analogues. The Company closely co-operates with a number of international players, e.g. Johnson & Johnson, Hoffmann-La Roche, Sanofi-Aventis, Celgene, Chiesi, Ferring, on manufacture and distribution of their products as part of public drug supply government programs at regional and federal levels.

In 2013, third party product sales (Sanofi-aventis, Johnson & Johnson, Hoffmann-La Roche, Generium, Celgene, Chiesi, Ferring) grew 7.7% up to RUB30,451 m, i. e. RUB2,172 m higher than in 2012.

This substantial third party product sales growth is attributed to a significant increase of supplies under government contracts.

One of the most important projects implemented by the Company in 2013 is a joint Sanofi-Aventis project targeted at better accessibility of insulin drugs for the public. The Company sales under the project reached RUB4,813 m in 2013.

Another successful 2013 project worth highlighting is a joint project with Celgene where sales almost doubled (+89%) to reach RUB876 m. In addition, in 2013 the Company completed production localization for Vidaza, Celgene's original drug for blood system diseases, as part of the government strategy for the development of the Russian pharmaceutical industry up to 2025.

In 2013, The Company also launched a joint Johnson & Johnson project on Insivo (chronic hepatitis C treatment) with annual sales of RUB327.8 m.

In the Russian Federation public drug supply system covers three groups of people entitled to state-funded social care:

1. **Federal level beneficiaries,** i.e. people entitled to receive state-funded social support in the form of social services package in accordance with the Federal Law of 17 July 1999 No 178 On State Social Assistance. This group of beneficiaries receives drugs for free based on Essential Drug Management Program (ONLS) as per the list of drugs approved by the Order of the Ministry of Healthcare and Social Development of the Russian Federation of 18 September 2006 No 665 (revised as of 10 November 2011).
2. **Regional level beneficiaries,** i.e. people included based on the Government Decree of 30 July 1994 No 890 in the list of groups to receive drugs on prescription free of charge in accordance with the list of drugs and medical products.
3. **Patients falling into 7 High-Cost Nosologies Program (VZN),** i.e. people for whom drugs are purchased on a centralised basis by the Ministry of Healthcare of the Russian Federation through federal budget in accordance with the Government Decree of 26 December 2011 No 1155 On the Purchase of Drugs for Patients Suffering from Cancer of Lymphoid, Blood-Forming and Related Tissues, Hemophilia, Cystic Fibrosis, Gaucher Disease, Multiocular Sclerosis, as well as Post-Transplant Patients. The list of drugs to be purchased for this group of beneficiaries is approved by the Government Executive Order of 31 December 2008 No 2053-r (revised as of 4 September 2012).

Based on IMS Health estimates, VZN funding has been continuously expanded while ONLS channel saw a correction in 2012 with limited subsequent growth (+2% in 2013 vs previous year).

Distribution channel	2010 US$ bn	2011 US$ bn	2012 US$ bn	2013 US$ bn
ONLS	1.55	1.57	1.41	1.44
VZN	1.11	1.09	1.17	1.33

To meet patients' needs for high-cost treatment under 7 Nosologies Federal Program the Company produces and distributes the following drugs: Velcade, Mabthera, Pulmozyme, Rastan, Infibeta, Coagil. In 2013, the Company's third party product segment grew by 2.5% to reach RUB 11,799 m. The

highest growth rates were demonstrated by Generium's Coagil (76.3%) and Hoffmann-La Roche's Mabthera (5.6%).

Valid from 1 January 2013, the Government Decree of 27 December 2012 No 1438 On Financing Purchases of Diagnostic and Antiviral Products for Prevention, Detection, Treatment Monitoring and Medical Care of HIV and Hepatitis B & C Infested Patients, marked the beginning of decentralization of drug purchases for the treatment of socially significant diseases with the function transfer to regional authorities. In this segment the Company achieved successful sales of Intelence and Prezista brands produced in co-operation with Johnson & Johnson with sales growth of +8.1% in 2013 and absolute 2013 sales volume estimated at RUB2,560 m.

The Order of the Ministry of Healthcare of 17 April 2013 No 211 effective from 16 July 2013 stipulates access terms for foreign products with respect to state and municipal order placing as well as preferential terms for Russian and Belorussian products. Based on the Order any tenders or auctions for any supply of goods for state and municipal purposes should prioritize bidders supplying Russian and/or Belorussian goods. As such, when foreign drugs are purchased by auction a 15% discount should be applied to price of the state (municipal) contract or a civil law contract of a state-financed entity.

The Federal Law of 5 April 2013 No 44-FZ On the Contract System in Purchasing Goods, Works and Services for State and Municipal Needs (the CS Law) came into force on 1 January 2014 targeted at overall regulatory improvement with respect to state and municipal level purchases and the development of a contract system in pharmaceutical purchases.

Firstly, the purchase procedure as specified by the CS Law now covers the entire cycle of works associated with purchases where the key stages are planning, placing, execution and controls. The Law primarily focuses on the purchase result that should be directly linked to the beginning of the purchase process – a three-year planning perspective. Secondly, the CS Law regulates many areas out of the coverage of the Law No 94-FZ, including anti-dumping and anti-corruption provisions, unilateral contract termination, etc. As such, the new law provides for monitoring of average market prices for any product or service. In case the seller proposes a price decrease of over 25% of the initial level the proposed price should be justified and additional financial coverage should be provided.

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 DGM TRADING LIMITED established MOLDILDO TRADING LIMITED, a JV holding 100% in Pharmstandard-Medtechnika. Pharmstandard holds 75% in the project with 25% held by DGM Group.

In 2013, Pharmstandard-Medtechnika LLC achieved leading positions in the Russia disinfection and infection control equipment market (based on tenders won in Russian in 2013) with 24% market share. Market share increase despite significant market contraction in 2013 vs 2012 is a result of the following accomplishments:

- Improved customer satisfaction in the quality of equipment and services provided by Pharmstandard-Medtechnika. Based on all-Russia customer survey, up to 80% of the respondents asses the quality of services and equipment as good and excelent
- Double growth of the customer base for large DGM and TZMOI equipment in 2013 vs 2012
- New sales growth strategy focused on regional sales force strengthening that allowed to expand the Company's presence in the Russian regional markets
- Launch of PHS equipment sales (domestic equivalent of the leading European brands)
- Launch of two new equipment lines – DGM Z low temperature plasma sterilizers and DGM M medical waste sterilization units, which resulted in business expansion in one of the most rapidly growing segments of the sterilization equipment market
- Participation in the Moscow Healthcare System Modernisation Program as disinfection/sterilisation equipment supplier: 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 quick and efficient delivery
- Active equipment promotion in CIS markets
- Bulding up a strong marketing function focused on robust promotion of the entire equiment line supported by thorough market research and various marketing tools

Given its performance in 2013, Pharmstandard-Medtechnika's odjective for 2014 is to provide further market share growth.

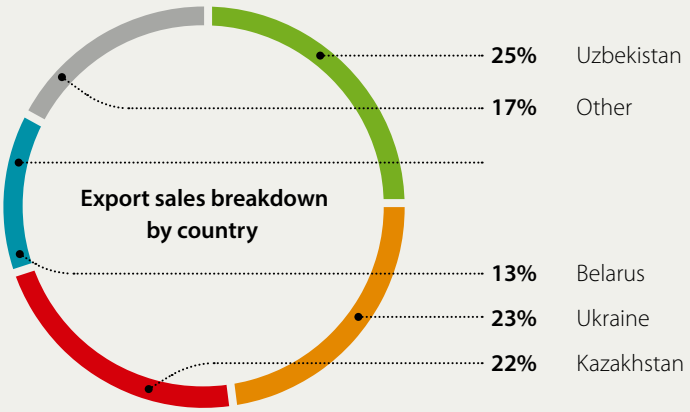
Overseas sales

Ensuring strong export capabilities is one of the priorities for Pharmstandard Group. The products are exported to 14 countries, primarily within CIS and FSU. Export breakdown is presented on Fig. 1. The major part of export sales is accounted for by pharma markets in Uzbekistan (25.1%), Ukraine (23.5%), Kazakhstan (21.7%) and Belarus (12.7%).

As of 2013, export share reached 1.5% of the Company's total sales.

Compared to 2012 performance, export sales declined by 23.8% to RUB813.9 m (Fig. 2.) due to a number of factors, such as:

- economic situation in Kazakhstan and Ukraine;
- political unrest in Ukraine;
- more stringent requirements to pharmaceutical product registration in the export markets

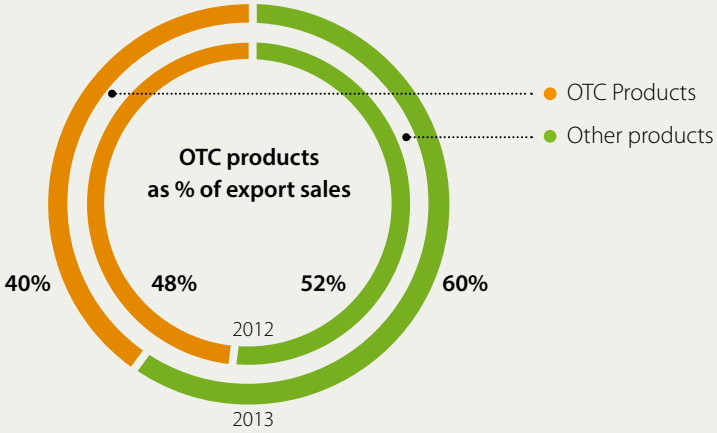


Export sales and YoY growth by country (2012-2013)

COUNTRY	2013, RUB m	2013, % share	2012, RUB m	2012, % share	13/12 growth, RUB	13/12 growth, %
Uzbekistan	204,1	25,1%	257,7	24,1%	-53,6	-20,8%
Ukraine	191,1	23,5%	383,9	35,9%	-192,8	-50,2%
Kazakhstan	176,5	21,7%	236,5	22,1%	-60,0	-25,4%
Belarus	103,4	12,7%	69,8	6,5%	33,7	48,2%
Azerbaijan	31,9	3,9%	25,5	2,4%	6,5	25,4%
Kyrgyzstan	31,9	3,9%	30,8	2,9%	1,0	3,4%
Armenia	23,4	2,9%	20,3	1,9%	3,1	15,4%
Turkmenistan	13,9	1,7%	10,7	1,0%	3,2	29,9%
Moldova	13,1	1,6%	15,0	1,4%	-1,9	-12,7%
Other	24,6	3,0%	18,4	1,7%	6,2	33,5%
Total	**813,9**	**100,0%**	**1 068,6**	**100,0%**	**-254,7**	**-23,8%**

In 2H2013, Pharmstandard Group shareholders made a decision to spin off its OTC business forming a new company OTCPharm. OTCPharm products account for a high proportion of the total Pharmstandard JSC export sales (see Fig. 2).

As such, ensuring efficient co-ordination between the companies is one of our priorities.



Rapidly growing markets and key areas of focus

Pharmstandard strives to grow and expand its export business outside CIS – in Latin and South America, Africa, Middle East.

Key trends in the major CIS markets

Kazakhstan and Belarus are members of the Single Economic Area Union together with Russia. By 2014, unified requirements to drug registration and certification are to be introduced. Ukraine is the second largest CIS market after Russia. Below we provide a detailed overview of the markets.

Ukraine – pharmaceutical market growth up to UAH36 bn as of 2013

- Order of the Ukrainian Healthcare Ministry of 27 December 2012 #1130 approved GMP Compliance Confirmation Procedure that came into effect on 8 February 2013 (Source: www.apteka.ua/article/213097)
- Any delivery of imported drugs to Ukraine requires a GMP Compliance Certificate or a confirmation thereof. In addition, there are also requirements to the contents of an imported drug batch quality certificate (set out in the Appendix to the Control Procedure). (Source: www.apteka.ua/article/213097)
- Starting from 2013, it is required to obtain a drug import license in accordance with the amendments to the Ukrainian Law "On pharmaceuticals" effective from 1 March 2013
- In March 2013, the Ukrainian State Pharmacopeia became a member of the European Pharmacopeia. From February 2013, GSM certificate is a mandatory requirement for drugs imported to Ukraine. (Source: www.apteka.ua/article/265085)

Kazakhstan – pharmaceutical market of c. US$1.6 bn (Source: PharmExpert)

- Kazakhstan adheres to GMP standards. The National Pharmaceutical Sector Development Program pursued by the Government since 2010, requires that 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 entire national pharmaceutical market. Purchases are provided through SK-Pharmacia state-owned company.
- Kazakhstan actively develops national pharmaceutical industry attracting investors to the construction of greenfield facilities and expansion of existing capacity.

Key regulatory changes in the Russian pharmaceutical market in 2013 and expected developments in 2014

Ministry of Industry and Trade (Minpromtorg) authorised to adopt drug manufacturing and quality control rules and issue compliance certificates confirming medical drug manufacturers' compliance with the requirements to drug manufacturing and quality control

Established in 2013 Department for Pharmaceutical and Medical Industry Development appointed responsible for conducting inspections.

The Department for Pharmaceutical and Medical Industry Development develops the final version of Drug Manufacturing and Quality Control Rules

Pharmstandard-Leksredstva OJSC obtains The first license comprising a certificate of compliance with Drug Manufacturing and Quality Control Rules

"Approval of Certification Procedure for Authorized Persons of Medical Drug Manufacturers".

Approval of the composition of Minzdrav Certification Committee. The start of certification is planned for early 2014..

The law eliminated state monopoly on some types of psychotropic substances included in Section III of the List of Narcotic Drugs and Psychotropic Substances Subject to Control in the Russian Federation.

In accordance with these amendments and the inclusion of phenobarbital in Section III of the List by manufacturers using it in their production process, Pharmstandard-Leksredstva JSC and Pharmstandard-Tomskhimpharm JSC in July/August 2013 obtained licenses for the use of psychotropic substances included in Section III of the List of Narcotic Drugs and Psychotropic Substances Subject to Control in the Russian Federation.

A new clause was added to the Federal Law "On the Circulation of Pharmaceuticals" – Clause 14.1. "Limitations Imposed on Entities Involved in Drug Circulation". Changes have been effective since 1 January 2014. The work is to be continued in 2014.

Clause 581 "Strict Record Keeping and Storage of Medical Drugs" of Federal Law #61-FZ introduced by Federal Law of 25 December 2012 #262-FZ came into effect on 25 June 2013. In accordance with this clause Minzdrav issued Order #378n dated 17 June 2013 establishing rules for record keeping with respect to drug circulation operations involving drugs included in the list of medical drugs subject to strict record keeping and storage, as well as rules for keeping and maintaining special record books where these operations should be registered. The draft list of medical drugs subject to strict record keeping and storage did not reach final approval.

A new VED List for 2014 was not established in 2013. Executive Order of the Russian Government of 19 December 2013 #2427-r "On Establishing the List of Vital and Essential Drugs for 2014" actually extended the term of validity of the VED List effective in 2012 and 2013. In 2014, some VED sale ceiling prices are to be adjusted for estimated inflation rate of 5% in accordance with the regulations.

The deadline for re-issue of registration certificates for medical devices, appliances and equipment was extended up to 1 January 2017. A new article 333.32.2 was added to the Tax Code in 2013 setting the amount of state duty with respect to any actions of the authorized federal executive body related to medical device state registration.

The work on obtaining new format registration certificates for medical devices produced by TZMOI JSC in accordance with approved Rules will be continued in 2014

Starting from 1 June 2013, Technical Regulations of the Customs Union "On food product safety" TR TS 021/2011 and "Food product marking" TR TS 022/2011 have taken effect.

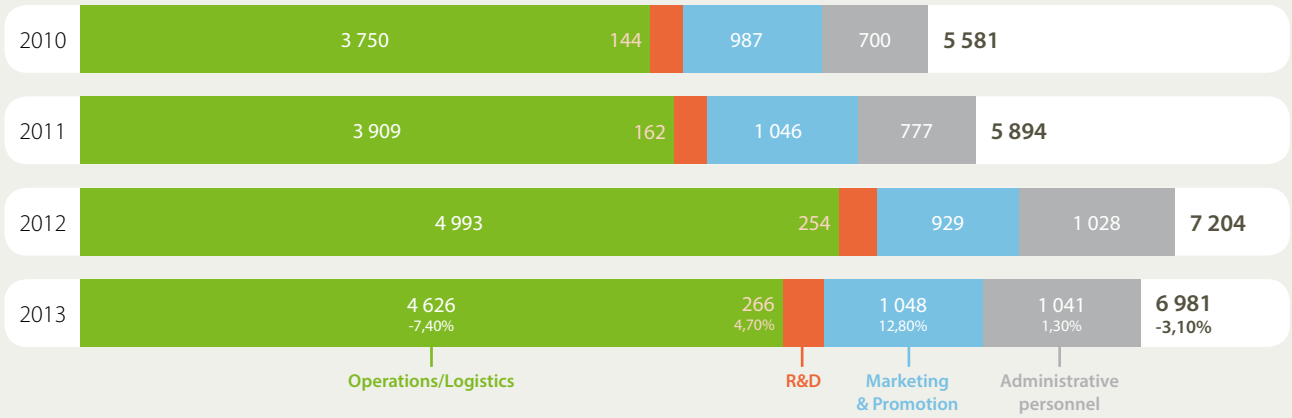
In 2013, registration certificates were issued for four Pharmstandard products based on Technical Regulations of the Customs Union.

6

Employees and Social Responsibility

Employees

As of 31 December 2013, Pharmstandard Group had 6,981 full time employees of which 37.5% accounted for trade union members. During 2013, the Company's headcount decreased by 3.1% vs 2012. Chart below shows Pharmstandard Group headcount evolution in 2010-2013 by key business segments:



Headcount 12.8% growth in Marketing & Promotion in 2013 is associated with the expansion of pharmacy therapeutic drug promotion group focused on the Russian market. Due to OTCPharm spin-off, approx. 430 OTC promotion employees and approx. 75 administrative personnel (involved in marketing) will be transferred to the new company starting from 2014.

7.4% headcount reduction (376 people) in Operations/Logistics segment resulted from production decline and reorganizations:

1. **UfaVITA JSC:** unification of injection drugs division with subsequent key and supporting personnel re-deployment/reduction
2. **TZMOI JSC:** reduction of existing vacant positions with key operations due to planned production decline
3. **Biomed named after I.I. Mechnikov OJSC:** unification of manufacturing shops with subsequent key and supporting personnel re-deployment/reduction, as well as key and supporting personnel reduction in 2013 due to production volume decline at Pharmstandard-Biolek PJSC.

During 2013, there were no complaint actions or collective labour disputes or trade union initiated discontinuation of operations. This reflects reasonable alignment of interest between the employer and the employees, social partnership trends and relatively high employee satisfaction level.

Table below shows the number of personnel for each operating company of the Group and the management company as of 31 December 2013:

Headcount as of 31-Dec-2013	Pharmstandard	Leksredstva	UfaVITA	Tomskhimpharm	TZMOI	Lekko	Biomed	Medtechnika	Pharmapark	Biolek	Other	TOTAL
Operations/ Logistics	265	1 387	1 352	512	2 69	200	149	80	104	267	41	4 626
R&D	95	37	41	23	13	0	2		38	15	2	266
Marketing & Promotion	1 027	0	0	0	0	0		7	1	13	0	1 048
Administrative personnel	348	108	124	98	51	54	79	32	53	65	29	1 041
TOTAL	**1 735**	**1 532**	**1 517**	**633**	**333**	**254**	**230**	**119**	**196**	**360**	**72**	**6 981**

Employee compensation system

As of today, Pharmstandard maintains competitive employee compensation level.

