Pharmstandard

2011 annual report

Annual report 2011

CEO Statement

Dear shareholders

In May 2007, Pharmstandard became the first Russian pharmaceutical company which successfully placed 43% of its shares at the Russian Trading System (RTS) and the London Stock Exchange (LSE). In 2007, our share placement at the RTS was considered the best initial public offering in Russia in 2007 and won "Best IPO 2007" at the 4th Russian IPO Congress. Pharmstandard was honoured as Best Newcomer at the London Stock Exchange, among pharmaceutical and medical companies which had placed their securities at the LSE after 1 April 2007.

Recognition and appraisal of the these achievements by the financial community were a fitting tribute to the management of the Company and the staff of Citibank and UBS and their combined time-consuming and meticulous preparatory work which resulted in the completion of the Initial Public Offering of the Company.

At our meetings with investors and analysts we describe the Company as the largest manufacturer of pharmaceutical products in Russia which supplies Russian citizens with effective and affordable medications. All the Company's products are manufactured at its plants which meet international quality standards. Earlier, Pharmstandard established itself as the leader in the Retail Segment of the Russian pharmaceutical market, a company with high profitability and big potential in the areas of expanding its Rx portfolio and of the use of state funding for the healthcare system through procurement of pharmaceutical products within the framework of federal programmes administered by the Ministry of Healthcare and Social Development of the Russian Federation.

Five years on, we remain faithful to our chosen strategy and keep strengthening all aspects of this strategy through new projects and impressive sales. In five years, the Company's sales increased four-fold and reached, in 2011, RUR 42.6 billion.

In these five years, the attitude to the pharmaceutical industry in Russia has undergone a dramatic change as all the market participants became beneficiaries of both strategic and financial state support. The following legislative acts have been passed: law on Circulation of Pharmaceutical Products, the development strategy for the Russian pharmaceutical industry till 2020, a number of documents regulating the prices for Vital and Essential Products, and law on Protection of Health of the Citizens of the Russian Federation. All these were real steps to putting in place a system of regulations to enhance the industry and its development towards meeting European standards.

The Russian pharmaceutical market has also changed and for the first time, in the last two years, it exhibited growth attributable not only to the increases in prices (as used to be the case) but also to the increase in consumption of pharmaceutical products in volume terms. Foreign pharmaceutical companies became more active in their co-operation with Russian companies in the areas of production localisation and collaboration in construction of manufacturing facilities in Russia. These developments confirm attractiveness of the Russian pharma market for international pharmaceutical giants.

At present, we successfully collaborate with such pharmaceutical companies as F.Hoffmann-La Roche, Johnson & Johnson, Abbott Products, Grindeks and others on joint projects involving manufacturing pharmaceutical products at the Company's production facilities. We aspire to develop our production facilities and know-how to be able to manufacture modern pharmaceutical products which have never been produced in Russia and to make them accessible and affordable to the citizens of the Russian Federation. In three years, annual sales of pharmaceutical products manufactured through our joint ventures increased and amounted to RUR 21.7 billion in 2011. This is a testimony to the success of our co-operation which needs no comments.

Any business should be concerned with its prospects and invest in its development. It was our intention to ensure dynamic development for the Company in

I AM PLEASED TO PRESENT TO YOU PHARMSTANDARD ANNUAL REPORT FOR 2011 WHICH COINCIDES WITH THE FIFTH ANNIVERSARY OF THE COMPANY'S IPO.

future periods that led us to the decision to become a participant in the biotechnological project Generium and to invest in the construction of R&D Centre Generium (NTS+) which became operational at the end of 2011.

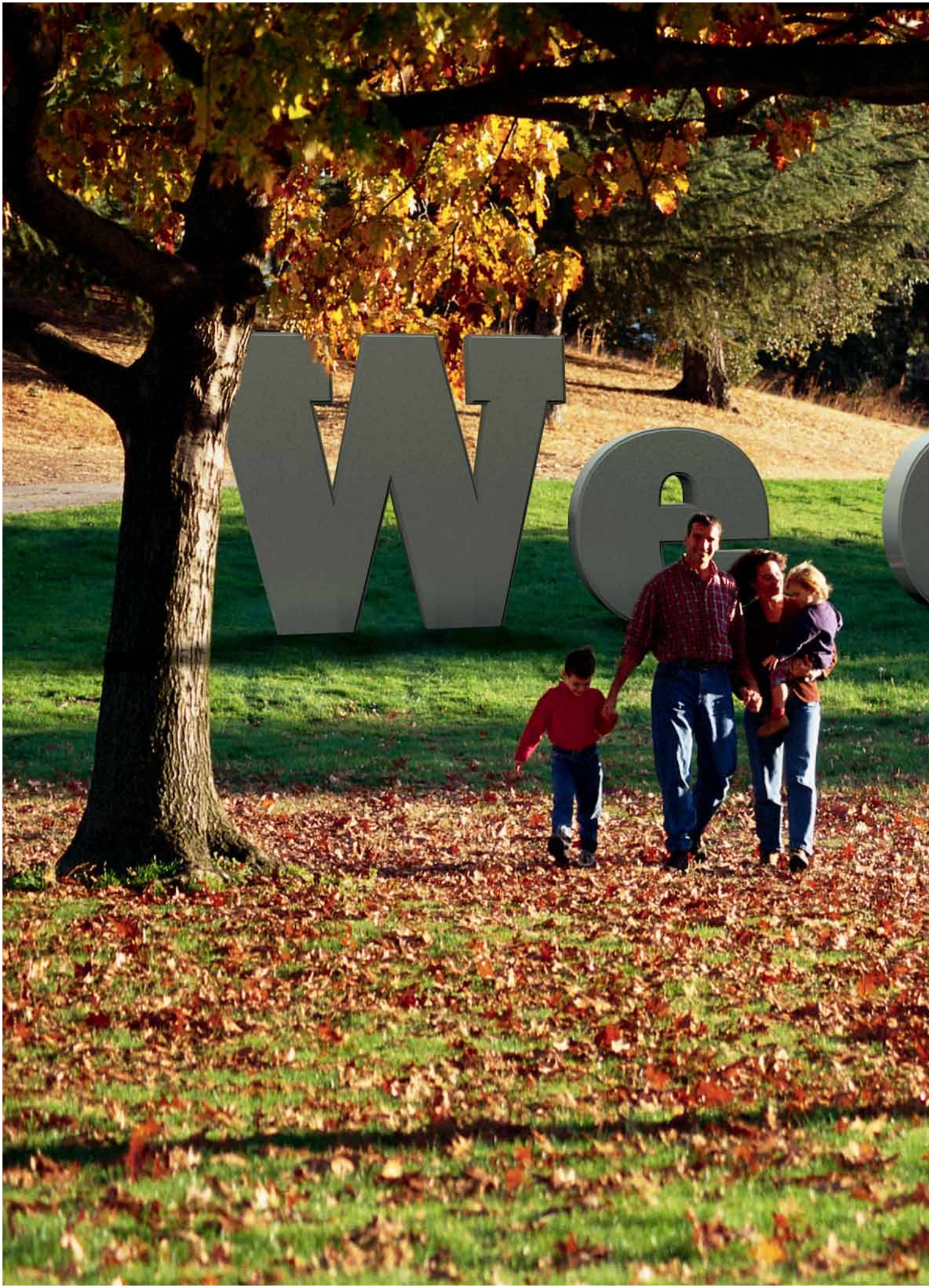
We believe, that one of the key factors that make us so successful, is our team of professionals who set ambitious goals and achieve them through outstanding effort. The ability and willingness of our employees to work to tight deadlines and to high standards of quality, give the Company the advantage of being flexible and enable it to promptly react to changes in the market, to increase its production capabilities and boost sales, and to continually improve the efficiency of the technological and business processes, which sometimes means a radical rethinking of the previous principles and views.

I believe that we fully achieved our main goals and tasks for 2011. We gained invaluable experience in joint projects and expanded our range of professional knowledge and skills. All this and much more inspired us to take on new projects. No less important is the fact that we added high-level specialists to our team. By the end of the year, our team numbered over 5,900 trusted colleagues and friends.

Our plans for the near future include construction of production floors for new types of manufacturing, GMP certification at all pharmaceutical plants of the Pharmstandard group of companies, expansion of our current product portfolio and our presence in anatomical therapeutic chemical (ATC) groups. We also aspire to be truthful to our mission and the fundamental principles chosen earlier – Innovation, Efficiency and Responsibility.

Our goal is to be the first among equals, to remain a leading Company attractive both to our partners and our investors.

Igor Krylov
Chief Executive Officer


We

About Pharmstandard

Pharmstandard provides inhabitants of Russia with modern and accessible medicines

Pharmstandard's many years of experience in the area of pharmaceutical manufacturing enables the company to develop generic and original products which are essential in making modern standards of treatment accessible to the population of the country. The value of our products is increased by the use of innovative technologies, strict quality control and efficiency of the manufacturing process. The range of the Company's products is constantly expanding and improved in line with the latest scientific breakthroughs and ever changing requirements of doctors and patients.

By 2011 the Company's aggregate production capacity has reached more than

1,460

million packages

per year. It is about 10 packs per inhabitant of Russia.

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.

About Company

The main sphere of activity of the enterprises comprising the Pharmstandard group of companies, are developing and manufacturing of high-quality modern pharmaceutical products which meet the requirements of the healthcare system and the expectations of patients.