The employee's compensation includes fixed (70%) and variable (30%) components. The variable component is based on employee motivation mechanisms providing for clear and transparent target bonus setting and calculation based on key collective and individual performance criteria in every employee's bonus plans. Performance-linked quarterly bonus payment represents 30% of the employee's quarterly salary as per labour contracts.

Subject to payroll calculation method and selected employee performance evaluation criterion, Pharmstandard operating companies use the following compensation forms:
- time rate plus bonus
- job rate plus bonus

Employee compensation system is based on the rating system linked to the required minimum nation-wide compensation rates set by the Labour Code of the Russian Federation.

With respect to workers involved in core and support operations the workers' unified wage scale (UWS) is applied which is the key element of the rating system and an effective instrument for rate setting and labour compensation. It is based on wage grades and corresponding multipliers used to set wage level for any employee depending on his/her qualification. UWS provides justified differentiation of rates and salaries and creates incentives for skill improvement and better labour performance.

In addition to the rate component which represents a guaranteed (constant) part of the employee compensation, the existing labour compensation system also includes the following elements:
- **core performance bonus** that links employees' compensation to their personal results achieved in the period in question and the company's overall performance with a monthly bonus of 20% to 50%;
- **motivating extra payments and wage premia** based on employees' personal business skills and work efficiency
- **compensatory extra payments and wage premia** guarantying employees' compensation in accordance with the Russian laws and regulations in all circumstances when commonly established labour utilization procedure is not observed
- **one-off extra payments** set to motivate the employee as a reward for significant achievements unaccounted for in the core performance records.

In 2013, Lekko CJSC integrated into Pharmstandard Group in 2012, made appropriate preparatory steps for the transfer onto the rate-based compensation system for workers involved in core and support operations. A unified wage scale was developed with unified intra-group and intra-grade multipliers used by all operating companies.

It is planned to introduce time rate plus bonus and job rate plus bonus compensation schemes. Formal time studies were performed and standard rates were set for all stages of existing production processes. The system is to be formalized and introduced from 1 March 2014.

Pharmstandard maintains market average labour compensation level. In 2013, average compensation of Pharmstandard Group employees grew by 8.6% vs 2012.

Average monthly employee compensation at the Company plants equalled to 4.2x of the minimum statutory monthly pay (MROT).

Wage rate indexation at Pharmstandard plants usually takes place twice a year based on inflation rate.

In 2013, labour costs amounted to **RUB3.4 bn** (including CB), which translates into **17% growth** vs 2012.

The operating companies have collective bargaining agreements and other regulations and guidelines in place providing for various social benefits and payments in line with the labour market requirements. Social package offered by most of the operating companies includes voluntary medical insurance, accident insurance, partial meal cost compensation (lunches), material aid, payment for sanatorium therapy and other benefits.

Personnel training & development system:

Continuous Pharmstandard Group employee professional training and skill improvement is dictated by the need to be in line with technical progress in terms of highly qualified personnel and compliance with European quality standards. The key area of personnel training is GMP rules and regulations.

In 2013, Pharmstandard Group employee training costs amounted to RUB25 m.

Pharmstandard operating companies implement annual workers' performance evaluation program aimed at identifying training needs and selecting successful workers for their long-term financially motivated retention.

Key targets of the evaluation program:
- review workers' performance for the relevant period
- identify training requirements and scarce worker skills/ specialties that need to be developed during the following period
- encourage higher workers' activity level, professional growth and leadership potential

The best result of the regular workers' performance evaluation is "High" rating that provides increment compensation in the following period (year) for high efficiency acieved.

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.

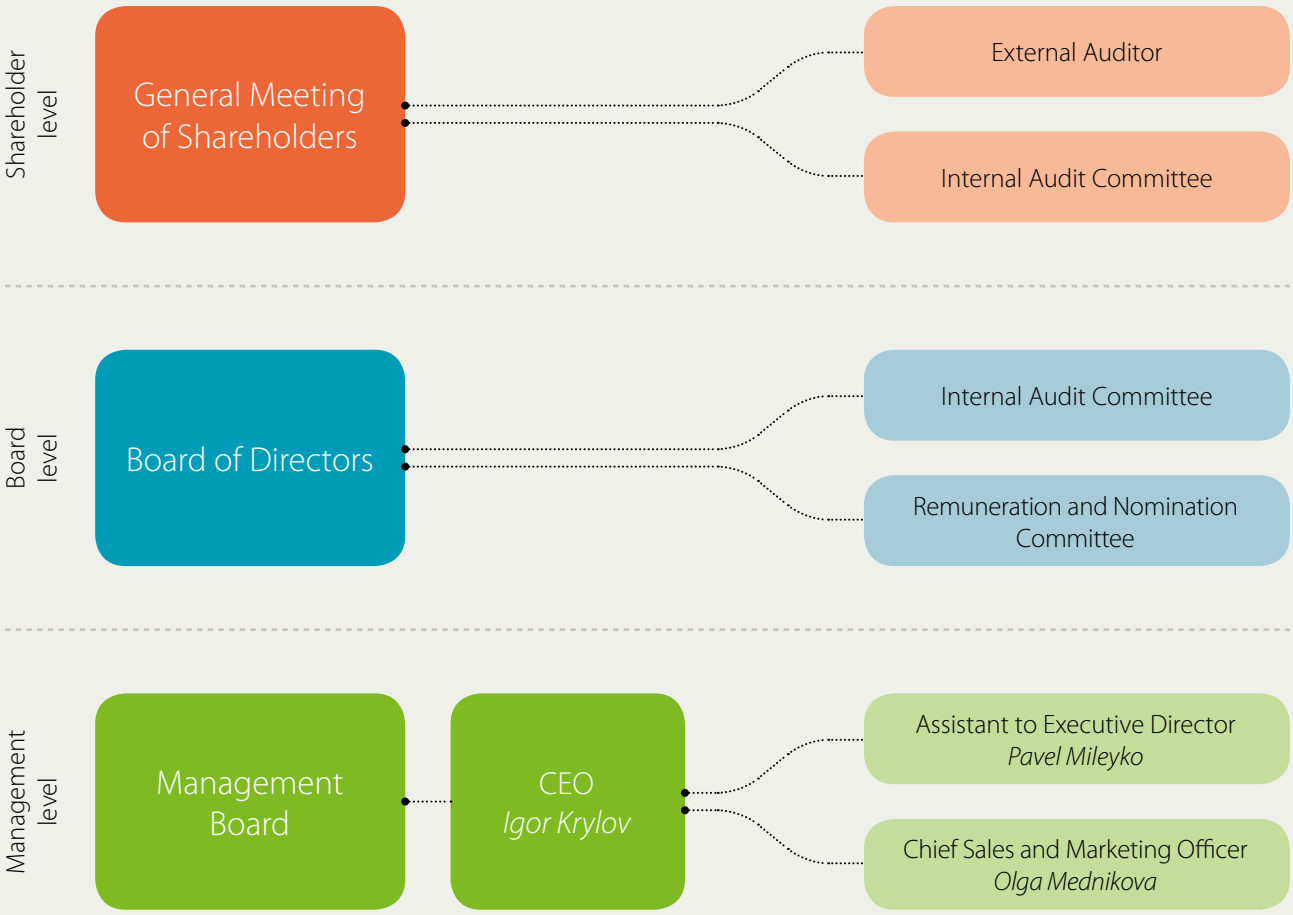
3. Health resort treatment for employees and their children.

4. Voluntary medical insurance and accident insurance for the Company employees.

7

Corporate Governance

Pharmstandard Governance Structure



The General Shareholder Meeting is the supreme governing body of Pharmstandard. The Board of Directors exercises overall management of activities and determines long-term strategy. Pharmstandard's executive officers and members of the Management Board, manage day-to-day activities. An independent auditor and the Internal Audit Commission oversee financial and economic activities. Financial statements are audited in compliance with Russian legislation and IFRS

Corporate Policy

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.

General Meeting of Shareholders

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 holder(s) of at least 2% of the Company's voting shares 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 on the Board initiative, a request from the Audit Committee or the Company's auditor or a holder(s) of at least 10% of the Company's voting shares as of the date of 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 decision making procedure are established by applicable laws and the Company's Charter.

Issues approved in 2013

In 2013, Pharmstandard OJSC held an Annual General Meeting of Shareholders and two Extraordinary General Meetings of Shareholders.

On **May 24, 2013** Pharmstandard OJSC held the **AGM** which has taken the following resolutions: approved the annual report of Pharmstandard OJSC for 2012; approved annual Financial statements, profit-and-loss statements of Pharmstandard OJSC, and also distribution of the Company's profit, based on the results of 2012; decided not to pay dividends for 2012; Elected the Board of Directors of Pharmstandard OJSC for 2013; Elected the members of the Audit Committee for 2013; Approved auditors for 2013; Adopted the charter in the new edition; adopted Conditions for preparation for and holding of general meeting of shareholders of Pharmstandard OJSC in the new edition

On **August 17, 2013** Pharmstandard OJSC held an **EGM** to approve a contract of sale of BEVER PHARMACEUTICAL PTE LTD (22B Duxton Hill, Singapore) shares concluded between Pharmstandard OJSC and BRISTLEY ENTERPISES LIMITED (Cyprus). The object of the deal: 50,000 shares with a nominal value of 1 Singapore dollar, that constitute 100% of BEVER PHARMACEUTICAL PTE LTD capital. The amount of the deal was announced of not more that US$630 m.

The quorum of the general meeting was 73.2732%

Voting results we as follows: 52.8196% of the total number of votes of those who are not interested in the transaction voted for the transaction, – 17.5124% voted against and 1.8983% abstained.

Total consideration for the acquisition of Bever was agreed at US$590 m and was funded by the combination of Pharmstandard's shares and GDRs owned by Pharmstandard-Leksredstva OJSC in the amount of US$542 m (price per share of RUB 2,235.4 and price per GDR of US$20.76) and cash of US$48 m, which may be financed from external sources

The Company's strategic rationale for the Transaction includes securing a long-term fixed-cost supply of critical active pharmaceutical ingredients for two flagship OTC brands Arbidol® and Aphobazolum® as well as significantly increasing the Company's profitability.

On **September 27, 2013** Pharmstandard OJSC held an **EGM** to decide on the reorganization of the Company by spin-off of a new public joint-stock company and to elect the Board of Directors of the company formed in the result of spin-off.

The result of the voting on the Reorganization was as follows: 31 665 581 votes (or 94.9010% of the shares owned by the voters) in favor, 857 641 votes (or 2.5703% of the shares owned by the voters) against, 843 711votes (or 2.5286% of the shares owned by the voters) abstained, 17 votes were invalid, 2 of quorum did not vote. 4 425 652 (11.7104 %) of the voting shares failed to vote.

As a result of the EGM, the Reorganization was approved and the Board of Directors was elected. The full name of the newly created company was defined as Public Joint Stock Company "OTCPharm". The Authorized capital of the PJSC "OTCPharm" shall be RUB 15 117 041.20 rubles and shall consist of 151 170 412 ordinary registered shares with par value of 10 kopecks each. Mednikova Olga, Deputy General Director for marketing and promotion of Pharmstandard OJSC, was appointed General Director of PJSC "OTCPharm".

Board of Directors

Victor Kharitonin

Chairman of the Board of Directors
Executive Director

Election May 2006

Skills and Experience
1994–2003 – CFO and CEO of Profit House
2003–2007 – ICN Pharmaceuticals/ Pharmstandard OJSC
Since 2007 – Executive Director

Igor Krylov

Member of the Board of Directors
CEO

Election June 2008

Skills and Experience
Mr. Krylov has over 15 years of experience in the pharmaceutical industry. Previously, Mr. Krylov held senior positions with Eli Lilly and Sanofi–Aventis

Elena Arkhangelskaya

Member of the Board of Directors
CFO
COO since February 2014

Election June 2008

Skills and Experience
2006 – 2014 Chief Financial Officer of Pharmstandard OJSC
February 2014 – Appoited Chief Operating Officer
Previously, she held senior positions at Eli Lilly

Sergey Dushelikhinsky

Member of the Board of Directors
CCO

Election June 2008

Skills and Experience
Mr. Dushelikhinsky worked for Veropharm and Vremya companies and has 13 years of experience in pharmaceutical sales

Roman Goryunov

Member of the Board of Directors
Independent Director

Election June 2008

Skills and Experience
2007–2011 Chairman of NP RTS Stock Exchange Management Board
2011–2012 Senior Managing Director and First Deputy Chairman of the Board of MICEX-RTS
Since 2012 – President of Nonprofit Partnership for the Development of Financial Market RTS

Pavel Mileyko

Member of the Board of Directors
Assistant to Executive Director

Election May 2006

Yegor Kulkov

Member of the Board of Directors

Election May 2006

Skills and Experience
Mr. Kulkov has held a number of senior financial positions with various companies and is currently Chief Executive Officer of Vita Realt

Ivan Tyryshkin

Member of the Board of Directors
Independent Director

Election October 2006

Skills and Experience
2006 - Managing Director and Chief Executive Officer of LLC ATON
Currently Mr. Tyryshkin is President and the Board member at Rusgrain Holding

Viktor Fedlyuk

Member of the Board of Directors
Head of Legal

Election June 2008

Skills and Experience
since 2006 – Head of Legal
1996-2003 – Sibneft JSC
Mr. Fedlyuk has over 11 years of legal experience in the pharmaceutical industry

Alexander Shuster

Member of the Board of Directors

Election June 2011

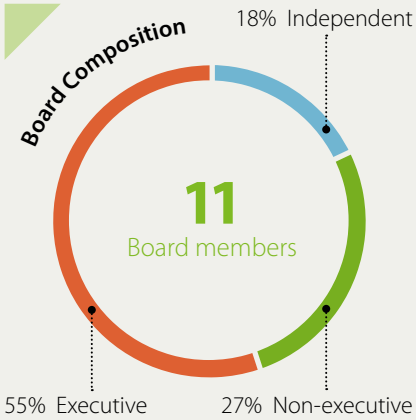
Skills and Experience
Currently a Scientific Director at Masterclone.

Andrei Reus

Member of the Board of Directors
Independent Director

Election June 2010

Skills and Experience
Mr. Reus is Chief Executive Officer at Oboronprom United Industrial Corporation and also Chief Executive Officer at the United Engine-Building Corporation Managing Company
Since 2012 – Board Chairman at Russian Helicopters



Management Board

The Management Board is a collective executive body acting for the benefit of the Company's shareholders under the guidance of the General Meeting of Shareholders and the Company's Board of directors. 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 shareholders' rights and legitimate interests;
- development of the Company 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 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.

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** has served as our Chief Sales and Marketing Officer since 2006. She has over 14 years of 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

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 .

Members of the Audit Committee appointed in 2013:

- Roman Goryunov
- Andrei Reus
- Ivan Tyryshkin, Chairman

Remuneration and Nomination Committee

Remuneration and Nomination Committee has been established to provide preliminary review and develop recommendations for the Board of Directors on issues within the Board competence. Exclusive 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's sole 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; providing recommendations for the Board regarding their re-appointment.
- defining priorities in terms of the Company's 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.

Members of the Remuneration and Nomination Committee appointed in 2013:

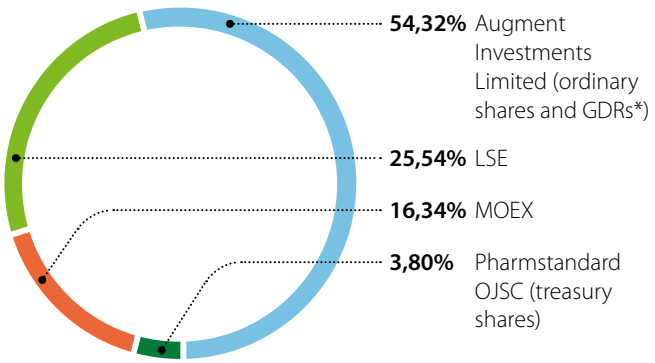
- Yegor Kulkov
- Ivan Tyryshkin
- Alexander Shuster

Information for shareholders and Investors

Shareholder structure as of 31 December 2013

Augment Investments Limited (ordinary shares and GDRs*):	20,528,380
Free float:	41.8792%
including listed (GDRs*)	9,651,883
MICEX listed (ordinary shares)	6,175,420
Treasury shares	1,436,920
Total ordinary shares outstanding	**37,792,603**

1 ordinary share = 4 GDR*



Buyback Program

On February 15, 2013 the Company announced a new program to buy back its shares and GDRs. (The Program). The Program was approved in respect of ordinary shares of Pharmstandard OJSC and/or Global Depositary Receipts representing Shares (each Share representing 4 GDRs) in the aggregate amount of up to RUB8 bn. Duration of program: December 31, 2013.

In the course of the Program 15 009 162 GDRs and 140 000 ordinary shares were purchased on the open market as of July 16, 2013. All purchases of GDRs were made by an independent broker Citigroup Global Markets Limited for the account of Pharmstandard-Leksredstva OJSC, a wholly owned subsidiary of the Company.

The following securities were purchased:

			Price per share		Amount	
Date	Type	Amount (shares)	USD	RUB	USD	RUB
22/04/13	GDR	220 000	20,4659	643,87	4 502 498,00	141 650 838,33
26/04/13	GDR	3 056 305	20,4000	638,86	62 348 622,00	1 952 565 560,31
20/06/13	ORDS	140 000	65,4082	2 150,00	9 157 148,00	301 000 000,00
26/06/13	GDR	1 718 574	20,3500	665,73	34 972 980,90	1 144 106 097,16
26/06/13	GDR	115 421	20,5500	672,27	2 371 901,55	77 594 387,31
09/07/13	GDR	364 000	16,8500	561,46	6 133 400,00	204 371 021,40
10/07/13	GDR	2 833 075	15,8500	528,14	44 904 238,75	1 496 254 139,39
11/07/13	GDR	3 000 000	11,9000	387,78	35 700 000,00	1 163 345 190,00
12/07/13	GDR	1 100 000	10,9500	356,82	12 045 000,00	392 506 801,50
15/07/13	GDR	410 000	12,9000	421,09	5 289 000,00	172 648 298,10
16/07/13	GDR	2 191 787	13,6000	443,66	29 808 303,20	972 406 466,99
Total:					**247 233 092,40**	**8 018 448 800,49**

The total sum of securities purchased as of July 16, 2013 constitutes RUB 8 018 448 800,49.

* GDR – Global Depositary Receipt

The decision of the Board of Directions to approve the Program is based on the belief that current share price dynamics do not reflect management's and BoD's views on the fundamental business value of Pharmstandard OJSC. It is expected that the return of capital to shareholders through this medium-term buyback program will, firstly, increase the liquidity of stock held by other shareholders who have counter views on business value and, secondly, will provide substantial support to the stock price and will send a strong message of confidence in company's future from management to shareholders.

Mandatory buyout of shares. Spin-off

As a result of the reorganization by spin-off Pharmstandard had to buy shares from certain shareholders and holders of GDRs who voted negatively or did not vote at the extraordinary general meeting of shareholders ("EGM") regarding reorganization of the Company on September 27, 2013 in the procedure stipulated by the laws of the Russian Federation until November 11, 2013. These shareholders were entitled to demand buyout of all or some of their ordinary registered shares in the Company.

The Company's obligation to buy shares from shareholders and holders of GDRs via Depositary was limited to the value of 10% of the Net Assets ("NAV") of the Company as at the date of the reorganization decision, i.e. September 27, 2013 – the date when EGM adopted the resolution.

The list of shareholders entitled to demand Buyout was formed as of July 5, 2013.

Buyout statistics:

- the NAV value as of September 27, 2013 amounted to RUB 31 324 866 768. Hence, the total sum for buyback stands at RUB 3 132 486 676.80;
- the price was determined by the Board of Directors at RUB 2 180 per ordinary share;
- the total number of shares that will be bought out from shareholders – 1 436 920,4936 ordinary shares;
- the total number of shares requested for buyout in proper form and within the prescribed period – 2 842 118.75 shares;
- the value of shares requested for buyout in proper form and within the prescribed period – RUB 6 195 818 875 (19,78% of NAV);
- requests to purchase Company's shares are to be pro-rated at 0.5055807375 (the "Multiple") as all purchase requests exceed the 10% of NAV figure. The Multiple was calculated as follows: the amount of shares that the Company is obliged to buy / the total number shares requested for purchase.

Stock exchanges

As of 31 December 2013, Pharmstandard's ordinary shares and GDRs are traded on the London Stock Exchange and Moscow Exchange. Trading floors of Pharmstandard's shares and GDRs:

Trading floor	Ticker code
Moscow Exchange	PHST
London Stock Exchange (LSE)	PHST

Share price performance 2013

London Stock Exchange: Pharmstandard GDRs

Moscow Exchange: Pharmstandard ordinary shares

Financial Calendar

Announcement of FY2013 sales results	February 17, 2014
Announcement of FY 2013 IFRS results	April 29, 2014
Announcement of Q1 2014 sales results	April 29, 2014
Annual General Meeting of Shareholders	May 30, 2014
Announcement of Q2/H1 2014 sales results	August 7, 2014
Announcement of IFRS H1 2014 Results (unaudited)	August 28, 2014
Investor and Analyst Day	September 18, 2014 (TBC)
Announcement of 9M/Q3 2014 sales results	October 28, 2014 (TBC)

Information Disclosure

The Company posts on the website of the London Stock Exchange through the system of information disclosure (RNS) announcements of financial results, and publishes this information on its own website in the form of press releases and distributes it to the media. The Company publishes its sales results on a quarterly basis and financial results on a half-year basis.

The greatest care is taken to ensure that any relevant information is released to all shareholders and analysts at the same time, in accordance with the FSA's Disclosure and transparency Rules.

Awards

Elena Arkhangelskaya won the Financier of the Year 2013 Award of the Guild of Financial Managers.

Contacts

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Risk Management

Operating environment

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

The Russian economy is directly impacted by market fluctuations and the global economy slowdown. As a result of the world financial crisis further economic growth outlook is still uncertain as well as future capital market access and valuations, which can affect the Company's financial position and business prospects.

Ukraine is the second largest market for the Group. The Ukrainian economy is also subject to market movements and the global economic downturn. Although Ukraine is considered to be a market economy, it continues to demonstrate some characteristics more common for an economy in transition. These characteristics include low capital market liquidity, relatively high inflation rates, currency controls preventing the national currency from being a liquid payment instrument outside Ukraine, etc. Sustainability of the Ukrainian economy is largely dependent on the Government policy and actions with respect to administrative, regulatory and economic reforms. This is why business in Ukrainian is exposed to risks uncommon in mature markets.

Since 31 December 2013, economic and political uncertainly in Ukraine has increased significantly. Moreover, as of 25 April 2014 the Ukrainian Hryvnia experienced c. 40% YTD devaluation vs leading foreign currencies and the National Bank of Ukraine introduced restrictions to foreign currency purchases in the interbank market. Global rating agencies downgraded Ukraine's sovereign credit ratings. The above developments have resulted in impaired liquidity and tightened credit conditions in the country.

Nevertheless, the Company's management believes that all necessary measures to ensure its strong economic performance in the current circumstances are being taken.

Credit risk

Our key credit risk is associated with potential distributors' default. According to the Company'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 2013 and 2012 were accounted for by 5 to 6 key distributors). Receivables carrying value less impairment reserves represents the maximum credit risk exposure. We believe that apart from 5 to 6 major client concentration we have no material credit risk concentration. Though receivables collection can be driven by various economic factors the Company's management expects no substantial loss risks with respect to provisions of existing contracts.

A significant part of the Company's revenue is represented by sales under Government contracts awarded to the Company 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 of our trade and other accounts payable, cash and accounts receivable and some financial investments (e.g. bank deposits, loans and promissory notes) can be denominated in currencies other that the Russian Ruble (which is our functional and reporting currency used for consolidated financial statements). We bear currency risks while making deals in any currency other than our functional currency. Our foreign currency operations represent a significant part in our key raw material supplies, tangible and intangible asset acquisitions, minority stake acquisitions and investments in associated companies, as well as short-term financial investments, generally settled in US dollars or Euro. Thus, COGS and operating expenses shown in our consolidated financial statements as well as financial investments and accounts payable reflected in the Company's balance sheet can be subject to FX movements.

Currency risks are mitigated by FX monitoring focused on currencies the Company's cash, accounts payable, loans and borrowings are denominated in. To minimize currency risks we use advanced forecasting methodologies and individual control over every foreign currency deal. Our efficient budgeting system supports the management in making timely decisions for all companies within the Company.

Interest rate risk

As of now, we believe the Company 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 2013 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 Company 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.

The Company's approach to capital monitoring is based on debt to equity ratio which is calculated as net debt divided by the sum of total capital and net debt. According to the Company's policy this ratio should not exceed 60%. Net debt includes loans, borrowings and accounts payable less cash and cash equivalents. Capital means the parent company shareholder equity.

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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 98.1% of the total sales with the remaining 1.9% 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.

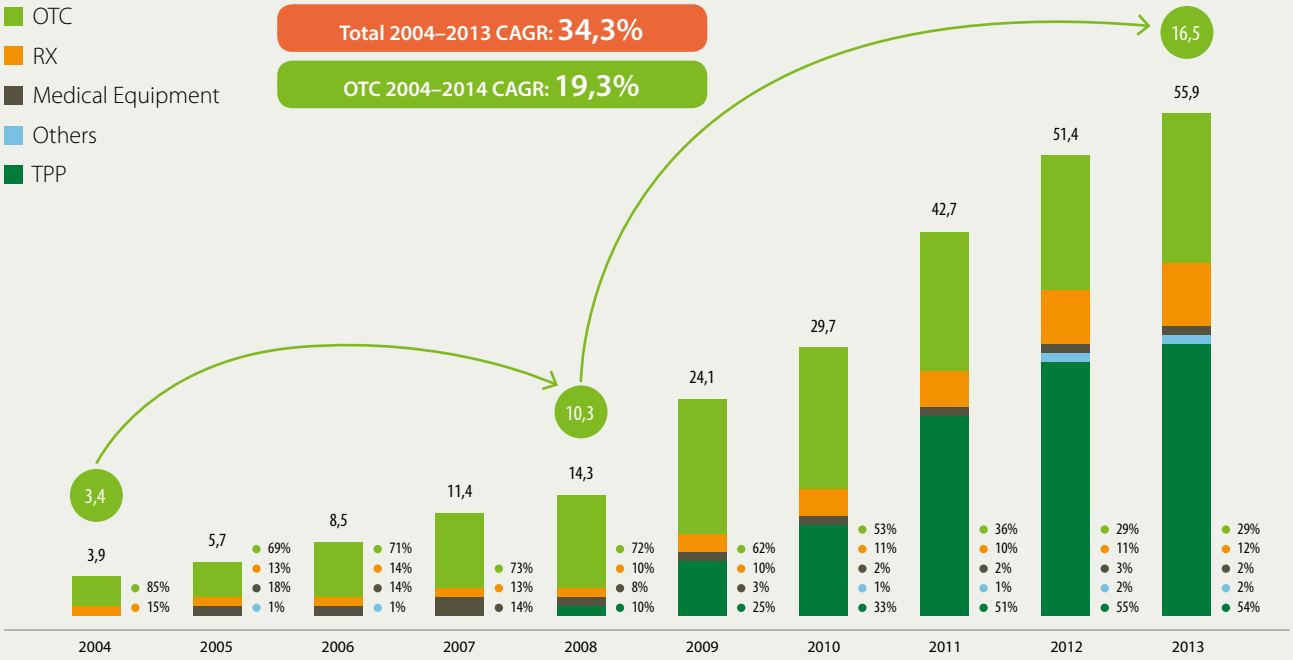
The table below contains 2013 vs 2012 comparative performance review (as of 31 December) in absolute terms and as percentage of sales.

	PHARMSTANDART CONSOLIDATED					
2013-2012	12M 2013	% of Sales	12M 2012	% of Sales	VAR RUB	VAR %
Revenue	**55 907 597**	**100,0%**	**50 783 517**	**100,0%**	**5 124 080**	**10%**
Pharmaceutical products	**54 859 319**	**98,1%**	**50 061 256**	**98,6%**	**4 798 063**	**10%**
OTC products	16 457 827	29,4%	14 879 252	29,3%	1 578 575	11%
Branded products	13 707 972	24,5%	12 461 582	24,5%	1 246 390	10%
Non-branded products	2 749 855	4,9%	2 417 670	4,8%	332 185	14%
Prescription products	6 775 786	12,1%	5 895 677	11,6%	880 109	15%
Branded products	5 974 312	10,7%	4 957 477	9,8%	1 016 835	21%
Non-branded products	801 474	1,4%	938 200	1,8%	-136 726	-15%
Third parties products	30 451 243	54,5%	28 279 120	55,7%	2 172 123	8%
Other sales	1 174 463	2,1%	1 007 207	2,0%	167 256	17%
Medical equipment and disposables	1 048 278	1,9%	722 261	1,4%	326 017	45%
Cost of sales	-32 509 838	-58,1%	-32 024 139	-63,1%	-485 699	2%
Gross profit	**23 397 759**	**41,9%**	**18 759 378**	**36,9%**	**4 638 381**	**25%**
Sell&distr	-6 193 581	11,1%	-5 072 313	10,0%	-1 121 268	22%
G&A	-1 930 313	3,5%	-1 425 224	2,8%	-505 089	35%
Other expenses (income)	522 951	-0,9%	177 929	-0,4%	345 022	194%
Interest income	290 074	0,5%	126 768	0,2%	163 306	129%
Interest expense	-126 632	0,2%	-33 992	0,1%	-92 641	273%
EBITDA	**16 496 356**	**29,5%**	**13 484 169**	**26,5%**	**3 012 187**	**22%**
Profit before income tax	**15 862 530**	**28,4%**	**12 561 286**	**24,7%**	**3 301 244**	**26%**
Income tax expense	-3 942 091	-7,1%	-2 597 280	-5,1%	-1 344 811	52%
Profit for the year	**11 920 439**	**21,3%**	**9 964 006**	**19,6%**	**1 956 433**	**20%**
Depreciation and amortization	953 836	1,7%	978 822	1,9%	-24 986	-3%
Foreign exchange (gain) loss	(156 568)	-0,2%	36 837	0,1%	193 405	-525%

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.

Consolidated revenue

Pharmstandard sales reached RUB55,908 m in 2013 showing a substantial growth of 10% (RUB5,124 m) compared to 2012 sales of RUB50,783 m.



Pharmstandard sales of pharmaceutical products reached RUB 54,859m demonstrating RUB4,798m or +10% y/y growth, compared to RUB50,061m in 2012. The sales structure is as follows: 42% – organic sales of pharmaceutical products, 54.5% - third party product ("TPP") sales and 2% – APIs.

Pharmaceutical products

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.

FY2013 organic pharmaceutical sales[1] amounted to RUB24,408 m (+12%) vs RUB21,782 m in 2012 with 71% accounted for by OTC products and 29% by Rx products.

FY2013 Organic prescription product (Rx) sales grew by RUB880 m (+14.9%) to reach RUB6,776 m. Key growth drivers were Phosphoglive® (+18.2%), Combilipen® (+28.7%), Pentalgin® (+52.3%) and Altevir® (+140.8%).

The portfolio of drugs containing codeine which was moved to the Rx segment in 2012 showed significant growth +48% in 2013 y/y: Pentalgin®(+52%), Therpincodum® (50%), Codelac® (+29%). Portfolio total revenue added up to RUB642 m in 2013 compared with RUB435 m a year earlier.

FY2013 Organic over-the-counter (OTC) product sales went up to RUB16,458 m (+10.6%). FY2013 Arbidol® sales demonstrated a slight decrease y/y reaching RUB3,807 m. A significant increase in sales y/y was demonstrated by Aphobazolum® (+46%), Amixin® (+39.8%), Acipol® (+56.8%) and Magnelis® (+64.3%).

FY2013 OTCPharm portfolio sales reached RUB14,014m demonstrating 11% growth y/y vs RUB12,623m.

FY2013 TPP segment sales reached RUB30,451 (+RUB2,172 m/+8%) vs RUB28,279 m in 2012.

Medical Equipment

FY2013 medical equipment sales increased to RUB1 048m (+45%) y/y mainly due to applying equity accounting method based on IFRS 11 with respect to Pharmstandard-Medtechnika performance in 2012, obtaining control in the company from 1 January 2013 and line-by-line consolidation of the company numbers in accordance with IFRS 10.

1 Organic sales exclude third party product sales and medical equipment sales

Third Party Products sales overview

For a better visibility we move TPP sales into a separate section splitting the revenue into 2 parts – government procurement and commercial sales.

Government procurement. 7 Nosologies Federal Program

FY2013 sales leader of this segment is Mabthera® with a 29% share of TPP revenue. Historical leader Velcade® has decreased its share to 19% with the majority of auctions being moved to the 4Q2013; FY2013 Velcade® sales reached RUB5 216 m.

FY2013 government procurement TPP segment sales demonstrate 5% growth (+RUB1 020 m) reaching RUB22 190 m.

		FY2013		FY2012		Change	
Brand	Category	Sales, RUB m	% of TPP sales	Sales, RUB m	% of TPP sales	RUB m	%
Mabthera®	Rx	8 770	29%	8 503	30%	267	3%
Coagil-VIII	Rx	2 652	9%	1 489	5%	1 163	78%
Presista®	Rx	1 882	6%	1 827	6%	55	3%
Revlimid®	Rx	706	2,3%	381	1,3%	325	85%
Intellence®	Rx	678	2,2%	589	2,08%	89	15%
Aktemra®	Rx	247	0,8%	11	0,04%	236	2145%
Pulmosim®	Rx	1 132	3,7%	1 221	4,3%	-89	-7%
Velcade®	Rx	5 670	19%	7 149	25%	-1 479	-21%
Other TPPs	Rx	453	1,5%	-	-	453	-
Total for the group	**Rx**	**22 190**	**73%**	**21 170**	**75%**	**1 020**	**5%**
Total TPPs	**Rx**	**30 451**	**100%**	**28 279**	**100%**	**2 172**	**8%**

Commercial segment

Commercial TPP sales reached RUB8 261m (+16%) primarily driven by IRS-19®, Imudon®, Rebif®, Emoxipine® and Tamiflu®.

		FY2013		FY2012		Change	
Brand	Category	Sales, RUB m	% of TPP sales	Sales, RUB m	% of TPP sales	RUB m	%
IRS-19®, Imudon®	OTC, Rx	1 254	4%	574	2%	680	118%
Rebif®	Rx	1 147	4%	-	-	1 147	-
Tamiflu	OTC	430	1%	135	0,5%	295	219%
Emoxipine®	Rx	339	1%	-	-	339	-
Insivo®	Rx	285	1%	-	-	285	-
Other TPPs	OTC, Rx	4 806	16%	6 400	23%	-1 594	-25%
Total for the group	**OTC, Rx**	**8 261**	**27%**	**7 109**	**25%**	**1 152**	**16%**
Total TPPs	**OTC, Rx**	**30 451**	**100%**	**28 279**	**100%**	**2 172**	**8%**

Cost of goods sold (COGS)

Cost of Goods Sold (COGS) includes raw material costs, TPP purchase/adaptation/package costs, manufacturing overheads, direct labour costs and fringe benefits, D&A.

In 2013, COGS grew by RUB486 m or 2% vs previous year and reached RUB32,510 m vs RUB32,024 m in 2012. In general, COGS as percentage of sales declined to 58.1% in 2013 from 63.1% in 2012:

Item	12M 2013	% of Sales	12M 2012	% of Sales	VAR RUB	VAR %
Pharmstandard Group total sales	55 908	100,0%	50 783	100,0%	5 125	10%
COGS	32 510	58,1%	32 024	63,1%	486	2%
Gross profit	23 398	41,9%	18 759	36,9%	4 638	25%

Raw materials and TPP costs accounted for 91% of total COGS. COGS growth of RUB486 m was mainly driven by increased sales volumes and product portfolio expansion, including: (1) increased TPP purchase costs (from RUB22, 944 m in 2012 to RUB23,163 m in 2013); (2) increased raw material costs (from RUB 6,355 m in 2012 to RUB6,464 m in 2013); (3) increased labour costs (from RUB373 m in 2012 to RUB532 m in 2013).

D&A RUB58 m decrease in 2013 vs 2012 was due to non-recognition of depreciation expense under IFRS for the period since the decision on OTC business spin-off with associated transfer of a number of intangible assets to the new company.

COGS decline as percentage of 2013 sales compared to 2012primarily relates to higher profitability of TPP products as a result of (1) localization of certain production phases for Insivo, Revlimid, Pulmozyme, Prezista, Mabthera, and (2) increased share of higher margin products, such as Rebif, Revlimid, Tamiflu, in the sales structure.

Organic pharmaceutical products

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

Item	12M 2013*	% of Sales	12M 2012	% of Sales	VAR RUB	VAR %
Pharmaceutical product sales	24 408	100,0%	21 782	100,0%	2 626	12%
COGS	8 641	35,4%	8 674	39,8%	(33)	(0%)
Gross profit	15 767	64,6%	13 108	60,2%	2 659	20%

In 2013, organic COGS in absolute terms amounted to RUB8,641 m – almost in line with 2012. COGS as percentage of sales declined by 4.4% to 35.4% mainly due to (1) increased profitability of some products such as Acipol and Rinostop produced by Lekko owing to synergy effect as a result of the company acquisition in late 2012; (2) synergies from sales growth by RUB753 m for high margin products manufactured by subsidiaries acquired in 2012 (Pharmapark, Biolek, Lekko) – from RUB771 m in 2012 to RUB1,524 m in 2013, as well as raw material procurement consolidation within the Group; (3) synergies from raw material supplies by Bever acquired in 2013; (4) decreased proportion of overheads at the back of production growth (with 12% production growth, overhead costs went up 5% to RUB1,476 m vs RUB1,409 m in 2012); (5) decreased D&A expense due to non-recognition of depreciation expense under IFRS with respect to intangible assets transferred in the course of OTC business spin-off.

Third party products (TPP)

The Table below demonstrates TPP revenue and COGS movements.

Item	12M 2013	% of Sales	12M 2012	% of Sales	VAR RUB	VAR %
TPP sales	30 451	100,0%	28 279	100,0%	2 172	8%
TPP COGS	23 163	76,1%	22 944	81,1%	219	1%
Gross profit	7 288	23,9%	5 335	18,9%	1 953	37%

TPP COGS share as percentage of the segment sales decreased in 2013 by 5% down to 76.1% showing growth of RUB219 m in absolute terms, which is attributed to (1) sales growth in the segment by RUB2,172 m; (2) the above mentioned localization of some TPP products and increased share of higher margin products of the segment.

Medical equipment

Item	12M 2013	% of Sales	12M 2012	% of Sales	VAR RUB	VAR %
Medical equipment sales	1 048	100,0%	722	100,0%	326	45%
COGS	706	67,4%	406	56,2%	300	74%
Gross profit	342	32,6%	316	43,8%	26	8%

Medical equipment segment COGS growth of RUB300 m in 2013 was mainly due to applying equity accounting method based on IFRS 11 with respect to Pharmstandard-Medtechnika performance in 2012, obtaining control in the company from 1 January 2013 and consolidation of the company numbers in accordance with IFRS 10.

Gross profit

Gross profit is calculated as sales revenue less COGS.