The most well known Pharmstandard products today are Arbidol®, Complivit®, Pentalgin®, Flucostat®, Phosphoglive®, Amixin®, Afobazol®, Rastan® and Biosulin®. The Pharmstandard group of companies manufactures more than 250 pharmaceutical products, including medicines for the treatment of cardio-vascular diseases, diabetes, growth hormone deficiency, gastroenterological, neurological, contagious diseases, metabolic disorders, cancer and other diseases. More than 100 Pharmstandard products (taking into account all forms and dosages) are included in the list of Vital and Essential Pharmaceuticals.

In the period from 2004 to 2011 more than 60 new pharmaceutical products were developed by Pharmstandard, in co-operation with the leading Russian scientific centres. Pharmstandard is a participant in a joint bio-engineering project, Generium, whose objective is the development of socially significant pharmaceutical products within the framework of the state program of import substitution.

By 2011 the Company's aggregate production capacity has reached more than 1,46 billion packages per year. The production capacity of the Pharmstandard group of companies comprises four modern pharmaceutical plants: JSC Pharmstandard-Leksredstva (Kursk), JSC Pharmstandard-UfaVita (Ufa), JSC Pharmstandard-Tomskhimpharm (Tomsk), JSC Pharmstandard-Biolek (Kharkov, Ukraine) and the medical equipment and tools plant JSC TZMOI (Tyumen); Pharmstandard LLC is responsible for the purchase and supply of raw materials for manufacturing of pharmaceutical products at the production facilities of the Pharmstandard group of companies.

All the production facilities of the Pharmstandard group of companies fully comply with Russian national standards, while six production lines at JSC Pharmstandard-Leksredstva have already received certificates of compliance with the EU GMP standards. All the plants are expected to convert to European GMP standards by 2014, according to the schedule approved by the company's management.

On 4 May 2007 Pharmstandard placed its shares during IPO on Russian Trading System (RTS), Moscow Interbank Currency Exchange (MICEX) and Global Depositary Receipts (GDR) at London Stock Exchange (LSE).

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 AS FOLLOWS:

Promote our market-leading brands to drive sales growth and profitability. We intend to strengthen our market position in Russia by continuing to leverage our strong brand loyalty and brand awareness through effective sales and marketing of our market-leading brands. We will continue promoting these brands by introducing line extensions of trusted and established products, such as our well-known branded product ranges Pentalgin®, Codelac®, Complivit®, Arbidol® and Flucostat®. We will also continue to focus on promoting higher value added brands – Afobazol®, Neupomax®, Biosulin®, Rastan®.

Launch new pharmaceutical products in a timely manner to capture market share. We intend to maintain strong growth and capture market share by leveraging the brand loyalty and brand awareness of our market-leading brands to develop and launch new products in our Core Therapeutic Segments. We also intend to develop and launch new products in potential for our growth new therapeutic segment. Specifically, we intend to:

- focus on the timely identification and development of new products, including the development of line-extensions of current brands;
- focus on the timely identification and development of new products that complement our Core Therapeutic Segments and develop new products to penetrate new therapeutic areas;
- launch these new pharmaceutical products in a timely manner to capture significant market share;
- leverage our sales and marketing infrastructure to promote new product launches and achieve leading market positions for new branded products

Maintain our focus on cost control. Our focus and ability to control costs is an important element of both our operating and financial performance. We will continue to evaluate and respond to manufacturing and distribution cost inefficiencies. We also plan to further rationalize our manufacturing costs in order to keep gross profit margins by managing our product mix on the basis of the demand for our pharmaceutical products.

Expand our sales and marketing capabilities. Our sales team has more than doubled in the last two years. We also intend to promote further specialization of the Company sales force by therapeutic areas and expect our more specialized sales and marketing team to facilitate our increased calling efforts on medical practitioners, regional and national distributors and other customers. This measure will help to increase customer awareness of our product portfolio and drive further sales growth.

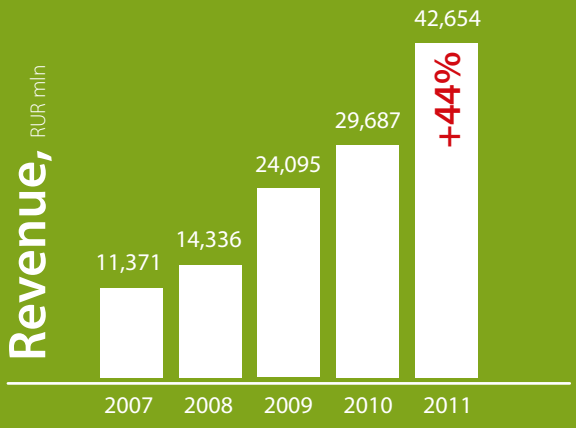
Grow through acquisitions and realize synergies. We intend to complement our organic growth through the assessment and use of acquisition opportunities, including opportunities for specific brands, trademarks and patents.

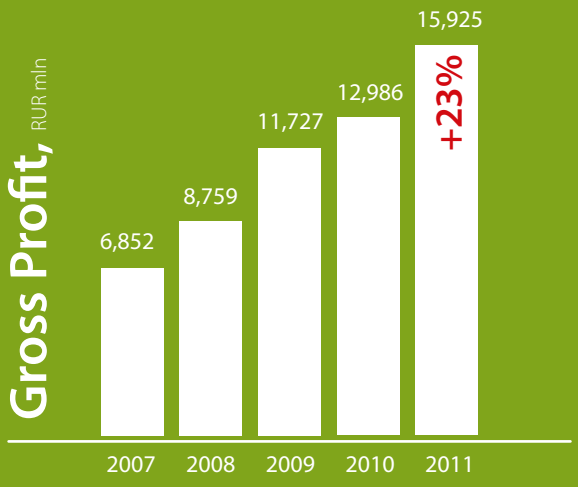
Cooperation with leading pharmaceutical companies. We intend to complement our organic growth through cooperation with leading pharmaceutical companies based on co-manufacturing or exclusive marketing and promotion of their most successful pharmaceutical products.

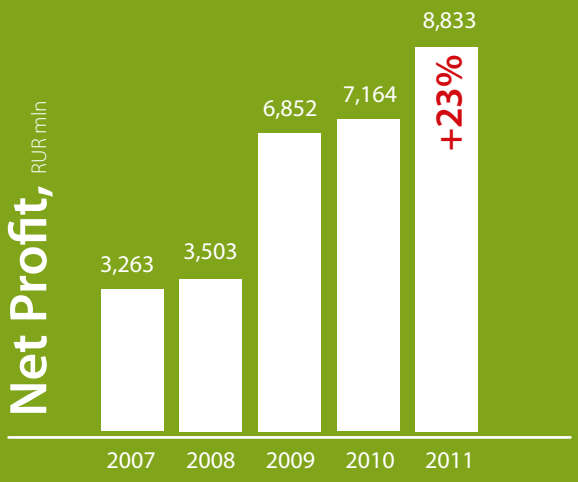
Exploit opportunities arising from government funding of healthcare. We believe that we are well positioned to benefit from potential changes in the Federal Reimbursement Programme (FRP), which are expected to increase the participation of local producers. We plan further participation in the FRP, namely in the Federal Programme for 7 costly diseases with our own products and Third Party Products (TPP), and in the ONLC Programme (Provision of Essential Pharmaceuticals Programme).

In addition, we expect growth in sterilizing devices market, where, we believe our products to have a cost-competitive advantage.

2011 ACHIEVMENTS







	2007	2008	2009	2010	2011
Revenue, RUR mln	**11,371**	**14,336**	**24,095**	**29,687**	**42,654**
growth ,%	33%	26%	68%	23%	44%
Gross Profit, RUR mln	**6,852**	**8,759**	**11,727**	**12,986**	**15,925**
growth ,%	39%	28%	33%	11%	23%
EBITDA, RUR mln	**4,882**	**6,049**	**9,636**	**9,685**	**11,929**
growth ,%	50%	24%	59%	1%	23%
Net Profit, RUR mln	**3,263**	**3,503**	**6,852**	**7,164**	**8,833**
growth,%	60%	7%	95%	5%	23%

Key developments in 2011

- In 2011, Arbidol® kept its leading position as No.1 bestselling pharmaceutical product in Russia.[1]

- In 2011, OJSC Pharmstandard held the third position among the TOP-10 pharmaceutical corporations operating in the territory of the Russian Federation (retail sector).[2]

- Pharmstandard came 27 in the TOP-100 of the most dynamic consumer goods companies, according to the rating of the Kommersant Secret Firmi Magazine.178 consumer goods companies participated in the survey; each of them had been in business for at least three years and was one of the five leading companies in its market.

- OJSC Pharmstandard came top of the list of the most influential domestic pharmaceuticals producers in 2011, according the annual rating compiled by the Farmatsevticheski Vestnik newspaper and Market Research Centre Pharmexpert.

- In June 2011, the Vedomosti newspaper published a list of the top 100 biggest companies of Eastern Europe with OJSC Pharmstandard in the 56th position.

- In 2011, construction of warehouse facilities at OJSC Pharmstandard-Leksredstva and OJSC Pharmstandard-UfaVITA was completed. Construction of warehouses with sufficient space to store raw materials, packaging materials and finished products in conditions compliant with GMP standards will rule out shortages of warehouse space for storing substances, materials and finished products.