The Company's gross profit grew by RUB4,639 m or 25% from RUB18,759 m in 2012 up to RUB23,398 m in 2013. As percentage of sales total gross profit increased from 36.9% in 2012 to 41.9% in 2013. This relates to gross profit growth both in absolute and relative terms in organic and TPP segments.

Organic products

Gross profit associated with organic pharmaceutical products reached RUB15,767 m in 2013 reflecting RUB2,659 m or 20% YoY growth vs RUB13,108 m in 2012. Gross profit margin was 64.6% in 2013 vs 60.2% in 2012. Profit margin growth was influenced by synergies and cost reductions described in more detail in the COGS section.

Third party products

In 2013, gross profit in the TPP segment demonstrated 37% growth vs 2012 reaching RUB7,288 m. Gross profit margin went up to 23.9% in 2013 through cost reduction due to production localization of a number of products and increased share of higher margin products in the segment sales structure.

Medical equipment

Medical equipment segment saw gross profit growth of RUB26 m in 2013 up to RUB342 m mainly due to the above mentioned impact of equity accounting method used to account for Pharmstandard-Medtechnika in 2012 and obtaining control over the company from 1 January 2013.

Operating expenses

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

In absolute terms operating expenses showed RUB1,627 m or 25% growth – from RUB6,497 m in 2012 to RUB8,124 m in 2013. As percentage of sales operating expenses increased to 14.5% in 2013 vs 12.8% in 2012.

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

S&D expenses grew by RUB1,122 m or 22% up to RUB6,194 m in 2013 vs RUB5,072 in 2012 with percentage of sales of 11.1% vs 10%, respectively.

Organic products

Organic product sales and marketing expenses (without TPPs) equaled to RUB5,425 m or 22.2% of the segment sales in 2013 compared to RUB4,481 m or 21% in 2012.

(1) Advertising and promotion expenses increased by RUB730 m or 28% making up to RUB3,376 m and accounting for 13.8% of organic product sales. Major part of this cost item is accounted for by media support of actively promoted high margin branded organic OTC products such as Pentalgin®, Aphobazolum®, Arbidol®, Codelac®, Next®, Flucostat®, Amixin®, through media advertising – primarily TV (RUB2,057 m in 2013 vs RUB1,438 m in 2012) as well as online, radio and press advertising.

(2) Labour expenses in 2013 demonstrated YoY growth of RUB74 m or 7% reaching RUB1,133 m (representing 4.6% of sales). This growth is attributed to planned wage indexation and changed threshold on social security contributions.

(3) Other commercial expenses grew by RUB141 m or 18% vs 2012 up to RUB917 m (3.8% of sales in 2013 vs 3.6% in 2012). Key growth factors for this item included: increased transportation costs, quality control and finished product certification expenses as well as rental and travel expenses.

Third party products

TPP sales and marketing expenses in 2013 amounted to RUB597 m or 2% of the segment sales from RUB504 m and 1.8% of sales in 2012.

(1) Advertising and promotion expenses in 2013 grew by RUB50 m to RUB150 m or 0.5% of the TPP segment sales. This growth is primarily associated with more active promotion of a number of products, e.g. Mildronate, and expanded line of TPPs promoted by the Company.

(2) Labour expenses in 2013 grew by RUB90 m or 37% vs 2012 and reached RUB332 m (1.1% of TPP sales). The growth is attributed to wage indexation, increased social security contributions, higher sales & marketing personnel costs due to sale growth based on product promotion.

(3) Other commercial expenses decreased by RUB47 m or 29% YoY to RUB115 m (0.4% of TPP sales). The decrease was mainly due to fixed sales costs shifting among various product categories.

General and administrative expenses

General and administrative expenses (G&A) of the Company increased in 2013 by RUB505 m or 35% up to RUB1,930 m vs RUB1,425 m in 2012. G&A share in the total sales reached 3.5% in 2013.

Organic products

G&A expenses in the organic segment (without TPP) grew by RUB298 m in 2013 vs 2012 and reached RUB1,241 m or 5.1% of the total sales for the segment.

Labour expenses rose by RUB233 m from RUB602 m in 2012 to RUB835 m in 2013. The growth was primarily driven by the following factors: (1) synergy from headcount increase as a result of Pharmapark, Biomed and Lekko acquisition in 2012; (2) planned wage indexation for administrative personnel, and (3) higher threshold on social security contributions in 2013.

Information & Advisory expenses stayed unchanged vs 2012 at RUB77 m.

Other G&A expenses demonstrated YoY growth of RUB64 m or 24% and reached RUB329 m (1.3% of sales) in 2013. The growth was mainly driven by office space lease (up RUB 43 m from 2012) and D&A expense (up RUB32 m) related primarily to motor vehicles.

Third party products

TPP segment G&A expenses rose by RUB106 m or 25% up to RUB528 m (1.7% of sales) in 2013 vs RUB422 m (1.5% of sales) in 2012. This was substantially driven by allocation of expenses associated with TPP segment product management, in particular, increased administrative personal costs (up RUB69 m from 2012) and higher utility charges (up RUB54 m).

Operating income

Consolidated operating income (sales, COGS, operating expenses) demonstrated RUB3,012 m growth as of 2013 up to RUB15,274 m vs RUB12,262 m in 2012 (25% relative change). Operating income as percentage of sales was 27.3% in 2013 vs 24.1% in 2012. Major part of operating income (60%) was generated by organic sales.

Operating income in the organic product segment reached RUB9,101 m in 2013 vs RUB7,684 in 2012. Operating income YoY growth of RUB1,417 m or 18% was driven by 12% sales growth as well as operating income margin going up from 35.3% in 2012 to 37.3 in 2013.

TPP segment operating income grew by RUB1,754 m or 40% up to RUB6,163 m in 2013 with 4.6% operating income margin growth to 20.2% from 15.6% in 2012.

Operating income in the medical equipment segment declined significantly in 2013 to RUB10 m vs RUB169 m in 2012. This YoY decline was driven by (1) retrospective accounting impact with respect to Pharstamdard-Medtechnika in 2012 based on equity accounting method followed by controlling stake acquisition from 1 January 2013; (2) overall profitability decline in the medical equipment segment as a result of segment revenue contraction due to downturn in the market where the Group operates; and (3) higher operating expenses related to medical equipment promotion and support.

Other income and other expenses

The Company's other income reached RUB1,509 m in 2013 vs RUB430 m in 2012.

Other revenues were basically generated by: (1) agency fees of RUB1,038 m (vs RUB341 m in 2012) on third party distribution contracts; (2) FX difference gain of RUB157 m compared to loss of RUB37 m in 2012; (3) income from non-core activities including toll-manufacturing and communal services amounted

to RUB130 m (vs RUB45 m in 2012); (4) penalties paid by suppliers and customers in the amount of RUB128 m (vs RUB0.2 m in 2012).

Other expenses in 2013 reached RUB986 m compared to RUB252 m in 2012.

Key other expenses items: (1) other taxes and penalties of RUB411 m (vs RUB67 m in 2012) mostly related to loss recognition of RUB201 m in connection with litigation with FAS and VAT additional charge recognition of RUB95 m occurred as a result of tax inspection in 2013; (2) bank charges and servicing costs of RUB31 m (vs RUB26 m in 2012); (3) legal and registration expenses of RUB94 m incurred in 2013 with respect to M&A transactions; (4) recognition of intangible asset impairment of RUB100 m in 2013; (5) classification of expenses related to capacity downtime at Pharmstandard-Biolek in 2013 of RUB111 m; (6) recognition of R&D expenses of RUB169 m (vs RUB36 m in 2012), including research expenses related to government contracts.

EBITDA[1]

General definition of EBITDA: earnings before interest, profit tax, D&A and share in result of equity accounted investments. Here EBITDA is adjusted to forex effect.

EBITDA demonstrated RUB3,012 m or 22% YoY growth up to RUB16,496 m with EBITDA margin reaching 29.5% vs 26.6% in 2012.

EBITDA in the organic segment (excluding TPP) was RUB10,394 m in 2013 which means RUB1,455 m or 17% growth compared to 2012. EBITDA margin reached 41.9% vs 40.3% in 2012.

EBITDA in the TPP segment reached RUB6,193 m (representing a growth of RUB1,746 m or 39% vs 2012) with EBITDA margin of 20.3% in 2013 vs 15.7% in 2012.

The medical equipment segment demonstrated EBITDA of RUB68 m in 2013, which means a RUB189 m decline from 2012. EBITDA margin decreased to 6.5%.

Financial income and expense

Financial expenses went up RUB93 m from RUB34 m in 2012 to RUB127 m in 2013, mainly as a result of debt financing of RUB7,022 m raised in 4Q 2013.

Financial income amounted to RUB290 m in 2013 vs RUB127 m in 2012. Financial income to a large extent consists of gains from short-term financial instruments. The change of RUB163 m as of 2013 can be attributed to increased amounts of cash deposited with banks and loans provided, to related parties.

Income tax expense

Accrued income tax for 2013 was RUB3,942 m vs RUB2,597 m in 2012 with effective tax rate of 24.9% in 2012 vs 20.7% in 2012. Higher effective tax rate mostly refers to tax effect recognition with respect to the Company shares disposal in exchange to Bever acquisition.

Net income

The Company's net income rose by RUB1,956 m or 20% to RUB11,920 m compared to RUB9,964 m in 2012. Net income margin in 2013 reached 21.3% vs 19.6% in 2012.

Net income attributable to parent company shareholder for 2013 reached RUB11,806 m vs RUB9,791 m in 2012.

Net income attributable to minority stake amounted to RUB115 m vs RUB173 m in 2012.

EPS as of 2013 increased by 23% to reach RUB340.92 vs RUB276.69 a year earlier.

1 EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) equals to the amount of earnings before deduction of tax, interest, D&A expense and FX difference calculation.

OTCPharm OJSC unaudited proforma financial results

OTCPharm sales structure, FY2013

FY2013 OTCPharm portfolio sales reached RUB14,014 m comprising approximately 25% of the Group's consolidated sales.

	FY2013		FY2012		FY2013/,FY2012,y/y,growth	
BRAND	RUB,m	%,of,total,sales	RUB,m	%,of,total,sales	RUB,m	%
Amixin®	1,204	8.6%	851	6.7%	353	41%
Arbidol®	3,807	27.2%	3,975	31.5%	-168	-4%
Asvitol®	93	0.7%	88	0.7%	5	6%
Ascophenum-P®	148	1.1%	129	1.0%	19	15%
Aphobazolum®	1,273	9.1%	872	6.9%	401	46%
Acipol®	612	4.4%	390	3.1%	222	57%
Aerovit®	4	0.0%	4	0.0%	-0	0%
Klarisens®	11	0.1%	12	0.1%	-1	-8%
Codelac®	626	4.5%	549	4.3%	77	14%
Complivit®	1,663	11.9%	1,605	12.7%	58	4%
Lactazar®	23	0.2%	18	0.1%	5	28%
Lactonorm®	11	0.1%	0	0.0%	11	100%
Magnelis,B6®	323	2.3%	196	1.6%	127	65%
Maxycold®	106	0.8%	67	0.5%	39	58%
Medira®	1	0.0%	8	0.1%	-7	-88%
Next®	169	1.2%	46	0.4%	123	267%
Neosmectin®	88	0.6%	82	0.6%	6	7%
Nitrocor®	33	0.2%	33	0.3%	0	0%
Noopept®	130	0.9%	15	0.1%	115	767%
Pentalgin®	2,251	16.1%	2,418	19.2%	-167	-7%
Rinostop®	191	1.4%	152	1.2%	39	26%
Selmevit®	152	1.1%	128	1.0%	24	19%
Spasmol®	4	0.0%	6	0.0%	-2	-33%
Termicon®	183	1.3%	172	1.4%	11	6%
Flucostat®	850	6.1%	773	6.1%	77	10%
Ciklovita®	18	0.1%	6	0.0%	12	200%
Cinocap®	40	0.3%	28	0.2%	12	43%
Total:	**14,014**	**100.0%**	**12,623**	**100.0%**	**1,391**	**11.0%**

OTCPharm OJSC pro forma statement of operations

The depreciation on assets transferred is included here as of July 5, 2013 – the date when the decision on reorganization took place.

The depreciation is NOT included into Pharmstandard financial statements.

	2013 (RUB m)	2012 (RUB m)
Revenue	14,013,865	12,623,169
Cost of sales	(4,308,560)	(4,257,265)
Gross Profit	**9,705,305**	**8,365,904**
% Sales	**69%**	**66%**
Selling and distribution costs	(4,004,590)	(3,317,189)
General and administrative expenses	(458,363)	(397,088)
Operating income	**5,242,352**	**4,651,627**
% Sales	**37%**	**37%**
Other income and expenses, net	(41,351)	(346,243)
Interest income and expenses, net	67,261	51,932
Profit before income tax	**5,268,262**	**4,357,316**
% Sales	**37%**	**35%**
Depreciation and amortization	(915,642)	(657,346)
Foreign exchange gain/(loss)	95,360	(20,931)
EBITDA	**6,021,283**	**4,983,661**
EBITDA, %	**43%**	**39%**

Liquidity and capital

General overview

Our liquidity requirements are primarily driven by the Company's working capital needs, capex financing, operational upgrades, compliance with GMP requirements, product portfolio diversification and profitability growth based on targeted acquisition of tangible and intangible assets. In 2012-2013, the Company also financed share buyback programs (eventually the shares were exchanged for a stake in Bever Pharmaceutical Pte Ltd ("Bever") (see relevant disclosure information in the section on the Company's IFRS consolidated financial statements for further details). 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 and joint projects with other pharmaceutical companies from internal funds and external loans, if required.

The table below shows summary cash flow statements for 2013 and 2012:

Cash flows	Year ending 31 December 2013, RUB m	Year ending 31 December 2012, RUB m
Net cash inflow from operating activities	13,528.7	10,789.3
Net cash outflow from investment activities	(2,185.9)	(4,860.0)
Net cash outflow from financing activities	(4,439.0)	(2,769.6)
Cash and cash equivalents as of YE	15,364.9	8,463.0

Net cash flow from operating activities

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

Standard commercial contracts with distributors usually 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 Company'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 to150 days from the delivery date. In 2013 and 2012, net cash inflows from operations reached RUB13,529 m and RUB10,789 m, respectively. The Company's net cash flow from operations in 2013 was driven by:

- sales and profitability growth related to product supplies under federal target programs, including increased drug supplies resulting from open public tenders won by the Company. Operating cash flow growth was particularly driven by substantial 4Q2013 supplies under contracts awarded as a result of open public tenders to meet 2014 demand for pharmaceutical products. In 2013, the Company maintained or increased production and sales volumes for Mabthera®, Coagil, Prezista®,Pulmozyme®, Intelence®. Localization of a number of products on Pharmstandard-Ufavita platform supported higher profitability of these products;
- increased sales and distribution volumes under joint projects with third party manufacturers of IRS® 19 and Imudon®, Mildronate®, Tamiflu;
- expansion of TPP portfolio marketed by the Company (portfolio additions included Emoxipine, Rebif and other products);
- sales growth in the key proprietary RX and OTC brands such as Aphobazolum®, Amixin®, Acipol®, Phosphogliv®, Combilipen®, Magnelis®, Next®, Formetine®, Altevir®, Flucostat®. Two leading brands Pentalgin® and Arbidol® generally maintained their operating cash flows achieved in 2012;
- substantial revenue growth from TPP distribution and sales under existing exclusive agency contracts (overall YoY growth of c. RUB700 m vs 2012);
- synergies from Pharmapark and Biomed acquisition via purchasing 50.005% in Bigpearl Trading Limited that provided control over the operations of these two subsidiaries. Pharmapark and Biomed operating cash flows have been consolidated since 1 July 2012;
- growing operating cash flow of Lekko CJSC included in the consolidated accounts at the end of 2012;
- synergies as a result of Bever acquisition and reduced production cost of products based on substances purchased through Bever.

Due to sales growth under commercial contracts granting trade credit to distributors and government contracts, cash outflow from growing accounts receivable amounted to

RUB9,157 m in 2013 vs RUB608 m in 2012. Higher cash outflow associated with accounts receivable primarily relates to TPP YoY sales growth in 4Q2013 by 59% or RUB7,339 m and increased distribution volume under agency contracts with third party manufacturers for Lantus SoloStar, Lactofiltrum, Apidra SoloStar, Insuman.

Operating cash inflow associated with accounts payable increased in 2013 to RUB8,998 m compared to RUB288 m inflow in 2012, which was primarily driven by: (i) increased TPP purchases and sales in 2013 resulting in the growth of accounts payable to third party manufacturers as of 31 December 2013, (ii) liability to pay RUB3,501 m to OTCPharm JSC in connection with the restructuring via spin-off of the Company's OTC business and spin-off balance sheet approval, and (iii) growth of accounts payable to third party manufacturers under agency contracts for the distribution of their products.

Cash inflow associated with the Company's inventory amounted to RUB858 m in 2013 compared to cash outflow of RUB1,299 m in 2012. This is mainly attributed to (i) decreased trade inventory due to major shipments in 4Q2013 mainly with respect to TPP sales, and (ii) synergies resulted from Bever acquisition – lower prices for substances used for Arbidol® and Aphobazolum® production and related reduced production costs.

In 2013, cash outflow from tax settlements, other than income tax, was RUB177 m (vs RUB447 m inflow in 2012) basically because of VAT receivable decrease as of 31 December 2013.

The Group's income tax payments in 2013 reached RUB4,087 m vs RUB2,424 m in 2012 as a result of (i) sales growth; (ii) overall profitability growth; and (iii) additional income tax paid due to disposal of the Company shares (accumulated on Pharmstandard-Leksredstva balance sheet as of the disposal date) with respect to Bever acquisition.

Net cash flow from investment activities

In 2013 and 2012, net outgoing cash flow from investment activities amounted to RUB2,186 m and RUB4,860 m, respectively. Major investment activities in these years were associated with (i) production asset acquisition, construction of new and upgrade of existing capacity, equipment purchase, in particular with respect to compliance with GMP requirements; (ii) acquisition of new subsidiaries Bioprocess and Lekko; (iii) acquisition of new intangible assets; (iv) acquisition of a stake in an associated company; and (v) operations with long- and short-term financial instruments, especially bank promissory notes, free cash bank deposits and loan provision to related parties. In 2013 and 2012, we spent RUB1,475 m and RUB1,368 m, respectively, on production asset acquisition, construction and upgrade of operating capacity and equipment purchase. These investments were made predominantly as part of the Company's production and logistics capacity development to ensure compliance with GMP standards, including (but not limited to) the following:

- Pharmstandard-UfaVITA (Ufa): construction of a new building for finished pharma product (FPP) operations and quality control laboratories; facility renovation and new equipment purchase to launch the production of various dosage forms of cytostatics; installation of new equipment for the production of pharmaceutical drops; construction of a new building for multivitamin coated pills (dragee) manufacturing commissioned in 2012; purchase of up-to-date equipment for various production and logistics facilities in line with GMP requirements;
- Pharmstandard-Leksredstva OJSC (Kursk): modernization of spray/aerosol FPP manufacturing unit; capacity upgrade for BAA production; reconstruction of support operations; equipment purchase for various operational units in line with GMP standards;
- Continuous replacement of worn-out equipment for all operating companies of the Company, including for the purposes of GMP compliance in Russia and Ukraine.

In 2013, the Company paid RUB1,206 m (US$36.8 m) for 35% in a Delaware based research company Argos Therapeutics, Inc.

RUB851 m were also paid in 2013 for exclusive patent rights with respect to Sirturo manufacture and distribution in CIS. The Company paid RUB1,559 m (US$48 m) in cash for the acquisition of Bever (the remaining part of the consideration was paid by the Company treasury shares).