- At OJSC Pharmstandard-UfaVITA, construction of production floors for manufacturing cytostatic pharmaceutical products compliant with the European GMP standards commenced. The Company is planning to start the manufacture of both its own modern cytostaic products and those produced within the framework of joint projects with foreign companies. The investment will amount to about 40 million Euros. The manufacturing facilities are scheduled for commissioning in 1Q2015.

- In 2011, Roche (Switzerland) and the group of companies Pharmstandard completed the localisation of production of Mabthera® (rituximab) in the territory of the Russian Federation. The work of this partnership resulted in the successful transfer of the final stages of production of this biotechnological original product to the modern plant of OJSC Pharmstandard-UfaVITA.

- In 2011, the Company's employees brought new medicines to production: Medira®, Gluconorm®, Water for Injections (in 2 ml, 4 ml, 5 ml, 8 ml and 10 ml bottles), Azitrox® (500 mg capsules No. 2).

1 According to the data of independent analytical Market Research Centre Pharmexpert.
2 According to the data of independent analytical Market Research Centre Pharmexpert.

- In 2011, the following eight Pharmstandard products were in the TOP-20 list of best selling Russian brands: Arbidol® (No. 1), Pentalgin® (No. 2), Complivit® (No. 7), Terpincod® (No. 13), Codelac® (No. 14), Afobazol® (No. 16), Amixin® (No. 18) and Flucostat® (No. 18).

An offer to purchase 4.9% of ordinary OJSC Pharmstandard shares

On 18 January 2011 OJSC Pharmstandard-Leksredstva announced an offer to purchase up to 4.9% of OJSC Pharmstandard shares (up to 1,850 shares). On 18 February, 2011 OJSC Pharmstandard-Leksredstva indicated to its shareholders who had tendered their shares, the number of shares accepted from them based on the review of the submitted applications to sell shares ("ofertas"). In future, the Company can use these shares to conduct merges and takeovers.

Acquisition of 55% of shares of PJSC Biolek (Ukraine)

In January 2011 the Company announced the purchase of 55% of shares of PJSC Biolek (Ukraine), a pharmaceutical facility for the manufacture of immunobiological products, serums and vaccines. Following the decision of a shareholders meeting, in June 2011 PJSC Biolek was renamed PJSC Pharmstandard-Biolek.

R&D Centre Generium (NauchTechStroi Plus LLC)

In 2011, the construction of R&D Centre Generium (NauchTechStroi Plus LLC) was completed on time, according to the schedule of development of Biotechnological Project Generium - a joint venture involving a number of Russian companies alongside Pharmstandard.

Creation of Pharmstandard-Medtechnika LLC

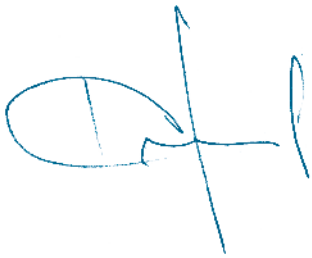
In July 2011, OJSC Pharmstandard and DGM Group of Companies announced the establishment of Pharmstandard-Medtechnika LLC. The main objectives of Pharmstandard-Medtechnika LLC include promotion of the full range of equipment for the construction of infection control systems and Central Sterilization Departments within medical establishments, marketing, sales (both direct and through distribution networks), provision of comprehensive services and training for clients.

Corporate Governance

Directors' statement of responsibilities

The Directors are responsible for preparing this Annual Report of JSC Pharmstandard («Pharmstandard» or «the Company»), including financial statements in accordance with applicable law and regulations. Each of the current Directors, whose names and functions are listed in the Corporate governance section of the Annual Report 2011 confirms that, to the best of his or her knowledge:

- the Company's financial statements, which have been prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- all sections contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.



Igor Krylov
Chief Executive Officer

Corporate Policy of the Company

The Company's corporate policy is founded on the principle of respect for the rights and legal interests of its shareholders and is conducive to smooth and effective functioning of the Company, including such areas as the increase in its equity value, the creation of new jobs and maintaining its financial stability and profitability.

The basis of successful operation and investment attractiveness of the Company is trust which exists between all the participants of corporate relations. The Company's corporate policy is founded on the principles of creating trust in relations pertaining to management of the Company.

Shareholders structure 31.12.2011

	Shareholders structure 31.12.2011	Shareholders structure 31.12.2010
Augment Investments Limited (Ordinary shares and GDR)	54.32%	54.32%
Free float, placed on	40.85%	45.68%
LSE (GDR)	27.56 %	27.56 %
RTS-MICEX (Ordinary shares)	13.29%	18.12%
Free float treated as treasury shares for IFRS purposes (hold by OJSC Pharmstandard-Leksredstva)	4.83%	
Total shares (1 Ordinary share = 4 GDR)	37,792,603 (100%)	37,792,603 (100%)

Dividend Policy

Dividend Policy is the Company's policy in the area of profit distribution, i.e. distribution of profit among its shareholders. Dividend policy is shaped by the Board of Directors. Depending on the Company's objectives, and the current / foreseeable economic situation, the Company's profit can be reinvested, retained as undistributed corporate profit or paid out as dividends. Dividend policy is a constituent part of the general financial policy of the Company aimed at optimisation of the ratio between utilised and capitalised profits to maximise the market value of the Company.

The decision about paying out dividends will be made at the annual shareholders General Meeting which will take place on 25.05.2012. The Board of Directors has expressed their recommendation to the General Meeting to pay out no dividends on ordinary shares for the financial year which ended on December 2011. This will allow the Company to retain earnings for possible M&A deals and development of biotech projects.

Annual General Meeting

The Annual General Meeting attended by all shareholders is the Company's highest decision-making body. The Company will announce the date and location of the General Meeting in a special press release. The Annual General Meeting takes place in the period from 2 to 6 months precisely after the end of a financial year. Shareholders (or a single shareholder) who own no less than 2% of voting shares of the Company, are entitled to include items into agenda of the Annual General Meeting and to put forward candidatures for the Board of Directors and the Audit Committee.

An Extraordinary General Meeting of shareholders is convened following a unilateral decision of the Company's Board of Directors, a request of the Company's Audit Committee and of shareholders (or a single shareholder) who own not less than 10% of the Company's shares on the date of putting forward their request.

An announcement about the decision to hold a General Meeting should be made not later than 30 days prior to the date it is convened. In some cases there may be a statutory requirement to make an announcement about a General Meeting no later than 70 days before it is convened. The sphere of competence of a shareholders' meeting, as well as the decision making procedures, are established by law and the Company's Charter.

Board of Directors

The Board of Directors has overall responsibility for the Company. The Board of Directors determines the Company's priorities and approves business-plans and feasibility studies for the Company's investment projects.

Its aim is to represent the interests of the Group's shareholders and to provide leadership and control in order to ensure growth and development of a successful business.

The Board of Directors consists of 11 members; 3 of them are independent (2011–2012):

Viktor Kharitonin	Chairman of Board of Directors, Executive Director.	Mr. Kharitonin has served as Chairman of Board of Directors since May 2006 and holds the position of the Company's Executive Director. Mr. Kharitonin graduated from Novosibirsk State University.
Igor Krylov	Board member, Chief Executive Officer.	Mr. Krylov has been Chief Executive Officer of the Company since 2006 and a member the of Board of Directors since May 2006. He has more than 16 years of experience in the pharmaceutical industry. Previously, Mr. Krylov held senior positions with Eli Lilly and Sanofi–Aventis. He graduated with honours from Kirov Military Medical Academy.

Elena Arkhangelskaya	Board member, Chief Financial Officer.	Ms. Arkhangelskaya has served as our Chief Financial Officer since 2006 and member of Board of Directors since June 2008. She has experience working in the pharmaceutical industry. Previously, she held senior positions at Eli Lilly. Ms. Arkhangelskaya graduated from the State Financial Academy and obtained master of business administration (MBA) degree.
Viktor Fedlyuk	Board member, Head of Legal Department.	Mr. Fedlyuk has served as our Head of Legal Department since 2006 and a member of the Board of Directors since June 2008. He has more then 12 years 11 of experience in the legal profession, and worked for JSC Sibneft from 1996 to 2003. Mr. Fedlyuk graduated from National Law Academy of Ukraine.
Sergey Dushelikhinsky	Board member, Chief Commercial Officer.	Mr. Dushelikhinsky has served as our Chief Commercial Officer since 2006 and member of the Board of Directors since June 2008. He has 14 years of experience in pharmaceutical sales. Previously, Mr. Dushelikhinsky worked for CJSC Veropharm and FTK Vremya. Mr. Dushelikhinsky graduated from Moscow Technical University.
Yegor Kulkov	Board member.	Mr. Kulkov has served as a member of our Board of Directors since May 2006. Mr. Kulkov has held a number of senior financial positions in various companies, and currently serves as General Director of Vita Realt. He graduated from Novosibirsk State University.
Pavel Mileyko	Board member, Assistant to the Executive Director.	Mr. Mileyko is Assistant to the Executive Director and has been a member of our Board of Directors since May 2006. Mr. Mileyko graduated from Novosibirsk State University.
Alexander Shuster	Board member.	Mr. Shuster has been a member of the Board of Directors since June 2011. He holds the position of Scientific Director of Masterclone CJS. He graduated from Chernigovsky State University.
Andrei Reus	Independent Board member.	Mr. Andrei Reus has been an independent member of the Board of Directors since June 2010. Mr. Reus is general director of "Oboronprom" United Industrial company and general director of "United Engine-Building Corporation "Managing Company"".
Ivan Tyryshkin	Independent Board member.	Mr. Tyryshkin has served as an independent member of our Board of Directors since October 2006. Since 2006, he has served as both Managing Director and General Director of LLC ATON. Currently, Mr. Tyryshkin is Chairman of OJSC «Rusgrain Holding» and is a member of the Board of Directors of OJSC "Rusgrain Holding". Mr. Tyryshkin graduated from Russian Academy of Economics.
Roman Goryunov	Independent Board member.	Mr. Goryunov has been an independent member of the Board of Directors since June 2008. Previously, he held executive positions at JSC RTS, and from August 2007 till December 2011 he was Chairman of NP RTS Stock Exchange Management Board. Since December 2011, he has been Senior Managing Director and First Deputy Chairman of the Board of JSC MMVB-RTS He graduated from St. Petersburg Technical University.