Cash inflow of RUB259 m generated in 2013 was an effect of the acquisition of control over Pharmstandard-Medtechnika Joint Venture involved in the purchase and distribution of medical equipment. The Company did not make any cash payments on this transaction.

In 2013, the Company placed its free cash of RUB400 m on a long-term bank deposit maturing by October 2015. The Company also acquired a minority stake in in Protagonist, Ink, a US based research company, for RUB66 m (US$2 m).

In 2013, the Company granted a RUB1,936 m (US$60 m) US$ denominated short-term loan to its core shareholder Augment Investments Limited to finance projects unrelated to the Company business. Augment repaid part of the loan of RUB1,210 m (US$37 m) in November 2013. In 2013, Augment also repaid the loan in the amount of RUB1,542 m (US$ 47,500) granted in 2012.

In 2013, net cash outflow from operations with short-term financial assets, such as hard currency and RUB denominated promissory notes and bank deposits amounted to RUB675 m (vs RUB2,646 m in 2012), while inflow from operations with these financial instruments reached RUB2,952 m (vs RUB3,127 m in 2012).

Net cash flow from financing activities

In 2013 and 2012, cash outflow related to financing activities reached RUB4,439 m and RUB2,770 m, respectively. In 2013, the Company executed a 10.3% share buyback (including ordinary shares listed in Russia and LSE-listed GDRs) through its Pharmstandard-Leksredstva OJSC subsidiary for the total amount of RUB7,944 m. In 2012, a similar payment of RUB1,976 m was made with respect to 3.6% free float share buyback carried out by Pharmstandard-Leksredstva OJSC in the Russian market. All these shares were subsequently used as part of consideration in the acquisition of Singapore based Bever.

In addition to that, in November 2013 the Company bought out 3.8% of its shares from minority shareholders who had voted against OTC business spin-off at the Company EGM in September 2013.

In 4Q2013, the Company raised debt financing of RUB7,022 m in the form of two short-term bank loans with one of them (RUB3,000 m) fully repaid in February 2014. In 2013, the Company also raised and fully repaid a working capital short-term bank facility of RUB700 m. In 2012, the Company raised RUB3,000 m as a short-term loan and redeemed RUB3,793 m of short-term debt.

In 2013, the Company paid RUB235 m for 11% in Donelle Company Limited (Cyprus), Aphobasolum trademark holder and RUB126 m for 42% in Pharmstandard-Biolik PJSC located in Kharkiv (Ukraine).

Contract and other obligations

As of 31 December 2013, the Group had the following contract obligations: (i) third party payables with respect to TPP supplies, including Velcade®, Prezista®, Coagil, Infibeta®, Mabthera®, Pulmozyme®, Rebif®, for RUB14,939 m (vs RUB7,783 m in 2012); (ii) payable of RUB3,501 m to OTCpharm as a result of OTC business spin-off and a spin-off balance sheet approved by EGM; (iii) payable of RUB2,433 m owed to principals due to product sales under agency contracts with third parties.

As of 31 December 2013, we had no material contract obligations other than those occurred in the ordinary course of business, such as trade accounts payable, wage arrears and taxes payable.

Consolidated financial statements for the year ended 31 December 2013

Совершенствуя бизнес,
улучшаем мир

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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 2013, and the consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, 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.

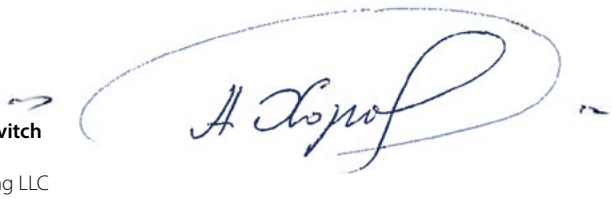
We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated 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 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.



A. B. Khorovitch
Partner
Ernst & Young LLC

25 April 2014

Details of the audited entity

Name: OJSC "Pharmstandard"

Record made in the State Register of Legal Entities on 5 May 2006, State Registration Number 02№005162109.

Address: 141701, Russia, Moscow region, Dolgoprudny, Likhachevsky drive, 5 "b".

Details of the auditor

Name: Ernst & Young LLC

Record made in the State Register of Legal Entities on 5 December 2002, 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 2013

(in thousands of Russian Roubles)

	Notes	2013	2012 Restated (Note 8)	As at 1 January 2012 Restated (Note 8)
ASSETS				
Non-current assets				
Property, plant and equipment	14	**8,403,238**	7,614,707	5,210,016
Intangible assets	15	**3,202,517**	8,042,938	6,717,624
Long-term financial assets	20	**537,458**	–	–
Investment in an associate	9	**1,163,949**	–	–
Investments in joint ventures	8	**314,612**	436,781	408,041
		13,621,774	**16,094,426**	**12,335,681**
Current assets				
Inventories	16	**7,486,754**	8,439,344	7,043,697
Trade and other receivables	17	**23,969,063**	15,036,360	14,165,839
VAT recoverable		**337,772**	333,451	337,160
Prepayments		**373,745**	274,021	727,867
Short-term financial assets	19	**1,453,322**	4,469,872	3,446,041
Cash and short term deposits	18	**15,364,875**	8,462,982	5,307,079
		48,985,531	**37,016,030**	**31,027,683**
Non-current assets classified as held for sale		**–**	5,348	18,030
Total assets		**62,607,305**	**53,115,804**	**43,381,394**
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital	25	**37,793**	37,793	37,793
Treasury shares	10	**(1,437)**	(3,190)	(1,825)
Foreign currency translation reserve		**24,846**	(1,922)	24,923
Retained earnings		**27,567,243**	37,533,953	29,718,088
		27,628,445	**37,566,634**	**29,778,979**
Non-controlling interests	**35**	**1,445,848**	**1,651,138**	**514,968**
Total equity		**29,074,293**	**39,217,772**	**30,293,947**
Non-current liabilities				
Deferred tax liability	32	**186,095**	782,668	583,286
Other non-current liabilities	24	**150,762**	88,920	9,265
		336,857	**871,588**	**592,551**
Current liabilities				
Trade and other payables	23	**24,931,724**	11,452,654	11,038,159
Short-term borrowings and loans	21	**7,024,080**	1,300	701,300
Income tax payable		**332,068**	489,992	158,925
Taxes payable other than income tax	22	**908,283**	1,082,498	596,512
		33,196,155	**13,026,444**	**12,494,896**
Total liabilities		**33,533,012**	**13,898,032**	**13,087,447**
Total equity and liabilities		**62,607,305**	**53,115,804**	**43,381,394**

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

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

Chief Financial Officer **M.A. Markova**

25 April 2014

The accompanying notes on pages 86–117 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2013

(in thousands of Russian Roubles)

	Notes	2013	2012 Restated (Note 8)
Revenue	26	**55,907,597**	50,783,517
Cost of sales	27	**(32,509,838)**	(32,024,139)
Gross profit		**23,397,759**	**18,759,378**
Selling and distribution costs	28	**(6,193,581)**	(5,072,313)
General and administrative expenses	29	**(1,930,313)**	(1,425,224)
Other income	30	**1,508,995**	429,931
Other expenses	31	**(986,044)**	(252,002)
Interest income		**290,074**	126,768
Interest expense		**(126,632)**	(33,992)
Share in (loss)/profit of equity accounted investments	8, 9	**(97,728)**	28,740
Profit before income tax		**15,862,530**	**12,561,286**
Income tax expense	32	**(3,942,091)**	(2,597,280)
Profit for the year		**11,920,439**	**9,964,006**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations		**30,247**	(31,227)
Other comprehensive income/(loss) for the year to be reclassified to profit or loss in subsequent periods		**30,247**	**(31,227)**
Total comprehensive income for the year		**11,950,686**	**9,932,779**
Profit for the year Attributable to:			
Equity holders of the parent		**11,805,787**	9,790,915
Non-controlling interests		**114,652**	173,091
		11,920,439	**9,964,006**
Total comprehensive income for the year Attributable to:			
Equity holders of the parent		**11,835,761**	9,764,070
Non-controlling interests		**114,925**	168,709
		11,950,686	**9,932,779**
Earnings per share (in Russian roubles)			
- basic and diluted, based on profit for the year attributable to equity holders of the parent	25	**340.92**	276.69

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

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

Chief Financial Officer **M.A. Markova**

25 April 2014

The accompanying notes on pages 86–117 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

For the year ended 31 December 2013

(in thousands of Russian Roubles)

	Notes	2013	2012 Restated (Note 8)
Cash flows from operating activities:			
Profit before income tax		**15,862,530**	12,561,286
Adjustments for:			
Depreciation and amortisation	14, 15	**953,836**	978,822
Loss from impairment of trade and other receivables, net	17	**136,928**	441
Write-down of inventories to net realizable value, net	16	**187,701**	244,754
Impairment charge/(reversal of impairment) – property, plant and equipment, net	14, 30, 31	**457**	(11,656)
Write-off of cash restricted in Cyprus bank	31	**9,269**	–
Impairment charge/(reversal of impairment) – intangible assets	5, 30, 31	**100,000**	(25,000)
(Gain)/loss from disposal of property, plant and equipment	30, 31	**(47,912)**	4,766
Share in net loss/(profit) of joint ventures and associate	8, 9	**97,728**	(28,740)
Foreign exchange (gain)/loss		**(157,827)**	102,450
Interest income		**(290,074)**	(126,768)
Interest expense		**126,632**	33,992
Operating cash flows before working capital changes		**16,979,268**	**13,734,347**
Increase in trade and other receivables	17	**(9,157,513)**	(607,656)
Decrease/(increase) in inventories	16	**858,269**	(1,298,986)
(Increase)/decrease in VAT recoverable		**(4,254)**	13,727
(Increase)/decrease in prepayments		**(97,493)**	464,595
Increase in trade payables and other payables	23	**8,997,619**	287,751
(Decrease)/increase in taxes payable other than income tax	22	**(177,736)**	447,077
Cash generated from operations		**17,398,160**	**13,040,855**
Income tax paid	32	**(4,086,713)**	(2,423,662)
Interest paid		**(111,784)**	(34,907)
Interest received		**329,084**	207,035
Net cash from operating activities		**13,528,747**	**10,789,321**
Cash flows from investing activities:			
Purchase of property, plant and equipment	14	**(1,475,004)**	(1,368,112)
Payments for development expenditures	15	**(98,740)**	(28,760)
Cash paid for acquisition of share in associate	9	**(1,206,457)**	–
Acquisition of intangible assets	6, 15	**(2,409,854)**	–
Net cash used in acquisition of subsidiaries, net of cash acquired	7	**–**	(2,495,317)
Cash in new subsidiary (joint venture prior to 1 January 2013)	8.2	**259,125**	–
Proceeds from government grants	24	**64,100**	38,665
Cash received from sale property, plant and equipment		**64,148**	32,437
Cash received from sale of non-current assets held for sale		**–**	17,850
Cash paid for long-term bank deposit	20	**(400,000)**	–
Cash paid for other financial investment	20	**(65,458)**	-
Cash received from return of short-term financial assets	19	**2,951,958**	3,126,872
Cash paid for short-term financial assets	19	**(675,257)**	(2,645,728)
Loans provided to related parties	13, 19, 20	**(1,945,978)**	(1,537,945)
Loans repaid by related parties		**2,751,469**	–
Net cash used in investing activities		**(2,185,948)**	**(4,860,038)**
Cash flows from financing activities:			
Proceeds from loans and borrowings	21	**7,721,700**	3,000,000
Repayment of loans and borrowings	21	**(700,000)**	(3,793,189)
Cash paid for acquisition of non-controlling interests	11	**(360,730)**	–
Cash paid for acquisition of treasury shares	10	**(11,076,520)**	(1,976,415)
Dividends paid by a subsidiary to non-controlling shareholders	35	**(23,498)**	–
Net cash used in financing activities		**(4,439,048)**	**(2,769,604)**
Net increase in cash and cash equivalents		**6,903,751**	**3,159,679**
Net foreign exchange differences		**(1,858)**	**(3,776)**
Cash and cash equivalents at the beginning of the year	**18**	**8,462,982**	**5,307,079**
Cash and cash equivalents at the end of the year	**18**	**15,364,875**	**8,462,982**

The accompanying notes on pages 86–117 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2013

(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 2012	**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 7)	–	–	–	–	–	967,813	967,813
Disposal of subsidiary	–	–	–	–	–	(352)	(352)
Acquisition of treasury shares (Note 10)	–	(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**
Profit for the year	–	–	–	11,805,787	11,805,787	114,652	11,920,439
Other comprehensive income for the year	–	–	29,974	–	29,974	273	30,247
Total comprehensive income for the year	**–**	**–**	**29,974**	**11,805,787**	**11,835,761**	**114,925**	**11,950,686**
Incorporation of subsidiary (Note 1)	–	–	–	–	–	250	250
Acquisition of subsidiary (Note 8.2)	–	–	–	–	–	21,643	21,643
Acquisition of non-controlling interests (Note 11)	–	–	–	(42,120)	(42,120)	(318,610)	(360,730)
Dividends paid by a subsidiary (Note 35)	–	–	–	–	–	(23,498)	(23,498)
Effect of spin-off of OTC business (Note 5)	–	–	(3,206)	(23,005,391)	(23,008,597)		(23,008,597)
Acquisition of treasury shares (Note 10)	–	(5,329)	–	(11,071,191)	(11,076,520)	–	(11,076,520)
Treasury shares settlement for intangible asset (Note 6)	–	7,082	–	12,346,205	12,353,287	–	12,353,287
Balance at 31 December 2013	**37,793**	**(1,437)**	**24,846**	**27,567,243**	**27,628,445**	**1,445,848**	**29,074,293**

The accompanying notes on pages 86–117 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2012
(All amounts are in thousands of Russian Roubles, if not otherwise indicated)

1. Corporate information

The principal activity of OJSC "Pharmstandard" ("the Company") and its subsidiaries ("the Group") are production and wholesale distribution of pharmaceutical products and medical equipment. The Company was incorporated in the Russian Federation. Since May 2007, the Company's shares are publicly traded (Note 25). 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 held interest in the following subsidiaries and joint ventures as at 31 December 2013 and 2012:

Entity	Country of incorporation	Activity	2013 effective share	2012 effective 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	**96.93**	55
6. "TZMOI" OJSC	Russian Federation	Manufacturing of medical equipment	**100**	100
7. Donelle Company Limited****	Cyprus	Finance and holding company	**–**	89
8. Aphopharm CJSC****	Russian Federation	Assets holder	**–**	89
9. MDR Pharmaceuticals	Cyprus	Finance and holding company	**50.05**	50.05
10. Vindexpharm CJSC****	Russian Federation	Assets holder	**–**	100
11. Bigpearl Trading Limited*	Cyprus	Intermediary holding company	**50.005**	50.005
12. "Pharmapark" LLC*	Russian Federation	Manufacturing of pharmaceutical products	**50.005**	50.005
13. "Biomed named after I. I. Mechnikov" OJSC*	Russian Federation	Manufacturing of pharmaceutical products	**49.845**	49.795
14. "Pharmatsevticheskiye innovatsii"**	Russian Federation	Assets holder	**50.005**	50.005
15. "PKB named after I. I. Mechnikov" CJSC*	Russian Federation	Assets holder	**49.845**	49.795
16. "EKK" OJSC*	Russian Federation	Sundry activity	**35.29**	35.255
17. "Lekko" CJSC	Russian Federation	Manufacturing of pharmaceutical products	**100**	100
18. Moldildo Trading Limited**	Cyprus	Intermediary holding company	**75**	–
19. "Pharmstandard-Medtechnika" LLC**	Russian Federation	Distribution of medical equipment	**75**	–
20. Pharmstandard International S.A.***	Luxembourg	Venture investments	**100**	–
21. "Sellthera Pharm" LLC*****	Russian Federation	Development and manufacturing Company	**75**	–
JOINT VENTURES:				
21. "NauchTechStroy Plus" LLC	Russian Federation	Research and development Company	**37.5**	37.5
22. Moldildo Trading Limited**	Cyprus	Intermediary holding company	**–**	75
23. "Pharmstandard-Medtechnika" LLC**	Russian Federation	Distribution of medical equipment	**–**	75

* These subsidiaries comprised "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 (Note 7).

** These entities were recognised as joint venture as at 31 December 2012. Since 1 January 2013 the Group obtained control over them (Note 8.2).

*** In April 2013 this subsidiary was acquired for a total consideration of RR 1,240 with the purpose of venture investments outside of the Russian Federation (Note 9).

**** On 23 December 2013, these subsidiaries were disposed due to the spin-off of the OTC-business line of the Group (Note 5).

***** In August 2013 this subsidiary was incorporated with the purpose of future organization of manufacturing of high-tech specific pharmaceutical products based on cell technologies.

These consolidated financial statements were authorised for issue by the Board of Directors of OJSC "Pharmstandard" on 25 April 2014.

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. The other Group's foreign entities located in Cyprus and Luxembourg primarily maintain their accounting records in US dollars and EURO and prepare their statutory accounting records in accordance with IFRS and the local regulation respectively. When necessary the local 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, acquisition accounting for business combinations and the resulting income tax effects, and also to consolidation of subsidiaries and equity accounting of associates and joint ventures.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, 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 at 1 January 2013.

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

- Amendment to IAS 1 *Presentation of Financial Statements – Presentation of items of OCI;*
- Amendment to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities;*
- IFRS 10 *Consolidated Financial Statements* (amended in June 2012) and amendments to *IAS 27 Consolidated and Separate Financial Statements;*
- IFRS 11 *Joint Arrangements (amended in July 2012)* and amendments to IAS 28 *Investments in Associates and Joint Ventures;*
- IFRS 12 *Disclosure of Interests in Other Entities* (amended in July 2012);
- IFRS 13 *Fair Value Measurement;*
- IAS 19 *Employee Benefits* (revised in 2011);
- In May 2012, *Improvements to International Financial Reporting Standards – 2009-2011 Cycle* were issued.

The table below shows the list of these narrow amendments which are applicable to the Group but had no impact on the Group's financial statements:

IFRS (amended in 2012)	Subject of amendment
IFRS 1 First time adoption of IFRS – *Repeated application of IFRS 1*	Clarifying that an entity may apply IFRS 1 more than once under certain circumstances
IAS 1 *Presentation of financial statements – Clarification of requirements for comparative information*	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*
IAS 16 *Property, plant and equipment – Classification of servicing 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 – Tax effects of distributions to holders of equity instruments*	Clarifying the treatment of income tax relating to distributions and transaction costs

Amendment to IAS 1 *Presentation of Financial Statements* change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and had no impact on the Group's financial position or performance.

Amendment to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments had no impact on the Group's financial position or performance.

IFRS 10 *Consolidated Financial Statements* (amended in June 2012) replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation — Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 required management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the analyses performed, IFRS 10 had impact on the currently held investments of the Group.

IFRS 11 *Joint Arrangements (amended in June 2012)* – replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The standard was applied retrospectively and impacted

the financial position of the Group by eliminating proportionate consolidation of the joint ventures "NauchTechStroy Plus" LLC and "Pharmstandard-Medtechnika" LLC now accounted under the equity method of accounting. Impact of the adoption of this standard is further discussed in the Note 8.1.

IFRS 12 *Disclosure of Interests in Other Entities (amended in July 2012)* sets out the requirements for disclosures related to interests in subsidiaries, joint arrangements, associates and structures entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. Impact of the adoption of this standard is further discussed in Note 35.

IFRS 13 Fair *Value Measurement* establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price.

Amendment to IAS 19 *Employee Benefits* is amended standard resulting from the Post-Employment Benefits and Termination Benefit projects (effective for annual periods beginning on or after 1 January 2013).