Management Board

The Management Board is a collegial executive body which performs its duties in the interest of the Company's shareholders, is governed by decisions of the shareholders' Annual General Meeting and of the Company's Board of Directors. The Management Board is responsible for the practical implementation of the Company's targets and objectives, its development strategy and policy, and conducts management of day-to-day business operations of the Company. The sphere of competence of the Management Board is determined by the Charter.

The main objectives of the Management Board are:

- to ensure high profitability of the Company's assets and to maximise profit from the Company's activities.
- to ensure the rights and legitimate interests of the Company's shareholders are safeguarded and protected;
- to develop the Company's corporate strategy;
- to implement the Company's financial and business policies, to make decisions regarding its current operations and to co-ordinate the work of its subdivisions;
- to improve performance of internal control and risk monitoring systems;
- to ensure high return on the Company's assets and to maximise its profits from business activities.

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

Igor Krylov	**Chief Executive Officer** Mr. Krylov has been Chief Executive Officer of the Company since 2006 and a member the of Board of Directors since May 2006. He has more than 16 years of experience in the pharmaceutical industry. Previously, Mr. Krylov held senior positions with Eli Lilly and Sanofi–Aventis. He graduated with honours from Kirov Military Medical Academy.
Pavel Mileyko	Mr. Mileyko is Assistant to the Executive Director and has been a member of our Board of Directors since May 2006. Mr. Mileyko graduated from Novosibirsk State University.
Olga Mednikova	Ms. Mednikova has served as our Chief Sales and Marketing Officer since 2006. She has more then 14 years experience working in the healthcare industry. Previously, Ms. Mednikova held senior management positions at Glaxo Welcome and IVAX (Galena). Ms. Mednikova graduated from Samara State Medical University and holds MD PhD degree.

Audit Committee

Members of the Audit Committee elected in 2011:

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

The main objective of the Audit Committee is the development of recommendations to be presented to the Board of Directors with respect to:

- evaluation of the candidates for the position of the Company's auditors;
- evaluation of the conclusion of the Company's auditor;
- evaluation of the internal control procedures of the Company and their efficiency, and development of proposals regarding their improvement.

Remuneration and Nomination Committee

Members of the Remuneration and Nomination Committee elected in 2011:

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

The Remuneration and Nomination Committee was set up to conduct preliminary discussions and drawing up of proposals to the Board of Directors regarding the issues which lie within the competence of the Board of Directors. The Remuneration and Nomination Committee's exclusive responsibilities are as follows:

- development of the principles and criteria for determining the level of remuneration of the members of the Board of Directors, members of the collegial executive body and of the person authorised to act as the issuer's sole executive body;
- preparation of proposals regarding the essential terms of agreements with members of the Board of Directors, members of the collegial executive body and the person authorised to act as the issuer's sole executive body;
- establishment of the criteria for the selection of candidates for the Board of Directors, the collegial executive body and the position of a person authorised to act as the issuer's sole executive body, as well as preliminary evaluation of such candidates;
- regular evaluation of the activity of the person authorised to act as the sole executive body (a Managing Body, a Manager) and of the members of the Company's collegial executive body, and preparation of proposals to be reviewed by the Board of Directors, regarding their reappointment.
- establishment of priority areas for the personnel policy of the Company and remuneration of the members of the Company's bodies of management and control, as well as of its top executives. Top executives are managers directly subordinate, according to their job description, to the Company's CEO.

WE CARE

Production

Pharmstandard comprises four modern pharmaceutical plants and a medical equipment and tools plant. Its production sites are situated all around Russia – in Bashkortostan, in the Kursk, Tomsk and Tyumen regions. Furthermore, at the beginning of 2011 the Company started pharmaceutical manufacturing in Ukraine.

Construction of new production facilities and installation of new equipment, as well as modernisation of existing facilities are carried out using modern materials, innovative technologies and equipment of leading European companies, such as Bosch, Marchesini, Killian, Fetta, IMA, BMT, Glut, Coster and Fovea.

Production Facilities 2011

Manufacture of pharmaceutical products

In 2011, the manufacture of pharmaceutical products in volume terms (number of packages) increased by 4.8% (66.6 thousand packages) and amounted to 1,460 million packages. All the production facilities of the company fully comply with Russian national standards, while six production lines at OJSC Pharmstandard-Leksredstva have already received certificates of compliance with the EU GMP standards. All the plants are expected to convert to EU GMP standards by 2014, according to the schedule approved by the company's management.

OJSC Pharmstandard-Leksredstva

CEO of OJSC Pharmstandard-Leksredstva:
Evgeniy Prohoda

OJSC Pharmstandard-Leksredstva (Kursk) is the biggest manufacturer of finished pharmaceutical products in the Central Black Earth Region and is one of the ten biggest pharmaceutical manufacturers in Russia. Its production capacity is more than 800 million packages per year. Pharmaceutical forms: tablets, aerosols, sprays, capsules, sachets, liquid forms. EU GMP certificates have been issued for six production lines.

In 2011, two new coaters for the manufacture of tablets were brought into operation. The increase in output of pharmaceutical products in 2011 by 18 million packages is attributable to this new development. In 2011, the total capacity of the plant to manufacture tableted products grew by 8% as compared to 2010. Bringing into operation a new sachet packaging machine, OMAG, led to the increase in production of Neosmectin® by 17%.

OJSC Pharmstandard-Tomskhimfarm

CEO of OJSC Pharmstandard-Tomskhimfarm:
Andrei Skorokhod

OJSC Pharmstandard-Tomskhimfarm (Tomsk) is the biggest manufacturer of finished pharmaceutical products in Western Siberia. The plant produces more than 50 finished pharmaceutical product names; dosage forms - tablets, solutions, aerosols. Production capacity is more than 300 million packages per year.

Following the installation and bringing into operation of a new filling line, SAM, in March 2011, the capacity for the manufacture of coated tablets increased by 25%, production of Formentin® (dosages: 850 ml and 1000 ml) and Pentalgin® (tablets No.4) began. The plant's total capacity to manufacture tablet dosage form products has increased by 5%.

OJSC Pharmstandard-UfaVITA

CEO of OJSC Pharmstandard-UfaVITA:
Vladimir Kreyman

OJSC Pharmstandard-UfaVITA (Ufa) is one of the biggest Russian pharmaceutical manufacturers. Itholds the leading position in the area of single and multi-vitamin production. Apart from vitamins, the plant manufactures a broad range of pharmaceutical products, including bio-engineered products: insulin (Biosulin®), growth hormone (Rastan®) and filmgrastim (Neipomax®). At present, the range of products includes 80 names. Production capacity is more than 200 million packages per year.

Following the installation and bringing into operation of a new filling line, SAM, in October 2011, the capacity for the manufacture of tablet dosage form products increased by 1,68 million packages a month, which means that the total capacity to manufacture tablet dosage form products has increased by 3%.

Know-how upgrades and technological parameter adjustments resulted in the increase of output capacity for lyophilic products by 15% as compared to a year earlier.

OJSC Pharmstandard-Biolek

CEO of OJSC Pharmstandard-Biolek:
Alexander Staschenko

OJSC Pharmstandard-Biolek (Kharkov, Ukraine) is a Top-20 Ukrainian pharmaceutical company and specialises in the production of immunobiological products, vaccines, serums, diagnostic products, nutrient mediums, blood products, hormonal, antiviral, antibacterial and enzymatic drugs.

OJSC Pharmstandard-Biolek's output capacity in 2011 was 10,1 million packages. During 2011, the following facilities were brought into operation: a finished product warehouse, a pharmacy warehouse, a secondary packaging section, a rabies vaccine

laboratory and a new water treatment section. Production facilities for homogenisation and filtration sterilisation at the section of liposomal products (using Microfluidics homogeniser) have been constructed and brought into operation. These developments have enabled the plant to increase its production capacity and to launch new types of products.

Production of medical equipment and tools

CEO of OJSC Tyumen Plant of Medical Equipment and Tools: **Alexander Nizovcev**

OJSC Tyumen Plant of Medical Equipment and Tools (TZMOI) is a leader in the market of steam sterilisers. This plant is the only one in Russia to manufacture cupboard sterilisers with chamber volumes from 400 to 700 litres. In 2011, industrial manufacturing of the following products began: modified collectors for purified water storage (volumes 25 and 50) with a relatively low production cost; a new product, Medical Waste Steriliser (SMO-10); and new hi-tech cupboard sterilisers (GPD-750).

A universal assembly device for assembling joints on the welding line was purchased and brought into operation at the plant - to ensure the highest quality of assembly and welding of joints without the need to produce new assembly devices for each new steriliser model. The process of transferring the production of parts from the automated line to CNC machine tools has began. This will lead to lower expenses for the running of the automated line and increase the equipment utilisation rate at the machinery section.

On June 5, 2011, OJSC Pharmstandard and a group of companies DGM announced the creation of Pharmstandard-Medtechnika LLC, for the purpose of boosting sales of medical equipment used for disinfection and sterilisation. OJSC Pharmstandard and DGM Trading Limited established Moldido Trading Limited to be the sole owner of Pharmstandard-Medtechnika LLC. The share of Pharmstandard in the project amounts to 75% and the share of DGM group of companies to 25%.

This table shows the utilisation level of production facilities with respect to the manufacture of pharmaceutical products

Production facility	Total floor space, m^2	Prodution form	Number of shifts	2010		2011		New facilities launched in 2011	% of the increase in output capacity
				Producion facility, in thousand packages	% of utilisation	Producion facility, in thousand packages	% of utilisation		
Pharmstandard-Leksredstva	14,900	Syrops & liquid forms	3	71 112	69%	75 929	62%		
		Tablets	3	602 059	53%	649 352	43%	May 2011	8%
		Sprays	3	14 964	95%	14 964	91%		
		Powders	3	8 966	30%	10 403	17%	July 2011	16%
		Capsules	3	82 877	75%	82 877	47%		
Pharmstandard-UfaVITA	5,850	Ampules	3	18 294	79%	17 079	65%		
		Frozen-dried preparation	3	4 945	58%	5 703	31%	July2011	15%
		Syrops & liquid forms	3	8 940	27%	-	0%		
		Tablets	3	149 093	54%	154 133	43%	October 2011	3%
		Vitamin bars (ferrohematogen)	3	35 482	69%	36 432	66%		
		Insulin	3	14 400	5%	14 400	7%		
Pharmstandard-Tomskhimfarm	29,000	Syrops & liquid forms	3	5 400	6%	5 400	6%		
		Tablets	3	355 993	35%	372 387	25%	March 2011	5%
		Sprays	3	9 600	15%	9 600	29%		
		Ointments	3	2 178	18%	2 178	26%		
Pharmstandard-Biolek	14,900	Syrops & liquid forms	3	955	51%	970	44%		
		Ampules	3	8 484	27%	8 623	24%		
		Frozen-dried preparation	3	537	33%	537	34%		
		Powders	3	25	34%	25	44%		
				1 394 304		**1 460 990**			**5%**

This table shows the utilisation level of production facilities for the manufacture of medical devices and tools

Name of manufactured product	2010				2011		
	Unit of measurement	Production facilites as at 31.12.2010	Actual output	Utilisation level of production facilities, %	Production facilities as at 31.12.2011	Actual output	Utilisation level of production facilities, %
Disposable syringes	items	276 000	169 173	61%	276 000	52481	19%
Steam sterilisers (capacity up to 100 l)	items.	9 600	3 133	33%	9 600	2937	31%
Steam sterilisers, 100 l	items	420	109	33%	420	120	29%
Water stills, water collectors	items	7 200	4 867	68%	7 200	4308	60%

Procurement

PHARMSTANDARD PROCURES AND SUPPLIES RAW MATERIALS, INCLUDING AUXILIARY MATERIALS AND PACKAGING, FOR THE PURPOSE OF MANUFACTURING ITS OWN AND THIRD PARTY PRODUCTS AT PRODUCTION FACILITIES OF THE PHARMSTADARD GROUP OF COMPANIES.

As at 31 December 2011, 420 types of raw materials had been purchased in the amount of RUR 6.1 billion, including active pharmaceutical ingredients (API) in the amount of RUR 5.2 billion. 72.3% of raw materials for pharmaceutical production are purchased primarily in China, Europe, India and in some other countries, because either most of these types of raw materials are not produced in Russia or, if they are, their quality does not comply with the requirements of international standards or they are not produced in sufficient quantity to meet our requirements.

The following table shows procurement structure for the purpose of manufacturing its own products:

Nomenclature	2010, %	2011, %
Raw materials	88.5%	86.3%
API	80.7%	80.8%
Other materials	7.8%	5.5.%
Auxiliary materials	0.2%	0.2%
Packaging	11.3%	13.5%
Total materials and supplies	**100.0%**	**100%**

In 2011, the US dollar assumed the role of the main currency of contract denomination and amounted to 66.7% (in 2010 it was 66.4%) in the currency structure.

Throughout 2011, the currency rates were subject to conflicting trends. For example, in 1Q2011 and 2Q2011 our experts registered a gradual loss in USD value, in relation to the Russian rouble, in 3Q2011 the rate of USD went up to RUR 32.52, and in 4Q2011 conflicting trends prevailed.

These fluctuations in USD and Euro rates did not contribute to any significant losses for the Company related to the procurement of raw materials.

The following table shows breakdown of procurement contracts for the purpose of manufacturing its own products by currency:

Currency	2010	2011
Euro	15.7%	12.8%
US Dollar	66.4%	66.7%
Russian rouble	17.9%	20.5%
Total	**100%**	**100%**

Selling API in the Russian market

In 2011, Pharmstandard continued the development of its business specialising in wholesale of API supplied directly by foreign manufacturers, primarily from China, India and Western Europe.

In 2011, RUR 358,7 million worth of API were sold in the Russian market, an increase of 32.1% vs 2010 (RUR 271,5). In 2011, the nomenclature of supplied API expanded from 59 to 86 names; about 114 contracts were signed.

TOP 10

List of API	Value, RUR, mln (non incl. VAT 10%)
Metamizole sodium	55.426
Paracetamol	23.628
Chloramphenicol	22.765
Omeprazole	18.153
Pancreatin	17.653
Rutin	14.498
Acetylsalicylic acid	12.490
Azithromycin dihydrate	12.476
Ascorbic acid	11.723
Verapamil hydrochloride	11.277

The development strategy for 2012:

- to increase the volume of sales;
- to improve the quality of Customer service by means of optimisation of paperwork and shipment of goods from warehouses;
- to increase the number of customers;
- to expand the range of goods;
- to monitor and control accounts receivable.

GMP

ALL THE PHARMACEUTICAL PRODUCING SUBSIDIARIES OF OJSC PHARMSTANDARD HAVE IMPLEMENTED A FULLY FUNCTIONING AND CONTINUOUSLY EVOLVING QUALITY CONTROL MANAGEMENT.

The current quality control management system has been developed and implemented in strict compliance to the requirements of the EU Directive 2003/94/EU, Russian manufacturing standards GOST R 52249-2009 (GMP) 'Rules for the Production and Quality Control of Pharmaceuticals ' and GOST R ISO 9001-2008 (ISO 9001-2008) 'Quality Management System. Requirements'.

In 2011, the Body responsible for certification of management systems inspected the following subsidiaries of the Company: OJSC "Pharmstandard-UfaVITA", 27-28 April 2011; OJSC "Pharmstandard-Leksredstva", 17 May 2011 and OJSC "Pharmstandard-Tomskhimfarm", 24 May 2011 and had their current certificates validated confirming their compliance with the requirements of the national standards of the Russian Federation GOST R ISO 9001-2008 (ISO 9001-2008) "Quality Management System. Requirements" and GOST R 52249-2009 (GMP) "Rules for the Production and Quality Control of Pharmaceutical Products".

This aspiration to comply with the standards of GMP is the prerequisite for our extending co-operation with companies in the EU and worldwide. In December 2011, seven production lines of OJSC Pharmstandard-Leksredstva received certificates of conformity with the standards of the EU Good Manufacturing Practice (EU GMP) outlined in the Directive 2003/94/EU. These EU GMP certificates are available to see in the EudraGMP database at the following link http://eudragmp.emea.europa.eu/

The main directions and objectives of the subsidiaries of OJSC Pharmstandard as regards the issues of quality, which have been officially adopted by the management, are reflected in the internal Quality Policy.

The system of quality management includes a set of measures which, applied systematically, ensures that the manufactured goods are compliant with the established normative requirements regarding their quality and possess the necessary consumer properties (quality, efficacy, safety). Quality of pharmaceuticals is defined as their conformity with all the registration requirements, production requirements (technology, production sites, personnel) and specification data. It is the main objective of the management of OJSC Pharmstandard to ensure that the manufactured pharmaceuticals comply with the quality requirements.

OJSC Pharmstandard has a system of document keeping which complies with the requirements of GMP, ISO. The documents of the quality management system contain principles and the mechanism of realisation of such principles in accordance with each chapter of Good Manufacturing Practice dedicated to a specific aspect of quality.

The objective of such a system is a timely provision to each subdivision of the enterprises of necessary up-to-date documentation which would enable them to organise the production processes in all their complexity and result in the production of high-quality, effective and safe pharmaceuticals.

All the measures concerning production, control and licensing are contained in such documentation.

All specialists working for the Company undertake compulsory GMP studies in leading Russian establishments which specialise in teaching pharmaceutical professionals the requirements of expedient production and control of pharmaceuticals on the basis of the best international practices. Pharmstandard's continuing success and its leading position in the Russian pharmaceutical market are secured by its highly skilled and competent personnel.