IFRSs and IFRIC interpretations not yet effective

- IFRS 9 *Financial Instruments – Classification and Measurement* (no effective date) –the adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurement of the Group's financial liabilities.
- Amendment to IAS 32 *Offsetting Financial assets and Liabilities* – Amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting (effective for annual periods beginning on or after 1 January 2014).
- Amendment to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* – provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria (effective for annual periods beginning on or after 1 January 2014).
- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment entities (amended in October 2012)* – provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities (effective for annual periods beginning on or after 1 January 2014).
- IFRIC 21 *Levies (issued in May 2013)* – clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached (effective for annual periods beginning on or after 1 January 2014).

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 profit or loss.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are included in these consolidated financial statements from the date on which the investee becomes an associate or a joint venture, using the equity method of accounting. The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture. Investments in associates and joint ventures are carried in the consolidated statement of financial position at cost and adjusted for by post-acquisition changes in the Group's share of net assets of the associate or joint venture, less any impairment in the value of individual investments. Losses of an associate or joint venture in excess of the Group's interest in that associate or joint venture (which includes any long term interests, that in substance form part of the Group's net investment in the associate or joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss in the period in which the investment is acquired

3.2 Cash and short-term deposits

Cash and short-term deposits in the consolidated 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.

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 less accumulated depreciation and impairment losses. 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 profit or loss as incurred.

3.6 Goodwill

Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in investment in an associate. 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 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 is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with a finite life are amortised on a straight-line basis over the useful economic lives (for trade marks useful economic life is 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 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 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 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 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 profit or loss.

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 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 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

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable excluding discounts and rebates, taking into account contractually defined terms of payment and excluding taxes or duty.

3.16 Employee benefits

In 2013, 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 regressive rate from 30% applicable only to the gross remuneration of individual employee not more than RR 578 p.a. to 10%. The Group's contributions relating to ST are expensed in the year to which they relate.

Total contributions for ST amounted to RR 887,978 during the year ended 31 December 2013 (2012: RR 689,718) and they were classified as labour costs in these consolidated financial statements.

In 2014, the threshold for application of 30% ST rate for individual employee was raised to RR 624 p.a.

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 2013, the exchange rates used for translation foreign currency balances were US$ 1 = 32.73 roubles; Euro 1 = 44.97 roubles; 1 Ukrainian Hryvnia = 3.97 roubles (2012: US$ 1 = 30.37 roubles; Euro 1 = 40.23 roubles; 1 Ukrainian Hryvnia = 3.76 roubles).

The functional currency of the Ukrainian subsidiary is the Ukrainian Hryvnia. The functional currencies of the other foreign operations are the United States dollar (US$) and the Euro. As at the reporting date, the assets and liabilities of those subsidiaries having functional currency different from the Russian Rouble 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 and cash flow statement are 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.

3.20 Share-based payments

For equity-settled share-based payment transactions, the Group measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the goods or services received, the Group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

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

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 2013 is RR 1,769,556 (2012: RR 2,854,302). More details are provided in Note 15.

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 2013, allowances for doubtful accounts receivable amounted to RR 244,764 (2012: RR 107,118). More details are provided in Note 17.

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 to 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, 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. 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.

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. Spin-off of Branded OTC business

On 5 July 2013, the Board of Directors of the Company approved a plan of spin-off of the Group's Branded OTC business into a newly founded separate legal entity "OTCpharm" OJSC ("OTCpharm") because operating Branded OTC business separately may be more efficient and a separate listing of OTCpharm may attract additional investor interest so that the combined value of the Group and OTCpharm may increase. The shares of OTCpharm were to be distributed to the shareholders of the Company proportionately to their existing ownership. Consequently, the assets related to Branded OTC business (primarily 27 OTC trade marks[1], including the major trade marks Afobazol, Arbidol, Acipol and Flucostat) were reclassified to assets held for distribution on 5 July 2013 (or on the date of acquisition for assets acquired after 5 July 2013, e.g. Bever – Note 6) and the Group did not amortize them since those dates. At the date of reclassification the Group recognised impairment loss in the amount of RR 100,000 (Note 31). Fair value of assets classified as held for distribution did not change until the date of spin-off.

Goodwill allocated for impairment testing purposes to cash generating unit (CGU) representing reportable segment «Production and wholesale of pharmaceutical products», which included both Branded OTC business (carved out) and Prescription and Resale of third party products businesses (left in the Group) was split applying «relative value approach», i.e. the amount of goodwill associated is measured on the basis of the relative values of the business disposed of and the portion of the CGU retained. Goodwill associated with Branded OTC business measured as detailed above in the amount of RR 835,000 was also reclassified to assets held for distribution on 5 July 2013.

On 27 September 2013 the plan of spin-off of Branded OTC business was approved at the extraordinary General Meeting of shareholders of the Company and on 23 December 2013 OTCpharm was registered and its shares were proportionally distributed among the shareholders of the Company.

On 23 December 2013, the spin-off was completed and the Group distributed to OTCpharm the assets related to Branded OTC business and also recognised liability on cash distribution to OTCpharm in the amount of RR 3,500,650. Total effect from disposal of assets and liabilities due to spin-off directly recognised in equity of the Group was as follows:

	Effect on equity (increase/(decrease))
Intangible assets	(19,398,032)
Receivables and other current assets	19,917
Total assets	**(19,378,115)**
Deferred tax liability	492,449
Trade and other payables and advanced received	(745,122)
Income tax and other taxes	126,047
Liability on cash distribution*	(3,500,650)
Total liabilities	**(3,627,276)**
Net effect on equity	**(23,005,391)**

* In January 2014, this liability was settled in full.

Although the trade marks were transferred out to OTCpharm the Group continued to use them until its re-registration to OTCpharm in accordance with the regulation in March 2014. OTCpharm plans to start its operations independently from the Group in May 2014.

6. Acquisition of Bever

On 8 July 2013, the Board of Directors of the Company announced a plan of potential acquisition of 100% of share capital of "Bever Pharmaceutical Pte Ltd» ("Bever") controlled by Alexander Shuster, one of the Company's Directors. Bever is a single asset entity that holds two 20 year-length contracts that provide exclusive purchase rights for unique raw materials – active pharmaceutical ingredients ("APIs") used for manufacturing of the Group's leading OTC products Arbidol and Afobazol and also sale of these API in Russia and the CIS. This acquisition was related to the plan of spin-off of Branded OTC business as described above in section "Spin-off of OTC-branded business" therefore Bever was presented as asset held for distribution from the date of acquisition.

The acquisition of Bever was approved on 17 August 2013 at the extraordinary General Meeting of shareholders of the Company.

On 19 August 2013, the Group signed the contract to acquire 100% of Bever shares for the total agreed consideration of US$ 590 million, of which US$ 48 million (RR 1,582,738 at the exchange rate as at 22 August 2013) to be settled in cash and the remaining portion to be settled by 7,082 thousand of treasury shares held by the Group (Note 10).

On 22 August 2013, all acquired shares of Bever were transferred to the Company.

The Group accounted for acquisition of Bever as acquisition of intangible asset (i.e. the exclusive favorable purchase contracts). Considering that this acquisition was partly settled in the parent company's shares it was accounted for an equity-settled share-based payment transaction. Intangible asset was measured at recognition at its fair value of US$ 423 million (RR 13,936,025) with the effect recognised in equity of US$ 375 million (RR 12,353,287 at the exchange rate as at 19 August 2013) related to consideration paid in shares.

The fair value of the intangible asset differs from the consideration amount referred to above because the consideration amount reflects an entity-specific measurement of the acquired asset assuming that in addition to the substantial savings from lower purchase price of the API in long-term it provides the Group with the following specific economic benefits:

- Secure long-term supply of critical API for the two flagship brands;
- Increase profitability profile of the OTC business line in view of the planned (at the time) spin-off;
- Improve cost positioning and flexibility to react to competitive market dynamics;
- Realize synergy potential of managing APIs in house (planning and managing working capital/liquidity).

On 23 December 2013, Bever was transferred to OTCpharm as a result of spin-off of the OTC-branded business (Note 5).

1 Including legal entities – holders of the respective assets: Aphopharm CJSC; Vindexpharm CJSC; Donelle Company Ltd and Bever.

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

7. Business combinations

7.1. Acquisition of Bioprocess

In 2012, the Group acquired 50.005% of the outstanding shares of "Bigpearl Trading Limited" ("Bigpearl").

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 "Pharmapark" LLC and three minor auxiliary companies ("Pharmatsevticheskiye innovatsii", "EKK" OJSC and "PKB named after I.I.Mechnikov" CJSC).

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 12,913,206 (i.e. aggregate profit of the Group and Bioprocess) and revenue of the Group in 2012 would have been RR 51,247,989.

7.2. "Lekko" CJSC acquisition

In 2012, the Group acquired 100% shares of "Lekko" CJSC ("Lekko").

Lekko's manufacturing facilities are based in the Vladimir region and the subsidiary is involved in the production of various pharmaceutical products.

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 12,482,329 and revenue of the Group in 2012 would have been RR 51,199,069.

8. Investments in joint ventures and transition to IFRS 11

8.1. Transition to IFRS 11 – restatement of comparative information

In 2012, the Group had investments in the following joint ventures: a 37.5% interest in "NauchTechStroy Plus" LLC ("NTS+"), involved in research and development and a 75% interest in "Pharmstandard-Medtechnika" LLC ("Pharmstandard-Medtechnika") that is involved in distribution of medical equipment (Note 12).

Under IAS 31 Investment in Joint Ventures (prior to the adoption of IFRS 11), those joint ventures were classified as jointly controlled entities and the Group's share of the assets, liabilities, revenue, income and expenses were proportionately consolidated. Upon adoption of IFRS 11, the Group has determined "NTS+" and "Pharmstandard-Medtechnika" as joint ventures to be accounted for using the equity method. The transition was applied retrospectively as required of IFRS 11 and the comparative information for the immediately preceding period (2012) was restated. The effect of the restatement on the Group's consolidated financial statements is detailed in the following:

Impact on the consolidated statement of comprehensive income (increase/(decrease) in profit)

	2012
Revenue	(607,958)
Cost of sales	464,106
Selling and distribution costs	32,827
General and administrative expenses	81,380
Other income	(19,764)
Other expenses	9,889
Financial income and expense	1,657
Share of profit of joint ventures	28,740
Profit before income tax	**(9,123)**
Income tax expense	9,123
Net impact on profit for the year	**–**

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

Impact on equity (increase/(decrease) in equity)

	31 December 2012	1 January 2012
Property, plant and equipment	(419,779)	(333,676)
Investment in joint ventures	436,781	408,041
Total non-current assets	**17,002**	**74,365**
Inventories	(90,619)	(101,594)
Trade and other receivables, VAT recoverable and prepayments	50,004	(132,001)
Cash and short-term deposits	(201,001)	(75,993)
Total current assets	**(241,616)**	**(309,588)**
Non-current assets classified as held for sale	(7,251)	–
Total assets	**(231,865)**	**(235,223)**
Long-term loans	48,750	–
Deferred tax liability	(7,685)	(1,496)
Total non-current liabilities	**41,065**	**(1,496)**
Trade and other payables and accruals and advances received	144,639	196,829
Short-term borrowings and loans	32,250	32,250
Income tax payable and other taxes payable	13,911	7,640
Total current liabilities	**190,800**	**236,719**
Total liabilities	**231,865**	**235,223**
Net impact on equity	**–**	**–**

Impact on the cash flow statement (increase/(decrease) in cash flows)

	2012
Operating activities	(168,432)
Investing activities	92,174
Financing activities	(48,750)
Net decrease in cash and cash equivalents	**(125,008)**

8.2. Acquisition of "Pharmstandard-Medtechnika"

On 1 January 2013, the Company and the other participant, "DGM Trading Limited" signed an amendment to the shareholders' agreement whereupon the Group obtained control over a "Moldildo Trading Limited" – holder of 100% interest in "Pharmstandard-Medtechnika". In accordance with the terms of this new agreement operational decisions are taken by simple majority. In particular, the Group received a pre-emptive right to approve key management personnel of "Pharmstandard-Medtechnika" and to control operating activity of this entity. Consequently, since 1 January 2013 the Group recognised "Pharmstandard-Medtechnika" as a subsidiary and accounted for it in accordance with the requirements of IFRS 10.

The fair value of identifiable assets and liabilities of "Pharmstandard-Medtechnika" was immaterial at the date of acquisition. From the date of acquisition to 31 December 2013, "Pharmstandard-Medtechnika" contributed RR 26,540 to the profit before income tax of the Group and RR 512,890 to the revenue of the Group.

Assets and liabilities of joint venture, based on its IFRS financial statements are immaterial as at 31 December 2012. Since 1 January 2013 "Pharmstandard-Medtechnika" is recognised as a subsidiary.

Summarised statement of profit or loss of "Pharmstandard-Medtechnika" is detailed below:

	2013 (Note 8.2)	2012
Revenue	–	816,728
Cost of sales	–	(625,014)
Selling and distribution expenses	–	(118,565)
General and administrative expenses	–	(65,077)
Other income	–	77,061
Profit before income tax	**–**	**85,133**
Income tax expense	–	(18,575)
Profit for the year	**–**	**66,558**
Group's share of profit for the year	**–**	**49,919**

8.3. Joint venture "NTS+"

Summarised financial information of this joint venture, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2013	2012
Current assets, including cash and cash equivalents RR 3,539 (2012: RR 17,752) and inventories RR 20,320 (2012: 50,155)	**55,544**	93,363
Non-current assets, including plant, property and equipment RR 1,009,749 (2012: RR 1,096,448) and non-current assets classified as held for sale RR 214,331 (2012: RR 19,336)	**1,224,080**	1,133,205
Current liabilities including short-term loans RR 70,301 (2012: 86,000)	**(108,739)**	(102,752)
Non-current liabilities represented by long-term loans RR 278,000 (2012:RR 132,205)	**(331,920)**	(132,205)
Equity	**838,965**	**991,611**
Proportion of the Group's ownership	**37.5%**	**37.5%**
Carrying amount of the investment	**314,612**	**371,854**

Summarised statement of profit or loss of "NTS+" is detailed below:

	2013	2012
General and administrative expenses	**(128,341)**	(86,856)
Financial expenses, net	**(31,651)**	(4,416)
Other income, including income from non-core operations and rent RR 92,875 (2012: RR 9,539)	**102,995**	37,859
Other expenses	**(45,771)**	(15,467)
Loss before income tax	**(102,768)**	**(68,880)**
Income tax (expense)/benefit	**(49,877)**	12,403
Loss for the year	**(152,645)**	**(56,477)**
Group's share of loss for the year	**(57,242)**	**(21,179)**

The Group has no any commitments in respect of the joint venture.

9. Investments in an associate

In April 2013, the Company acquired Pharmstandard International S.A. an empty entity registered in Luxembourg for a total consideration of RR 1,240 with the purpose of venture investments outside of the Russian Federation.

In August-November 2013, Pharmstandard International S.A. invested US$ 36.8 million (RR 1,206,457) to purchase about 35% of voting preferred shares of Argos Therapeutics, Inc. ("Argos") incorporated in the USA, Delaware. Argos is a biopharmaceutical company focused on the development and commercialisation of fully personalised immunotherapies for the treatment of cancer and infectious diseases based on its Arcelis™ technology platform. In accordance with the purchase agreement the Company received the right to appoint two members of the Board of directors therefore the Company received a significant influence over Argos and recognised it as an associate applying the equity method for its accounting.

Summarised financial information of this associate, based on its financial statements is set out below:

	2013
Current assets, including cash and cash equivalents RR 1,089,816 and short-term investments RR 447,075	1,621,033
Non-current assets, including plant, property and equipment RR 52,436	52,454
Current liabilities including trade payables and accrued expenses RR 102,045	(103,533)
Non-current liabilities	(329,914)
Equity	**1,240,040**
Proportion of the Group's ownership	**35%**
Carrying value of net assets	**434,014**
Goodwill arising of acquisition of associate	729,935
Carrying amount of investments	**1,163,949**

The goodwill of RR 729,935 represents the value of expected future economic benefits from outsourcing development activities to Argos and utilization of their results in production of innovative drugs by the Group.

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

Summarised statement of profit or loss of Argos since the date of recognition of associate is detailed below:

	2013
Revenue	10,322
Research and development expenses	(101,948)
General and administrative expenses	(23,364)
Other expenses	(684)
Loss for the period	**(115,674)**
Group's share of loss for the year	**(40,486)**

The shares of Argos are traded on NASDAQ since 7 February 2014.

10. Treasury shares

In 2011, "Pharmstandard-Leksredstva" OJSC 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, "Pharmstandard-Leksredstva" OJSC purchased 1,365,000 ordinary shares of the Company representing about 3.61% of the Company's authorized share capital for a total cash consideration of RR 1,976,415.

In April-July 2013, "Pharmstandard-Leksredstva" OJSC purchased 3,752,291 ordinary shares of the Company in the form of Global Depositary Receipts (one ordinary share is equal of four GDR) and 140,000 ordinary shares of the Company total representing about 10.3% of the Company's authorized share capital for a total cash consideration of RR 7,944,034.

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" OJSC held about 18.74% of issued shares of the Company as treasury shares for the Group.

As described in Note 6 all those shares were used for settlement of the major part of consideration paid for Bever.

In November 2013, the Company purchased 1,436,920 ordinary shares of the Company (also in the form of GDR) from shareholders who did not vote for the plan to spin-off the OTC-branded business line at the extraordinary General Meeting of shareholders of the Company held in September 2013 (see Note 5). Total cash consideration for this purchase was RR 3,132,486.

11. Acquisition of non-controlling interests

In August 2013, the Company acquired 11% of non-controlling interests in Donelle Company Limited ("Donelle") of which 5.465% of ordinary shares were held by Alexander Shuster one of the Company's Directors. Donelle is the sole shareholder of CJSC Aphopharm ("Aphopharm") and Aphopharm is a holder of the Afobazol trade mark. Total consideration paid in cash for the acquired non-controlling interests was RR 235,112. The difference of RR 10,381 between the total consideration and the carrying amount of the non-controlling interests acquired of RR 245,493 was credited directly to equity. After this acquisition the Group held 100% of outstanding shares of Donelle.

In May 2013, the Company acquired a 41.93% interest in "Pharmstandard-Biolik" PJSC resulting in an increase in the Company's interests to 96.93%. Total consideration paid in cash for the acquired non-controlling interests was RR 125,253. The difference of RR 53,047 between the total consideration and the carrying amount of the non-controlling interests acquired of
RR 72,206 was debited directly to equity.

12. 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.

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 analysed 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, 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 including goodwill allocated to specified segment, investments in associates and joint ventures, inventories, financial assets, receivables and operating cash. There were no assets unallocated to segments as of 31 December 2013 and 2012. 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.

12. Segment information (continued)

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

Year ended 31 December 2013	Production and wholesale of pharmaceutical products ("Pharmaceutical products")	Production and wholesale of medical equipment	Group
Sales to external customers	54,859,319	1,048,278	55,907,597
Total revenue	**54,859,319**	**1,048,278**	**55,907,597**
Gross profit	23,055,451	342,308	23,397,759
Segment result	**15,770,067**	**26,749**	**15,796,816**
Financial income, net			163,442
Share of loss of joint ventures and associate			(97,728)
Profit before income tax			15,862,530
Income tax expense			(3,942,091)
Profit for the year			**11,920,439**
Segment assets	61,141,673	1,465,632	62,607,305
Total assets	61,141,673	1,465,632	62,607,305
Segment liabilities	25,875,572	115,197	25,990,769
Unallocated liabilities			7,542,243
Total liabilities			**33,533,012**
Acquisition of property, plant and equipment (Note 14)	1,427,977	65,806	1,493,783
Depreciation and amortisation	915,753	38,083	953,836
(Impairment charge)/reversal of impairment of property, plant and equipment (Note 14)	(1,488)	1,031	(457)
Impairment of intangible assets (Note 5)	100,000	–	100,000

As at 31 December 2013 the unallocated liabilities of RR 7,542,243 consist of loans and borrowings of RR 7,024,080, income tax payable of RR 332,068 and deferred tax liability of RR 186,095.