One of the elements of the quality management system is the quality service which has been set up at the enterprises of OJSC Pharmstandard. Control over the quality of raw materials and supplies, intermediate and bulk products and finished products is carried out by highly skilled specialists of the quality service according to the authorised methods and using modern high-value testing equipment. Only those raw materials and supplies are admitted for the production process which have passed the acceptance test and received permission to be used in production. Only those raw and other materials which have passed the initial test procedures and have been certified are allowed to be used for the manufacture of pharmaceutical products. During the production process the following monitoring procedures are carried out: monitoring of the main parameters of manufacturing processes, monitoring of the environmental parameters (microbiological air control, control of equipment, clothes, personnel's hands etc.)

and control of the quality of intermediate and bulk products. Finished products are only ready for sale when a representative of the quality control management confirms in writing that each batch of the finished product has been produced and undergone quality control in compliance with the requirements of the master file.

The quality service also undertakes investigation regarding product quality claims and complaints. Each claim and complaint is registered and investigated in accordance with the established procedures. On the basis of the investigation conclusions a plan of rectification and prevention measures is drawn up. The performance of such a plan is meticulously monitored, and the efficacy and performance of the undertaken rectifying and preventative measures is evaluated.

All the new processes, equipment, rooms, methods and systems are validated. Validation is an element of the system of quality control management and is an integral part of the entire process of development of a pharmaceutical product and the technology of its manufacturing.

Validation is a set of measures which result in documented confirmation that a certain established manufacturing procedure, certain control measures relating to the object of validation lead to a guaranteed expected quality of pharmaceutical product.

A system of internal audits which has been developed and implemented at the enterprises of the Company, is successfully functioning. Such audits are carried out by a group of competent specialists working at the enterprises.

The objective of the external and internal audits of manufacturers/suppliers of raw materials and supplies, of third-party contractors is verification of compliance of the manufacturing processes management with the requirements of GMP, ISO and with those of OJSC Pharmstandard as well as of compliance of product and services supply with a guaranteed, proper standard. The purpose of internal audits (self-audits) at the enterprises of OJSC Pharmstandard is to evaluate efficacy of the quality control management, to improve its performance and to determine further actions aimed at developing and improving it. External and internal audits are performed in accordance with annually drawn-up schedules and at regular intervals.

All the enterprises of OJSC Pharmstandard are subject to regular external audits both by the state bodies of the Russian Federation (Federal Service on Surveillance in Healthcare and Social Development

of the Russian Federation) and by independent European and Russian auditors.

Below is the list of certificates of compliance issued to OJSC Pharmstandard subsidiaries:

OJSC Pharmstandrd-Leksredstva:

- Certificate of compliance with EU GMP (Good Manufacturing Practice) outlined in Directive 2003/94/EU (1), ZVA/LV/2012/006H of 10.02.2012, valid till 08.12.2014.
- Certificate of compliance with GOST R 52249-2009 (GMP) 'Rules for the Production and Quality Control of Pharmaceuticals' OCM RU.04-DG24.4-027 of 27.05.2010, valid till 27.05.2013.
- Certificate of compliance with GOST R ISO 9001-2008 (ISO 9001:2008) 'Quality Management System. Requirements' ROSS RU.ИС11.K00589 of 27.05.2010, valid until 27.05.2013
- SGS certificate of compliance with ISO 9001-2008 «Development and Manufacture of Pharmaceutical Products» CH10/1354 of 01.06.2010, valid till 31.05.2013

OJSC Pharmstandard-UfaVITA:

- Certificate of compliance with GOST R 52249-2009 (GMP) 'Rules for the Production and Quality Control of Pharmaceuticals' OCM RU.04-DG24.4-029 of 03.06.2010, valid till 03.06.2013
- Certificate of compliance with GOST R ISO 9001-2008 (ISO 9001:2008) 'Quality Management System. Requirements' РОСС RU.ИС11.K00594 of 03.06.2010, valid till 03.06.2013
- SGS certificate of compliance with ISO 9001-2008 «Development and Manufacture of Pharmaceutical Products» CH10/1356 of 11.06.2010, valid till 10.06.2013

OJSC Pharmstandard-Tomskhimfarm

- Certificate of compliance with GOST R 52249-2009 (GMP) 'Rules for the Production and Quality Control of Pharmaceuticals' OCM RU.04-DG24.4-028 of 03.06.2010, valid till 03.06.2013
- Certificate of compliance with GOST R ISO 9001-2008 (ISO 9001:2008) 'Quality Management System. Requirements' РОСС RU.ИС11.K00593 of 03.06.2010, valid till 03.06.2013
- Certificate of compliance of pharmaceutical immunobiological product Imudon, tablets for dissolution in the mouth, with the normative requirements No. 0594517 of 29.02.2012 for pharmaceutical products manufactured before 01.08.2012
- SGS certificate of compliance with ISO 9001-2008 «Development and Manufacture of Pharmaceutical Products» CH10/1355 of 07.06.2010, valid till 06.06.2013

OJSC Tyumen Plant of Medical Equipment and Tools

- Certificate of compliance with the standard EN ISO 13485 (ISO 13485:2003) Medical Devices - Quality Management Systems - Requirements for Regulatory Purposes) No. 4115.48.01/0 of 20.10.2008, valid till 20.10.2013
- EU Certificate of compliance with the requirement of Annex V, section 3 of Directive 93/42/EEC (concerning medical devices, dated 14 June 1993) with respect to full quality assurance system, No. 4115.07.01/0 of 13.11.2008, valid till 13.11.2013

Company's development plan until 2015

OJSC Pharmstandard-Leksredstva:

Developments planned	Completed / In development
To complete, until the end of 2011, the construction of the 11,500-pallet warehouse for finished products. It will have sufficient storage space to rule out any possible shortage of such space for storing finished products, raw materials and packaging materials.	Completed.
Construction of production facilities for filling sprays and aerosol sprays: introducing new pharmaceutical products to be manufactured and increasing the output of manufactured products.	In development. Design and construction of the production facilities for filling sprays and is scheduled for 2012.
Construction of production facilities for asthma sprays which will lead to the increase in the output of sprays and aerosol sprays.	In development. Production of secondary packaging of asthma sprays is scheduled for 2012.
Acquisition of a universal tablet and capsule packaging line. Acquisition of such a line for packaging tablets and capsules will allow to increase the monthly output with respect to packaging tablets and capsules to 5,000 packages per months.	Completed.
Creation of a research centre: a complex comprising laboratory (new technologies department) and production facilities which will ensure scalability during the period of organising of new pharmaceuticals production, development of the production process of technologically complex pharmaceutical products, manufacture of small batches of expensive products.	In development. A concept plan of the research centre has been disigned.
Reconstruction of the warehouse building to create space for storing raw materials and packaging materials to increase space allocated to storage of raw and other materials and rule out shortages of warehouse space and to provide required storage conditions.	In development. A design has been drawn for the reconstruction of warehouse building No. 36 for storing raw materials and pachaging materials.
Reconstruction of the ventilation system at section No. 5 of prodution facility No. 3, acquisition and installation of packaging equipment for packing dosing syringes.	Scheduled for 2012
Upgrading the filling line at section No. 2 of production facility No. 1 for the manufacture of Codelac-Neo Drops	Scheduled for 2012
Reconstruction of the production facilities for the manufacture of tablets and coated tablets in production room No. 2 as well as of production of the facilities for the manufature of tablet dosage forms in production room No.3 and section No. 4 for the purpose of replacing equipment and increasing output.	In development.

OJSC Pharmstandard-Tomskhimfarm:

Developments planned	Completed / In development
Initial design of a new building, getting the design approved by the planning commission	Completed.
Design of a new building	In development.
Construction of a new building, installation of equipment in cleanrooms, including climate control equipment	In development.
Fitting high-tech equipment in production rooms, tranfer of manufacturing facilities from the tablet production floor at site No. 3 and from other sites.	In development..
Construction and setting into operation of a warehouse complex (1,500 pallets, 2,000 m^2) for storing finished products raw and other materials	
Initial design of a new building, getting the design approved by the planning commission	Completed.
Design for a new building	In development.
Construction of a warehouse storage	In development.
Reconstruction of floors 3, 4, 5 of the existing production building	In development.
Building structure survey at the tablet manufacturing floor	In development.
Design of laboratory and storage facilites, cleanrooms, climate control rooms.	In development.
Dismantling existing rooms	In development.
Reconstruction of floors 3, 4, 5	In development.
Installing equipment in the reconstructed rooms	In development.

OJSC Pharmstandard-UfaVITA:

Developments planned	Completed/ In development
Construction of a warehouse building with a 5862 m^2 storage space and 5346 pallet capacity for storing raw materials, packaging materials and finished products in GMP compliant conditions in order to rule out shortages of warehouse space and to provide required storage conditions.	Completed.
Construction of a section of injection preparations to increase the volume and range of produced injection products by 120 million ampoules per year.	In development. It is scheduled to become operational in July 2012.
Creation of a separate production facility for cytostatic products in order to increase the range of manufactured pharmaceutical products. The investment will amount to 40 million Euros.	In development. It is scheduled to become operational in June 2014.
Construction of a new, 10,000 m^2 building for the manufacture of finished pharmaceutical products with new production sections for: ■ manufacture of injection products in ampoules (including lyophilized preparations) on six newly-purchased specialised automatic lines for the production of pharmaceutical products in ampoules and bottles and their packaging; ■ production of bioactive additives; ■ production of sugar-coated tablets; ■ packaging; ■ research laboratories of the Central Laboratory department.	In development. It is scheduled to become operational in 1Q2015.
Furnishing the Quality Control Department, the Central Laboratory Department and the Validation Team of the Quality Control Department with upgraded devices and equipment for performing the necessary measurements.	Completed.

Pharmaceutical market in Russia

Pharmstandard is a leader of the retail sector of the Russian pharmaceutical market.

Russian company Pharmstandard is an indisputable leader of the Russian pharmaceutical industry. Pharmstandard manufactures more than 250 pharmaceutical products from most of the socially significant groups. About 100 products are included in the list of Essential and Vital Pharmaceuticals. The most popular Pharmstandard products have become a permanent feature in the medicine cabinets of Russians. Among them are Arbidol®, Complivit®, Pentalgin®, Flucostat®, Amixin® and Afobazol®.

Pharmaceutical Market in Russia

THE VOLUME OF THE PHARMACEUTICAL MARKET IN RUSSIA IN 2011, AMOUNTED TO RUR 704.2 BILLION (IN RETAIL PRICES) AND RUR 5.54 BILLION PACKAGES. IN COMPARISON TO 2010, THE MARKET GREW IN VALUE TERMS AND SLIGHTLY DECREASED IN VOLUME TERMS.

In value terms, the market grew slightly, by 6.0%(RUR 40.0 billion). This is the lowest figure in recent years (growth before 2011 averaged over +25% annually).

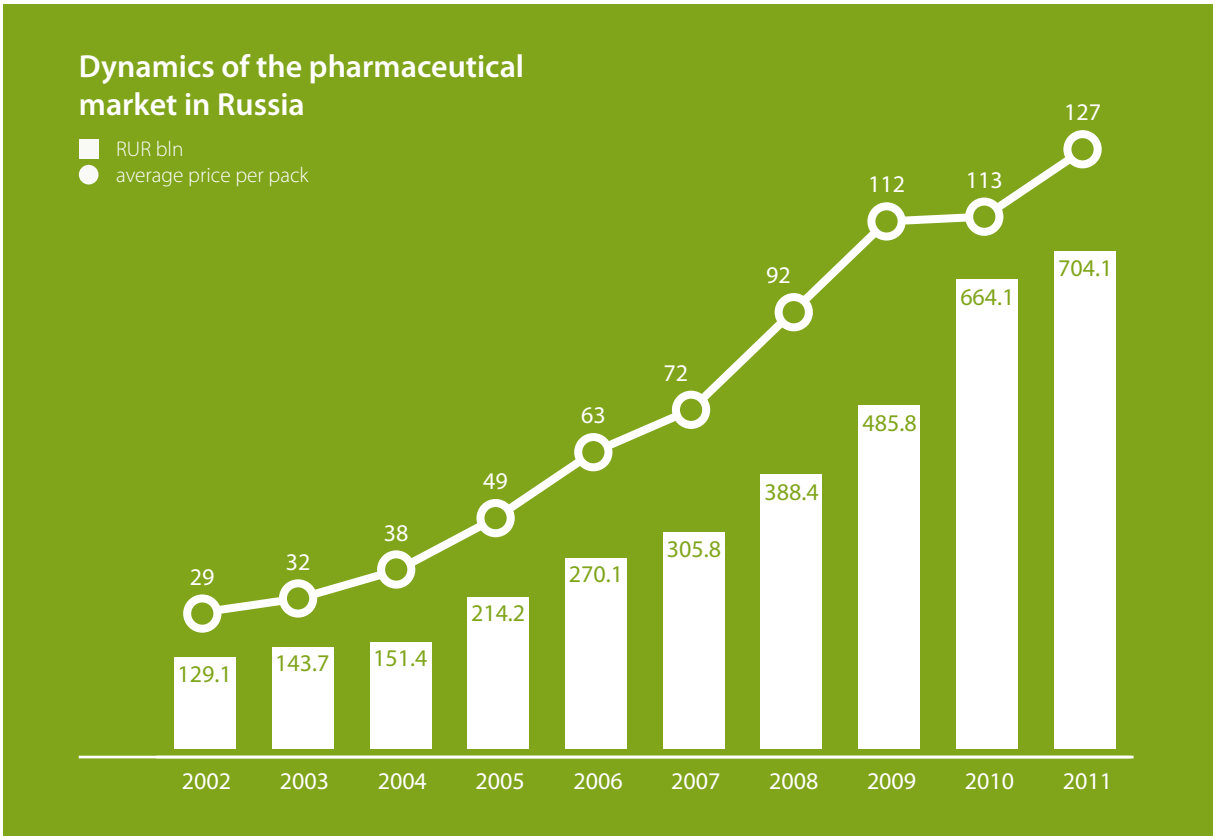
The rapid growth in consumption of pharmaceutical products which had been evident previously (in 2009-2010) has slowed down. This is related to the dynamics of prices which have experienced a transition from stagnation to growth. It is worth mentioning that, in 2010, maximum selling prices were introduced for Vital and Essential Products. This made Vital and Essential Products more accessible (their consumption has been growing, primarily in volume terms, and as a consequence, in value terms too). It is these products that have been the growth drivers. In 2011, the share of Vital and Essential Products in the market structure amounted to 51.8% in value terms as compared to 55.5% in 2010.

All information is based on the data of the Market Research Centre Pharmexpert

During the 2011/2010 period, the role of market drivers in value terms went from Vital and Essential Products to those products which are not included in the list. However, this was caused primarily by the increase in prices of these products. There are no figures reflecting this dynamics in relation to 2010 in volume terms.

In 2011, the average price for a pharmaceutical product package amounted to RUR 127, which represented an increase of 12.2% vs the previous year. The prices of those products which do not have a maximum markup level in the distribution network from the manufacturer to the consumer, grew by 16.1%, with an average package price of RUR 116. This leads us to the conclusion that the main factor affecting the market dynamics in 2011, was the price factor.

With respect to various market segments, the picture is more diverse. For instance, the retail segment of the market, exhibited a continuous consumption growth in value terms, due to the increase in consumption in volume terms, which is a good indicator



of the potential and of likely scenarious of development of this segment and of the Russian pharmaceutical product market as a whole.

In 2011, OJSC Pharmstandard came third in the whole of the pharmaceutical market including all the pharmaceutical manufacturers. It is worth noting that its market share in comparison to 2010, did not change and amounted to 3.5%. However, from the point of view of product consumption in volume terms, OJSC Pharmstandard is a leader with a market share of 8.5% (10.1% in the commercial segment, which means that each 10th pharmaceutical product package bought by a consumer in Russia, has been manufactured by OJSC Pharmstandard).

Structure of the pharmaceuticals market in Russia

The pharmaceuticals market in Russia consists of three segments: Retail Segment (consumer spending); Hospital Segment and the FRP: Federal Reimbursement Programme (Provision of Essential Pharmaceutical Products, seven costly diseases and etc programmes). Despite the varied behaviour exhibited by the segments, there were no significant changes in the market structure in 2011 as the Retail Segment played the dominant role while the remaining segments contributed a smaller share to the overall volume of sales.

The volume of the retail segment in value terms in 2011 amounted to RUR 462.2 billion which represented 65.6% of the market share and a growth of +14.2% vs 2010 (in 2010 the volume was RUR 404.8 billion and its market share was 61%). In 2011, the retail segment's share of the market in volume terms was 81.8% (4.5 billion packages) representing an increase of +3.1% vs 2010 (the volume in 2010 was 4.4 billion packages and the market share was 75%).

The hospital segment was second in significance in terms of volume with a share of 23.3% in value terms. In 2011, its volume amounted to RUR 164 billion representing a decrease of -7.7% vs 2010. The share of this segment in volume terms was 16.5% (about 914 million packages).

It should be noted that in 2011, the transparency of hospital procurement improved dramatically, due to the introduction of electronic trading systems at all levels, which made it possible to evaluate the volume of this segment with a much higher precision. The significant discrepancy between the current figures for this segment, and consequently for the whole market, and the figures for the previous years is attributable to this factor. The hospital segment was significantly undervalued.

The FRP programme segment practically did not change in volume terms in 2011 and showed a slight decrease of -4.5% as compared to 2010.