Year ended 31 December 2012	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Adjustments *	Group
Sales to external customers	50,061,256	1,330,219	(607,958)	50,783,517
Total revenue	**50,061,256**	**1,330,219**	**(607,958)**	**50,783,517**
Gross profit	18,443,154	460,076	(143,852)	18,759,378
Segment result	**12,238,893**	**240,397**	**(39,520)**	**12,439,770**
Financial income, net				92,776
Share of profit of joint ventures				28,740
Profit before income tax				**12,561,286**
Income tax expense				(2,597,280)
Profit for the year				**9,964,006**
Segment assets	51,854,043	1,493,626	(231,865)	53,115,804
Total assets	**51,854,043**	**1,493,626**	**(231,865)**	**53,115,804**
Segment liabilities	**12,644,281**	**212,956**	**(231,865)**	**12,625,372**
Unallocated liabilities				1,272,660
Total liabilities				**13,898,032**
Acquisition of property, plant and equipment (Note 14)	1,376,920	29,703		1,406,623
Depreciation and amortisation	946,740	32,082		978,822
(Impairment charge)/reversal of impairment of property, plant and equipment (Note 14)	(1,206)	12,862		11,656
Reversal of impairment of intangible assets (Note 15)	25,000	–		25,000

* Adjustments have been made because of difference in management view and IFRS. In management accounts Pharmstandard-Medtechnika was consolidated using proportionate method while in IFRS using equity method. In 2013 treatment of Pharmstandard-Medtechnika for management accounts and IFRS was the same.

As at 31 December 2012 the unallocated liabilities of RR 1,272,660 consist of income tax payable of RR 489,992 and deferred tax liability of RR 782,668.

Management considers the Group operates in one geographical segment as major assets of the Group are placed in Russian Federation and major revenue is generated from the operation in Russian Federation.

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

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

The table below shows the revenue from these customers:

Customer	2013	2012
The Ministry of Health of Russian Federation (federal state open auctions only)	**12,178,981**	13,042,525
Customer 1	**5,862,567**	5,408,139
Customer 2*	**5,541,438**	58,390
Customer 3	**5,121,244**	4,904,393

* In 2013, more than 99% of total revenue from this customer was attributed to Velcade®.

The Group's sales to the Ministry of Health of Russian Federation represent about 22% of the total Group's revenue for 2013 (2012: 26%).

13. 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 or jointly 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 2013 and 2012 are detailed below.

Balances with related parties

2013	Short-term financial assets – (a), Note 19	Long-term financial assets – (b), Note 20	Cash and short-term deposits placed in related bank – Note 18	Trade and other receivables and prepayment – (c) Note 17	Trade payables, other payables and accruals – (d) Note 23
Parent	752,772	–	–	–	–
Other related parties[2]	227,530	72,000	10,050,603	100,082	6,948,528
Total	**980,302**	**72,000**	**10,050,603**	**100,082**	**6,948,528**

2012	Short-term financial assets (a)	Cash and short-term deposits placed in related bank Note 18	Trade and other receivables and prepayment – (c) Note 17	Trade payables, other payables and accruals – (d) Note 23
Parent	1,442,703	–	–	–
Other related parties	1,621,008	4,959,101	241,029	711,769
Total	**3,063,711**	**4,959,101**	**241,029**	**711,769**

(a) This item is comprised of short-term loans provided to Augment and other related parties (refer to sub-sections "Loans provided to parent" and "Loans provided to other related parties" below) and short-term bank deposits in related bank detailed in Note 19, In 2012, this item also included promissory notes issued by related bank denominated in US$.

(b) This item is detailed in sub-section "Loans provided to other related parties" below.

(c) This item is primarily comprised of prepayment for rent and other services, agency fee receivables from sale of certain related party products, receivables recognised due to spin-off (Note 5) and receivables from joint ventures.

(d) This item primarily represented (i) payables for Koagil VII manufactured by a related party (refer to sub-section "Cost of sales below") and raw materials purchased from another related party;
(ii) payables to OTCpharm of RR 3,500,650 (Note 5).

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

Significant transactions with related parties

Statement of comprehensive income caption	Relationship	2013	2012
Revenue	Other related parties	–	51,227
Interest income from deposits placed in a related bank	Other related parties	**18,335**	15,489
License fee (included in distribution costs) (A)	Other related parties	**(3,515)**	(11,314)
Warehouse rental expenses (included in distribution costs) (B)	Other related parties	**(113,171)**	(91,987)
Office rental expenses (included in general and administrative expenses) (B)	Other related parties	**(64,606)**	(55,368)
Cost of sales (C)	Other related parties	**(3,083,333)**	(1,663,570)
Agency fee income (included in other income) (D)	Other related parties	**27,122**	295,526
Interest income from loans provided to parent and other related parties	Parent and other related parties	**38,511**	34,541
Other income	Other related parties	**12,301**	–

(A) License fee

Licence fee is paid for use of several trade marks owned by an entity under common control.

The license fee is paid on a quarterly basis as 5% of the licensed products output applying the standard price list of the Group.

(B) Rental expenses

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

(C) Cost of sales

The Group holds a purchase contracts for supply of third-party products, primarily Koagil VII, manufactured by a related party. The total cost of RR 3,083,333 (2012: RR 1,663,570) includes the cost of this product in the amount of RR 2,814,606 (2012: RR 1,417,570) sold by the Group primarily through open state auctions. As at 31 December 2013 the Group had RR 18,725 of unsold inventory balances of Koagil VII (2012: RR 8,384). The remaining amount of RR 268,727 (2012: RR 246,000) included in the cost of sales line primarily represents the cost of raw materials purchased from another related party.

(D) Agency fee income

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

Loans provided to parent

In 2012 and 2013, the Company's parent "Augment Investments Limited" ("Augment"), a company registered under the laws of Cyprus (Note 25), applied to the Company with requests to provide short-term interest loans for the purpose of financing the current business activity of Augment not related to the Group.

In 2012, the Group provided unsecured US$ denominated short-term loans to Augment in the total amount of US$ 47,500 thousand (RR 1,442,703) with fixed interest rate of 3.5% per annum. In July 2013 these loans were fully repaid.

In October 2013, the Group provided unsecured US$ denominated short-term loan to Augment of US$ 60,000 thousand (RR 1,935,978 at the exchange rate as of date of issue of loan) with maturity date of 14 October 2014 and fixed interest rate of 5.25%. In November and December 2013, Augment partly repaid this loan in the amount of US$ 37,000 thousand (RR 1,209,971).

Loans provided to other related parties

In December 2012, the Company provided an unsecured short-term loan to another 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. In December 2013, the Company signed an additional agreement to extend the maturity date to 19 October 2015 and the loan was reclassified to long-term (Note 20).

In December 2012, the Company provided an unsecured loan to other related party of RR 10,000 with maturity date of 25 December 2014 and fixed interest rate of 10% p.a.

Compensation to key management personnel

Total compensation to key management personnel, amounted to RR 54,753 for the year ended 31 December 2013 (2012: RR 42,432). Such compensation represents the payroll and bonuses included in general and administrative expenses.

Transactions with key management

In August 2013, the Group acquired 100% share capital of Bever controlled by Alexander Shuster, one of the Company's Directors, for the total agreed consideration of US$ 590 million, of which US$ 48 million was settled in cash and the remaining portion was settled by treasury shares (Note 6).
In August 2013, the Group acquired from Alexander Shuster 5.465% of non-controlling interest in Donelle for the total agreed consideration of RR 117,556 (Note 11) settled in cash.

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

14. Property, plant and equipment

Property, plant and equipment consist of the following:

31 December 2013	Land	Buildings	Plant and machinery	Equipment, motor vehicles and other	Assets under construction	Total
Cost						
Balance at 1January 2013	**442,564**	**4,166,479**	**4,014,742**	**597,494**	**1,547,101**	**10,768,380**
Additions	–	6,194	66,712	252,121	1,168,756	1,493,783
Transfers	–	623,902	479,970	45,149	(1,149,021)	–
Disposals	–	(774)	(16,870)	(87,662)	(9,193)	(114,499)
Acquisition through business combination (Note 8.2)	–	–	9,015	3,221	–	12,236
Foreign exchange differences	–	8,238	8,968	756	(4,074)	13,888
Balance at 31 December 2013	**442,564**	**4,804,039**	**4,562,537**	**811,079**	**1,553,569**	**12,173,788**
Accumulated depreciation and impairment						
Balance at 1 January 2013	**–**	**529,315**	**2,256,690**	**330,725**	**36,943**	**3,153,673**
Depreciation charge	–	134,015	458,179	113,297	–	705,491
Disposals	–	(264)	(8,959)	(84,967)	–	(94,190)
Impairment/(reversal of impairment)	–	–	796	–	(339)	457
Foreign exchange differences	–	953	1,145	309	2,712	5,119
Balance at 31 December 2013	**–**	**664,019**	**2,707,851**	**359,364**	**39,316**	**3,770,550**
Net book value						
Balance at 1 January 2013	**442,564**	**3,637,164**	**1,758,052**	**266,769**	**1,510,158**	**7,614,707**
Balance at 31 December 2013	**442,564**	**4,140,020**	**1,854,686**	**451,715**	**1,514,253**	**8,403,238**

31 December 2012	Land	Buildings	Plant and machinery	Equipment, motor vehicles and other	Assets under construction	Total
Cost						
Balance at 1 January 2012	**32,770**	**2,908,579**	**3,148,964**	**506,898**	**1,197,948**	**7,795,159**
Additions	–	276	56,029	93,406	1,256,912	1,406,623
Transfers	–	390,775	514,979	15,420	(921,174)	–
Disposals	–	(4,045)	(31,102)	(27,035)	(6,132)	(68,314)
Acquisition through business combinations (Note 7)	409,794	879,739	334,361	9,498	25,203	1,658,595
Foreign exchange differences	–	(8,845)	(8,489)	(693)	(5,656)	(23,683)
Balance at 31 December 2012	**442,564**	**4,166,479**	**4,014,742**	**597,494**	**1,547,101**	**10,768,380**
Accumulated depreciation and impairment						
Balance at 1 January 2012	**–**	**427,114**	**1,855,579**	**264,284**	**38,166**	**2,585,143**
Depreciation charge	–	108,049	421,616	90,113	–	619,778
Disposals	–	(32)	(12,465)	(23,479)	(134)	(36,110)
Impairment/(reversal of impairment)	–	(5,201)	(6,463)	18	(10)	(11,656)
Foreign exchange differences	–	(615)	(1,577)	(211)	(1,079)	(3,482)
Balance at 31 December 2012	**–**	**529,315**	**2,256,690**	**330,725**	**36,943**	**3,153,673**
Net book value						
Balance at 1 January 2012	**32,770**	**2,481,465**	**1,293,385**	**242,614**	**1,159,782**	**5,210,016**
Balance at 31 December 2012	**442,564**	**3,637,164**	**1,758,052**	**266,769**	**1,510,158**	**7,614,707**

In 2013 and 2012, 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 2013 was RR 8,556 (2012: RR 8,214). Such payments are reassessed by the state authorities on an annual basis. No such reassessment has been completed for 2014 and beyond as of the date of approval of these consolidated financial statements for issue.

15. Intangible assets

31 December 2013	Goodwill	Trade marks, patents and exclusive rights	Development costs	Total
Cost				
Balance at 1 January 2013	**2,584,302**	**7,186,198**	**180,360**	**9,950,860**
Additions (a)	–	14,786,962	98,740	14,885,702
Reclassification to assets held for distribution (Note 5)	(835,000)	(20,686,587)	–	(21,521,587)
Foreign exchange differences	20,254	–	–	20,254
Balance at 31 December 2013	**1,769,556**	**1,286,573**	**279,100**	**3,335,229**
Accumulated amortisation and impairment				
Balance at 1 January 2013	**–**	**1,907,922**	**–**	**1,907,922**
Amortisation expense (b)	–	248,345	–	248,345
Reclassification to assets held for distribution (Note 5)		(2,023,555)	–	(2,023,555)
Balance at 31 December 2013	**–**	**132,712**	**–**	**132,712**
Net book value				
Balance at 1 January 2013	**2,584,302**	**5,278,276**	**180,360**	**8,042,938**
Balance at 31 December 2013	**1,769,556**	**1,153,861**	**279,100**	**3,202,517**

In 2013 the Group acquired (i) Bever which is a holder of exclusive contracts of RR 13,936,025 (Note 6) and (ii) exclusive license on manufacturing patent and distribution of product named of Sirturo® of RR 850,937.

Amortisation of Branded OTC related intangible assets was suspended on 5 July 2013 (Note 5).

31 December 2012	Goodwill	Trade marks 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 7)	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 30)	–	(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**

(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 trade marks and patents as of 31 December are as follows:

	Carrying amount		Remaining amortization period (years)	
Name	2013	2012	2013	2012
Licenses on patents named of Sirturo®	**844,539**	–	**10**	–
Epostim®	**162,655**	181,791	**9**	10
Afobazol®	**–**	1,642,942	**–**	16
Arbidol®	**–**	1,404,960	**–**	13
Acipol®	**–**	680,649	**–**	13
Flucostat®	**–**	546,549	**–**	13

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

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	
	2013	2012	2013	2012	2013	2012
Carrying amount of goodwill	**1,550,702**	2,365,448	**218,854**	218,854	**1,769,556**	2,584,302

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 (2012: 5%). The discount rate applied to cash flow projections is 14.8% (2012: 14.8%).

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.

16. Inventories

Inventories consist of the following:

	2013	2012
Raw materials – at cost	**2,294,666**	3,139,802
Work in progress – at cost	**451,305**	347,898
Finished goods – at net realisable value	**4,740,783**	4,951,644
	7,486,754	**8,439,344**

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

	2013	2012
Balance at 1 January	**234,389**	**58,919**
Additional write-downs	**206,520**	246,032
Unused amounts reversed	**(18,819)**	(1,278)
Utilised during the year	**(206,664)**	(68,975)
Foreign exchange differences	**1,416**	(309)
Balance at 31 December	**216,842**	**234,389**

17. Trade and other receivables

	2013	2012
Trade receivables (net of allowance for impairment of receivables of RR 244,764 (2012: RR 107,118))	**23,261,526**	14,964,692
Interest receivable – third parties	**23,900**	56,163
Interest receivable – related parties (Note 13)	**21,278**	15,505
Other receivables (a)	**662,359**	–
	23,969,063	**15,036,360**

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

At 31 December 2013 RR 792,800 of trade and other receivables were denominated in currencies other than Russian Roubles, primarily in US$ (RR: 157,194) and Euro (RR: 605,169).

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

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

	2013	2012
Balance at 1 January	**107,118**	**135,600**
Additional allowance	**175,725**	21,357
Unused amounts reversed	**(38,797)**	(45,915)
Utilised during the year	**(133)**	(2,782)
Translation differences	**851**	(1,142)
Balance at 31 December	**244,764**	**107,118**

18. Cash and short-term deposits

Cash and short-term deposits consist of the following:

	2013	2012
Cash in bank – Russian Roubles (a)	**9,966,621**	2,688,925
Cash in bank – US$ and Euro (a)	**28,101**	2,311,461
Cash in bank – Ukrainian Hryvnia (a)	**1,444**	13,944
Short-term bank deposits with original maturity less than 90 days – Russian Roubles (b)	**5,130,500**	3,262,000
Short-term bank deposits with original maturity less than 90 days – Ukrainian Hryvnia (b)	**–**	82,698
Short-term bank deposits with original maturity less than 90 days placed in related bank – Russian Roubles (b)	**80,000**	28,327
Bank deposits on state open auctions placed in related bank – Russian Roubles (c)	**56,650**	
Bank deposits on state open auctions – Russian Roubles (c)	**101,559**	75,627
	15,364,875	**8,462,982**

(a) Substantially all cash balances of the Group are placed in the related bank (Note 13). Cash balances with the related bank carry no interest.

(b) Deposits denominated in RR bear an interest rate of 5%-9.5% p.a. (2012: 5.59%-7.55% p.a.). In 2012, deposits denominated in Ukrainian Hryvnia bore interest rate 20.3%-24.0% p.a.

(c) These items represent 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 bear interest rate from 3% to 4.5% and usually are released within 30-60 days from the date of placing the deposit.

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

19. Short-term financial assets

	2013	2012
Accounted for as loans and receivables:		
Promissory notes – Russian Roubles	**433,325**	990,790
Promissory notes issued by a related bank – US$ – (Note 13)	**–**	607,454
Short-term bank deposits placed in related bank – Russian Roubles – (Note 13)	**217,100**	–
Short-term bank deposits – Russian Roubles	**–**	400,000
Short-term bank deposits – Ukrainian Hryvnia	**25,262**	–
Short-term bank deposits placed in related bank – US$ – (Note 13)	**–**	941,554
Short-term loan provided to other related parties – Russian Roubles – (Note 13)	**10,430**	72,000
Short-term loans provided to the parent – US$ – (Note 13)	**752,772**	1,442,703
Accounted for as financial assets available for sale:		
Securities	**13,574**	13,513
Other	**859**	1,858
	1,453,322	**4,469,872**

The short-term bank deposits denominated in Russian Roubles as at 31 December 2013 earn interest at a rate of 8% p.a. (2012: 8.5% p.a.); as at 31 December 2012 interest rate for deposits denominated in US$ was 3.5% p.a.

20. Long-term financial assets

	2013	2012
Long-term loans and deposits		
Long-term loan provided to other related party – Russian Roubles – (Note 13)	**72,000**	–
Long-term bank deposit – Russian Roubles (a)	**400,000**	–
Accounted for as financial assets available for sale:		
Other financial investment (b)	**65,458**	–
	537,458	**–**

(a) Long-term bank deposit has a maturity date of 16 October 2015 and bears an interest rate of 8% p.a.

(b) Investments to preferred shares of Protagonist Therapeutics, Inc. ("Protagonist") located in the USA, Delaware. Protagonist is a peptide and peptidomimetic therapeutics company pursuing technology platform driven discovery and development of disulfide rich peptides (DRPs). The Group has no control or significant influence over this entity.

21. Short-term borrowings and loans

	2013	2012
Short-term loan – Russian Roubles	**7,021,700**	–
Other loans	**2,380**	1,300
	7,024,080	**1,300**

These loans include (i) RR 4,021,700 loan provided by Citibank with a maturity date of 27 September 2014 and interest rate of 8.65% p.a and (ii) RR 3,000,000 loan provided by Nordea bank with a maturity date of 27 November 2016 and interest rate of 8.79% p.a.; in accordance with contract the loan could be repaid at any time.

22. Taxes payable other than income tax

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

	2013	2012
Value-added tax	**777,722**	969,783
Social taxes	**70,849**	58,674
Property tax	**16,765**	15,308
Other taxes	**42,947**	38,733
	908,283	**1,082,498**

23. Trade and other payables

	2013	2012
Trade payables	**1,672,305**	1,858,564
Payable to OTCpharm (Notes 5 and 13)	**3,500,650**	–
Payables for products procurement – third parties (a)	**12,562,998**	7,751,941
Payables for products procurement, raw materials and other payables – related parties (Note 13)	**3,447,878**	711,769
Issued promissory notes – US$ and Euro (b)	**255,260**	240,514
Payables to employees	**426,493**	430,755
Interest payables	**27,739**	–
Other payables (c)	**3,038,401**	459,111
	24,931,724	**11,452,654**

(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 Ukrainian subsidiary "Pharmstandard-Biolik" before the date of acquisition. The promissory notes are payable to the companies affiliated with the former non-controlling shareholders of "Pharmstandard-Biolik". These promissory notes are payable on demand.

(c) These balances primarily represent payables to third parties for products distributed by the Company under the agency contracts (Note 30).

At 31 December 2013 RR 3,281,531 of total payables were denominated in currencies other than Russian Rouble, primarily in US$ (2012: RR 2,052,699).

24. Other non-current liabilities

	2013	2012
Deferred income (a)	**139,100**	75,000
Other	**11,662**	13,920
	150,762	**88,920**

(a) The subsidiaries of the Group "Pharmapark" LLC and "Biomed named after I.I. Mechnikov" OJSC (Note 7) 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 assets recognised upon completion of the development stage.

25. 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. Transactions with own shares during 2013 and 2012 are described in Note 10.

As of 31 December 2013 and 2012 54.32% of voting shares of OJSC "Pharmstandard" were held by "Augment Investments Limited" (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.

After all transactions, as described in this Note, the Company holds 3.8% of issued shares as treasury shares.

In accordance with Russian legislation, dividends may only be declared from accumulated undistributed and unreserved earnings as shown in the Russian statutory financial statements of the Company.

Earnings per share are calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The 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:

	2013	2012
Weighted average number of ordinary shares outstanding[3]	**34,629,722**	35,385,353
Profit for the year attributable to the shareholders	**11,805,787**	9,790,915
Basic and diluted earnings per share, Russian Roubles	**340.92**	276.69

3 Treasury shares balances affecting the calculation are detailed in Note 10.

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

26. Revenue

Revenue breakdown by product groups comprised the following:

	2013	2012
PHARMACEUTICAL PRODUCTS		
Over the Counter ("OTC")		
Branded	**13,707,972**	12,461,582
Non-branded (a)	**2,749,855**	2,417,670
	16,457,827	**14,879,252**
Prescription		
Branded	**5,974,312**	4,957,477
Non-branded	**801,474**	938,200
	6,775,786	**5,895,677**
Third parties products (b)	**30,451,243**	28,279,120
Other – substances and APIs (a)	**1,174,463**	1,007,207
Total pharmaceutical products	**54,859,319**	**50,061,256**
Medical equipment	**1,048,278**	722,261
	55,907,597	**50,783,517**

(a) Product named "Interferon" and manufactured by "Pharmapark" LLC classifies to category "Other". For the purpose of comparative analysis, the prior year figures were restated accordingly. The above changes in the Group portfolio structure do not affect the total sales.

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

27. Cost of sales

The components of cost of sales were as follows:

	2013	2012
Materials and components	**6,463,962**	6,355,115
Third parties products	**23,162,756**	22,944,229
Production overheads	**1,562,058**	1,504,435
Depreciation and amortisation	**789,301**	847,094
Direct labour costs	**531,761**	373,266
	32,509,838	**32,024,139**

28. Selling and distribution costs

Selling and distribution costs were as follows:

	2013	2012
Advertising	**3,537,001**	2,746,238
Labour costs	**1,570,834**	1,304,085
Freight, communication and insurance of goods in transit	**260,670**	198,922
Trainings and other services	**54,255**	72,807
Certification expenses	**115,868**	98,571
Rent	**125,001**	93,229
Commission and license fee	**78,079**	188,115
Materials, maintenance and utilities	**139,738**	113,264
Travel and representative expenses	**191,001**	136,734
Depreciation	**80,659**	78,956
Other expenses	**40,475**	41,392
	6,193,581	**5,072,313**

29. General and administrative expenses

General and administrative expenses were as follows:

	2013	2012
Labour costs	**1,278,439**	918,074
Services, legal, audit and consulting expense	**115,651**	93,921
Travel and representative expenses	**41,484**	37,408
Taxes other than income tax	**21,373**	20,611
Property and other insurance	**21,272**	19,571
Communication expenses	**29,787**	28,601
Depreciation	**83,876**	52,772
Rent	**118,681**	74,118
Materials, maintenance and utilities	**164,448**	138,844
Other	**55,302**	41,304
	1,930,313	**1,425,224**

30. Other income

Other income comprised the following:

	2013	2012
Foreign exchange gain, net	**156,568**	–
Gain from disposal of property, plant and equipment	**47,912**	–
Agency fee (a)	**1,037,886**	340,882
Income from non-core operations (b)	**129,745**	45,435
Income received as penalties from vendors and customers	**127,977**	183
Reversal of impairment – property, plant and equipment (Note 14)	**2,091**	13,808
Reversal of impairment – intangible assets (Note 15)	**–**	25,000
Other income	**6,816**	4,623
	1,508,995	**429,931**

(a) Agency fee was earned by the Company for sale of certain third-parties products, including products manufactured by related parties. Major agency contracts were signed by the Company in 2013 and were treated as non-core operations.

(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 operations (iii) income from other non-core services such as manufacturing production and utilities.

31. Other expenses

Other expenses comprised the following:

	2013	2012
Foreign exchange loss, net	**–**	36,837
Loss from disposal of property, plant and equipment	**–**	4,766
Charity	**10,527**	5,927
Bank charges (a)	**30,958**	25,512
Other taxes and penalties (b)	**410,681**	67,288
Transaction costs (c)	**93,797**	–
Downtime expenses of Biolik during suspension of production (Note 33)	**111,481**	–
Research expenses (d)	**168,675**	36,493
Impairment of property, plant and equipment (Note 14)	**2,548**	2,152
Impairment of intangible assets (Note 5)	**100,000**	–
Impairment of short-term financial assets	**–**	25,000
Write-off of cash placed in Cyprus bank	**9,269**	–
Other	**48,108**	48,027
	986,044	**252,002**

(a) Bank charges include (i) commission for daily banking transactions, and (ii) commission for certain bank guarantees obtained by the Group.

(b) Other taxes and penalties primarily include (i) RR 201,381 provision for legal claim of Federal Anti-monopoly Service of Russia and (ii) RR 94,761 additional VAT and penalties accrual as a result of tax audit in 2013.

(c) These expenses include consulting, legal and registration expenses related to Group's M&A deals, primarily to acquisition of Bever shares (Note 6).

(d) These expenses represent certain non-recurring research projects.

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

32. Income tax

	2013	2012
Income tax expense – current	**4,044,679**	2,742,970
Deferred tax benefit– origination and reversal of temporary differences	**(102,588)**	(145,690)
Income tax expense	**3,942,091**	**2,597,280**

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

	2013	2012
Profit before income tax	**15,862,530**	**12,561,286**
Theoretical tax charge at Russian statutory rate of 20%	**3,172,506**	2,512,257
Effect of the difference in tax rates in countries other than Russia	**(23,149)**	1,559
Tax effect from treasury shares settlement (Note 6)	**556,767**	–
Effect from intra-group dividends (taxed at rate of 5-10%) eliminated in consolidation	**19,457**	–
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	**216,510**	83,464
Income tax expense	**3,942,091**	**2,597,280**

Movements in deferred tax balances were as follows:

	1 January 2012	Temporary differences recognition and reversal in profit and loss	Effect of business combinati-ons in 2012 (Note 7)	31 December 2012	Temporary differences recognition and reversal in profit and loss	Effect of spin-off (Note 5)	Effect from obtaining control over joint venture (Note 8)	31 December 2013
Tax effects of taxable and deductible temporary differences – asset (liability):								
Property, plant and equipment (Note 14)	(285,233)	(8,833)	(277,414)	(571,480)	**33,726**	**–**	**(244)**	**(537,998)**
Intangible assets (Note 15)	(455,178)	25,453	(86,165)	(515,890)	**(10,922)**	**492,449**	**61**	**(34,302)**
Trade and other receivables	(2,364)	26,973	7,622	32,231	**(93,589)**	**–**	**–**	**(61,358)**
Inventories	131,828	88,760	(15,531)	205,057	**147,715**	**–**	**109**	**352,881**
Trade and other payables	19,637	13,195	3,331	36,163	**2,610**	**–**	**1,611**	**40,384**
Financial instruments	5,258	(2,816)	–	2,442	**4,980**	**–**	**–**	**7,422**
Other	2,766	2,960	23,083	28,809	**18,068**	**–**	**(1)**	**46,876**
Total net deferred tax liability	**(583,286)**	**145,692**	**(345,074)**	**(782,668)**	**102,588**	**492,449**	**1,536**	**(186,095)**

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, unrealised profit due to intragroup purchases of materials, discounts recognised in taxation as other income;
- amortisation of trade marks in excess of the amortisation for tax purposes; and
- deemed cost adjustments upon conversion to IFRS.

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised was approximately RR 19,084,856 as at 31 December 2013 (2012: RR 11,552,934).

33. 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. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing 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 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 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, fiscal, legal, and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets. The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

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 2013 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 at 31 December 2013. 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 Russian tax 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 transactions with related party exceeds 3 billion roubles in 2012 and 2 billion roubles in 2013. 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 2013 and 2012 but also to the prior transactions with related parties if related income and expenses were recognized in 2013 and 2012. Special transfer pricing rules apply to transactions with securities and derivatives.

In 2013 and 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 and land. Rental agreements are revised on an annual basis.

Commitment liabilities and guarantees

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 at 31 December 2012. No such guarantees were provided in 2013.

Statutory inspection of "Pharmstandard-Biolik" PJSC ("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 are primarily due to the reconstruction of production and maintenance work to improve the quality of "Biolik"'s products. In December 2013, "Biolik" production process was renewed for certain products. Management expects that the remaining deficiencies will be resolved and "Biolik" production process completely renewed in the near future. In addition, management believes that the discussed circumstances will not have material adverse effects on the Group.

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

34. 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. The Group has no long-term borrowings and loans and derivative financial instruments as of 31 December 2013 and 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.

31 December 2013:

	Total	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets				
Securities (Note 19)	**13,574**	**10,826**	**–**	**2,748**

31 December 2012:

	Total	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets				
Securities (Note 19)	**13,513**	**9,842**	**–**	**3,671**

Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans, short-term and long-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 at 31 December 2013 and 31 December 2012. The Group has certain short-term financial investments (loans and bank deposits, see Notes 18, 19 and 20), at fixed interest rates based on current market rates at the date of initial recognition and has short-term borrowings and loans (Note 21) at fixed interest rates based on current market rates at the date of initial recognition. 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 and Euro denominated cash and cash equivalents (Note 18), short-term bank deposits (Note 19), short-term loans provided to parent (Note 19), promissory notes (Note 19), trade payables (Note 23), issued promissory notes (Note 23) and other payables (Note 23), trade receivables (Note 17) 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 and payables are denominated. However, the Group does not have formal arrangements to mitigate this foreign exchange risk.

The tables below show 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 2013		
US$/Roubles exchange rate	+20%	(157,781)
US$/Roubles exchange rate	-10%	78,891

	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)

	Increase/decrease in Euro rate	Effect on profit before tax
As at 31 December 2013		
Euro/Roubles exchange rate	+20%	(101,901)

	Increase/decrease in Euro rate	Effect on profit before tax
Euro/Roubles exchange rate	-9%	45,855

	Increase/decrease in Euro rate	Effect on profit before tax
As at 31 December 2012		
Euro/Roubles exchange rate	+10%	(16,746)
Euro/Roubles exchange rate	-10%	16,746

	Increase/decrease in US$ rate	Effect on profit before tax
As at 31 December 2013		
US$/Ukrainian Hryvnia exchange rate	+30%	(91,233)
US$/Ukrainian Hryvnia exchange rate	-5%	15,206

	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

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 2013	Total	Less than 3 months	3 to 6 months	6 to 12 months	More than 12 months
Borrowings and loans (Note 21)	7,347,389	3,151,274	86,731	4,109,384	–
Other current liabilities (a)	3,500,650	3,500,650	–	–	–
Other non-current liabilities	1,879	–	–	–	1,879
Total	**10,849,918**	**6,651,924**	**86,731**	**4,109,384**	**1,879**

These payables represents payables to OTCpharm (Note 5).

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 21)	1,300	–	–	–	1,300
Other current liabilities	25,159	25,159	–	–	–
Other non-current liabilities	5,225	–	–	–	5,225
Total	**31,684**	**25,159**	**–**	**–**	**6,525**

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.

The carrying amount of accounts receivable, net of allowance for impairment, 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.

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

The table below summarises the Group's trade and other receivables aging:

	Total	Neither impaired nor past due	Not impaired but past due				
			less 1 month	1-2 months	2-3 months	3 to 6 months	>6 months
31 December 2013	**23,969,063**	**21,930,722**	**1,185,580**	**255,609**	**268,224**	**209,417**	**119,511**
31 December 2012	15,036,360	14,281,600	516,441	168,713	39,735	21,879	7,992

Sales concentration to a small group of customers

The Group works with five distributors that together represent more than 50% of the Group's revenue for 2013 excluding sales to the Ministry of health of the Russian Federation under state open auctions (six distributors in 2012). It is common practice of the Russian pharmaceutical market to work with the limited number of large distributors.

Capital 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.

	2013	2012
Borrowings and loans	**7,024,080**	1,300
Trade and other payables	**24,931,724**	11,452,654
Less: cash and short-term deposits	**(15,364,875)**	(8,462,982)
Net debt	**16,590,929**	**2,990,972**
Capital	**27,628,445**	37,566,634
Capital and net debt	**44,219,374**	**40,557,606**
Gearing ratio	**38%**	**7%**

35. Material partly-owned subsidiaries

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

Name	Country of incorporation and operation	2013 % share	2012 % share
"Pharmstandard-Tomskhimpharm" OJSC	Russian Federation	**9**	9
Other:			
"Pharmstandard-Biolik" PJSC (Note 11)	Ukraine	**3.07**	45
Donelle Company Limited (Notes 5 and 11)	Cyprus	**–**	11
Aphopharm CJSC (Notes 5 and 11)	Russian Federation	**–**	11
MDR Pharmaceuticals	Cyprus	**49.95**	49.95
Bigpearl Trading Limited* (Note 7)	Cyprus	**49.995**	49.995
"Pharmapark" LLC* (Note 7)	Russian Federation	**49.995**	49.995
"Biomed named after I.I.Mechnikov" CJSC* (Note 7)	Russian Federation	**50.155**	50.205
"PKB named after I.I.Mechnikov" CJSC* (Note 7)	Russian Federation	**50.155**	50.205
"Pharmatsevticheskiye innovatsii" LLC* (Note 7)	Russian Federation	**49.995**	49.995
"EKK" OJSC* (Note 7)	Russian Federation	**64.71**	64.745
Moldildo Trading Limited (Note 8)	Cyprus	**25**	–
"Pharmstandard-Medtechnika" LLC Note 8)	Russian Federation	**25**	–
"Sellthera Pharm" LLC	Russian Federation	**25**	–

* These subsidiaries were incorporated in "Bioprocess" group of companies acquired by the Group in July 2012. The Group exercises control over these entities through its controlling interest in Bigpearl Trading Limited (Notes 1and 7).

35. Material partly-owned subsidiaries (continued)

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations:

Summarised statement of profit or loss for 2013:	Pharmstandard-Tomskkhimpharm	Other
Revenue	4,286,883	1,994,187
Cost of sales	(2,095,413)	(1,020,938)
Selling and distribution costs	(1,674,197)	(444,289)
Administrative expenses	(102,449)	(315,791)
Other income (expense), net	83,419	(86,944)
Financial income, net	–	10,682
Profit before income tax	**498,243**	**136,907**
Income tax	(101,071)	(78,290)
Profit for the year	**397,172**	**58,617**
Attributable to non-controlling interests	35,746	78,906

Summarised statement of profit or loss for 2012:	Pharmstandard-Tomskkhimpharm	Other
Revenue	2,941,410	1,414,566
Cost of sales	(1,369,849)	(689,498)
Selling and distribution costs	(1,224,303)	(212,842)
Administrative expenses	(91,660)	(126,383)
Other income, net	95,579	43,801
Financial income, net	–	2,488
Profit before income tax	**351,177**	**432,132**
Income tax	(71,968)	(101,608)
Profit for the year	**279,209**	**330,524**
Attributable to non-controlling interests	25,129	147,962

Summarised statement of financial position as at 31 December 2013:	Pharmstandard-Tomskkhimpharm	Other
Inventories, receivables, cash and short-term deposits and other current assets	3,131,075	2,208,844
Property, plant and equipment and other non-current financial assets	461,561	2,007,924
Trade, other payables and other current liabilities	(415,358)	(1,320,151)
Deferred tax liabilities and other non-current liabilities	(29,489)	(480,837)
Total equity	**3,147,789**	**2,415,780**
Attributable to:		
Non-controlling interests	283,301	1,162,547

Summarised statement of financial position as at 31 December 2012:	Pharmstandard-Tomskkhimpharm	Other
Inventories, receivables, cash and short-term deposits and other current assets	2,661,440	1,453,442
Property, plant and equipment, intangible assets* and other non-current financial assets	462,896	4,336,348
Trade, other payables and other current liabilities	(333,772)	(864,064)
Deferred tax liabilities and other non-current liabilities	(43,760)	(394,029)
Total equity	**2,746,804**	**4,531,697**
Attributable to:		
Non-controlling interests	247,555	1,403,583

* This balance in Aphopharm included the trade mark Afobazol® as at 31 December 2012 (Note 5).

Dividends paid by a subsidiary

In 2013, an amount of RR 23,498 was paid by the Company's subsidiary "Bigpearl" (Note 7.1) located in Cyprus to non-controlling shareholders.

36. Events after the reporting period

Repayment short-term loan

In February 2014, loan provided by Nordea bank in the amount of RR 3,000,000 with a maturity date of 27 November 2016 was fully repaid by the Group (Note 21).

Payment to OTCpharm

In January 2014 cash amounting of RR 3,500,650 was transferred to OTCpharm due to spin-off (Note 5).

Loan provided to parent

In January 2014, Augment 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 Company provided a short-term loan to Augment with maturity date not later than 20 January 2015 in the amount of US$ 15,000 thousand (RR 504,643) with fixed interest rate of 5.25% per annum.

Operating environment in Ukraine

Subsequent to 31 December 2013, the economic and political uncertainty in Ukraine increased significantly. Furthermore, between 1 January 2014 and 25 April 2014, the Ukrainian Hryvnia devalued to major foreign currencies by approximately 40%, and the National Bank of Ukraine imposed certain restrictions on purchase of foreign currencies at the inter-bank market. International rating agencies have downgraded sovereign debt ratings for Ukraine. The combination of the above events has resulted in a deterioration of liquidity and much tighter credit conditions where credit is available.

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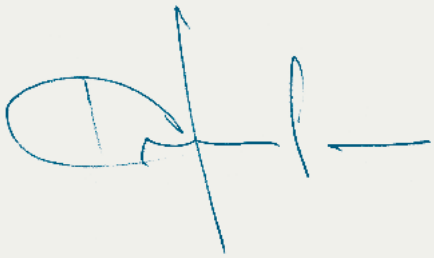
Responsibility Statement
Glossary

Management 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 2013 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;
- 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.

Igor Krylov
Chief Executive Officer
Pharmstandard OJSC



Terms and abbreviations

API	Active Pharmaceutical Ingredients
ARVI	Acute respiratory viral infection
BAA	Bio Active Additive
bn	billion
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
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
m	million
OJSC	Open Joint Stock Company
ONLC	Online Contract
Organic Sales	Pharmstandard own products
OTC	Over-the-Counter - Non-prescription drugs
P&L	Profit& Loss
RTS	Russian Trading System
RUB	Russian Ruble
Rx	Prescription drugs
S&D	Sales and Distribution Expenses
SKU	Stock keeping unit
TPP	Third Parties Products
US$	United States Dollar
VED	Vital and Essential Drugs
vs	versus