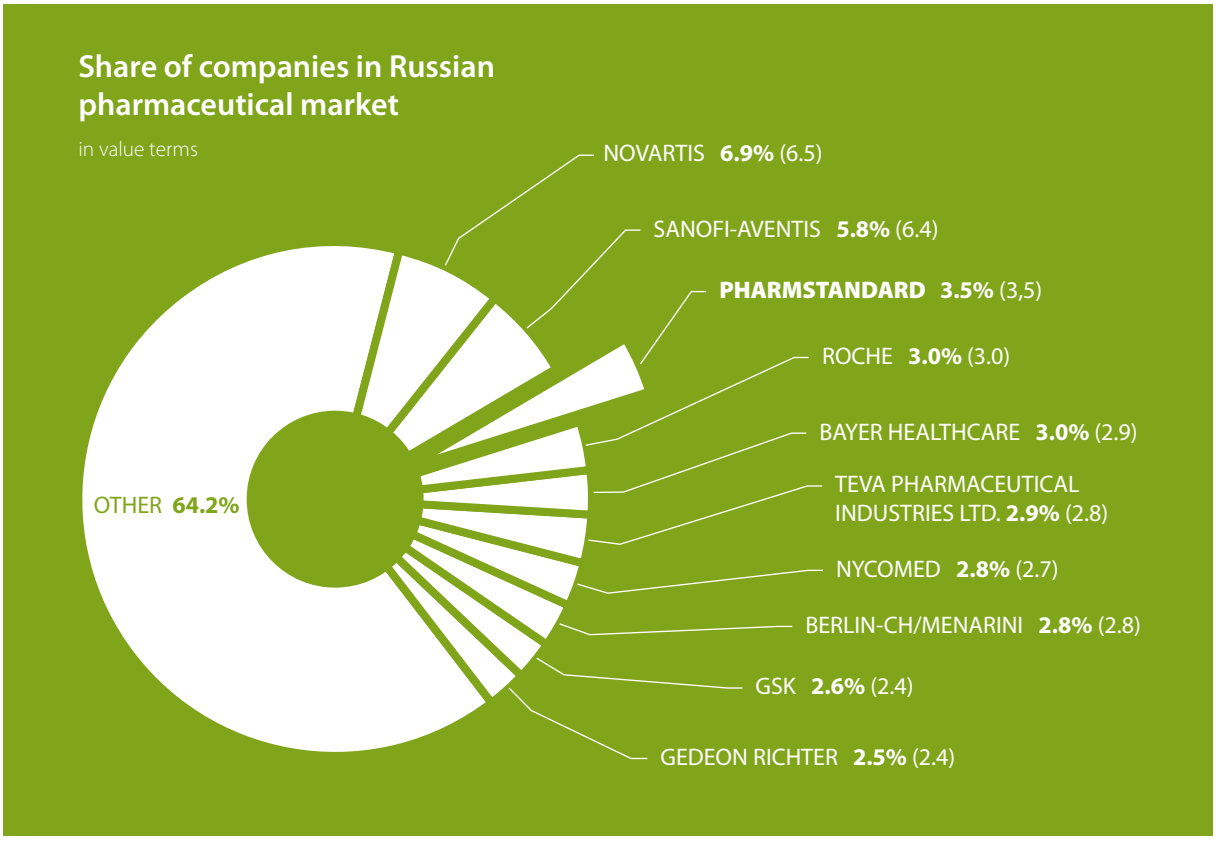


Table 1 Structure and dynamics of the pharmaceutical market in Russia by segments (in value terms)

bln RUR	2010		2011		11/10
Retail	404.8	61.0%	462.2	65.6%	+14.2%
Hospital	177.7	26.8%	164.0	23.3%	-7.7%
FRP	81.6	12.3%	77.9	11.1%	-4.5%
Total Market	**664.1**	**100.0%**	**704.2**	**100.0%**	**+6.0%**

Table 2 Structure and dynamics of the pharmaceutical market in Russia by segments (in volume terms)

bln Units	2010		2011		11/10
Retail	4.39	75.0%	4.53	81.8%	+3.1%
Hospital	1.37	23.4%	0.91	16.5%	-33.4%
FRP	0.09	1.6%	0.09	1.7%	+0.8%
Total Market	**5.86**	**100.0%**	**5.54**	**100.0%**	**-5.5%**

Table 3 Structure and dynamics of the pharmaceutical market in Russia by segments (by price per package, RUR)

Price	2010	2011	11/10
Retail	92.1	102.0	+10.7%
Hospital	129.4	179.5	+38.6%
FRP	888.9	842.4	-5.2%
Total Market	**113.3**	**127.2**	**+12.2%**

If we analyze the market segments by manufacturers of pharmaceutical products, we will not see any significant changes in the structure: the share of domestic companies amounts to 24% in value and to 62% in volume terms.

Table 4 Structure and dynamics of the pharmaceutical market in Russia by manufacturing companies (in value terms)

bln RUR	2010		2011		11/10
Import	491.7	74.0%	527.4	74.9%	+7.3%
Domestic	161.8	24.4%	168.0	23.9%	+3.8%
Total Market	**664.1**	**100.0%**	**704.2**	**100.0%**	**+6.0%**

Table 5 Structure and dynamics of the pharmaceutical market in Russia by manufacturing companies (in volume terms)

bln Units	2010		2011		11/10
Import	1.93	32.9%	1.95	35.3%	+1.4%
Domestic	3.80	64.8%	3.43	62.0%	-9.7%
Total Market	**5.86**	**100.0%**	**5.54**	**100.0%**	**-5.5%**

Some dynamics is traceable in the prescription (Rx) and non-prescription (OTC) medications segments: the share of the Rx products in 2011 amounted to 65.9% in value and 39.2% in volume terms and exhibited a tendency for decrease. Nevertheless, the situation is not so uniform across the segments, and in the retail segment we see that, to the contrary, Rx products are increasing their share, i.e. they are growing faster than OTC products which is especially true for OTC products included in the list of Vital and Essential Products.

Table 6 Structure and dynamics of the pharmaceutical market in Russia in relation to Rx and OTC products (in value terms)

bln RUR	2010		2011		11/10
OTC	217.9	32.8%	240.2	34.1%	+10.3%
Rx	446.2	67.2%	463.9	65.9%	+4.0%
Total Market	**664.1**	**100.0%**	**704.2**	**100.0%**	**+6.0%**

Table 7 Structure and dynamics of the pharmaceutical market in Russia in relation to Rx and OTC products (in volume terms)

bln Units	2010		2011		11/10
OTC	3.36	57.4%	3.37	60.8%	+0.1%
Rx	2.50	42.6%	2.17	39.2%	-13.1%
Total Market	**5.86**	**100.0%**	**5.54**	**100.0%**	**-5.5%**

In 2011, just like in 2010, the share of VEP in value terms decreased and amounted to 51.8%. At the same time, in volume terms, the change amounted to -2.4% of market share (the current figure is 47.3%). And in the retail segment we are observing the increase in the share of Vital and Essential Products in volume terms.

Table 8 Structure and dynamics of the pharmaceutical market in Russia in relation to non-VEP and VEP (in value terms)

bln RUR	2010		2011		11/10
non-VEP	295.7	44.5%	339.7	48.2%	+14.9%
VEP	368.4	55.5%	364.5	51.8%	-1.1%
Total Market	**664.1**	**100.0%**	**704.2**	**100.0%**	**+6.0%**

Table 9 Structure and dynamics of the pharmaceutical market in Russia in relation to non-VEP and VEP (in volume term)

bln Units	2010		2011		11/10
non-VEP	2.95	50.4%	2.92	52.7%	-1.1%
VEP	2.91	49.6%	2.62	47.3%	-10.0%
Total Market	**5.86**	**100.0%**	**5.54**	**100.0%**	**-5.5%**

Table 10 Structure and dynamics of the pharmaceutical market in Russia in relation to non-VEP and VEP (by price per package, RUR)

Price	2010	2011	11/10
Non-VEP	100.2	116.4	+16.1%
VEP	126.7	139.2	+9.9%
Total Market	**113.3**	**127.2**	**+12.2%**

All information is based on the data of the Market Research Centre Pharmexpert

Retail segment

The retail segment represents the major share of the pharmaceutical market in Russia. In 2011, it amounted to 65.6% in value and to 81.8% in volume terms.

The retail segment made the biggest contribution (RUR 57.4 billion) to the overall market growth in 2011 (RUR 40.1 billion).This means that it was the only one segment with positive dynamics in 2011. It is significant that the gain did not only compensate for the decrease in budget funds (the hospital segment and the FRP programme) but also made a considerable contribution on top of that. For this reason, this retail segment was the only market growth driver both in value +14.2% and in volume terms +3.1%.

Unlike in the previous period, 2010/2009, when we observed a decreased in retail prices in all segments of the retail market (which was caused by two factors: state price regulation for the products from the VEP list and the natural price reduction, as compared to 2009, following the increase in prices at the time of the economic crisis), the 2011/2010 period was characterised by a shift in the dynamics, from price stagnation to growth. On average, prices in each segment grew almost by 10% (the minimum increase of +5% in the VEP segment and the maximum increase of +14% for products not included in this list). However, it is important to mention that the reason for the observable increase of average prices in various segments differ considerably. For example, structural changes taking place in the segment of Vital and Essential Products, make these products more accessible, including those which are more expensive. This, in turn, leads to growth in consumption in volume terms, which pushes the average price for the segment upward. The factor analysis of price increases in the non-VEP segment shows that the contribution of organic price growth amounted to about 50%.

If we look at other segments (OTC/Rx, Imported/Domestic), we can see that - as a result of structural changes in the consumption of pharmaceutical products - they also experienced an increase in average prices; while the impact of organic price growth was <30%. This means that products are becoming more affordable and that the policy of price control produced, undoubtedly positive, results.

In 2011, we observed an identical level of growth in consumption in volume terms in all constituent segments of the retail market. It is especially true for the segment of Rx products (+8%) and for the segment of Vital and Essential Products (+7).

If we analyze the situation in this segment by therapeutic category, we shall see that in 2011 it was essentially identical with that in 2010. For instance, the average growth in the TOP-5 categories (their shares in value and in volume terms are respectively 69% and 71%) was 13.4% (from +11% to +15%) as compared to 2010 in value terms and +3% in volume terms.

Dynamic of the average retail price in Russia, by sectors of the retail segment of the pharmaceutical market by price per package, RUR

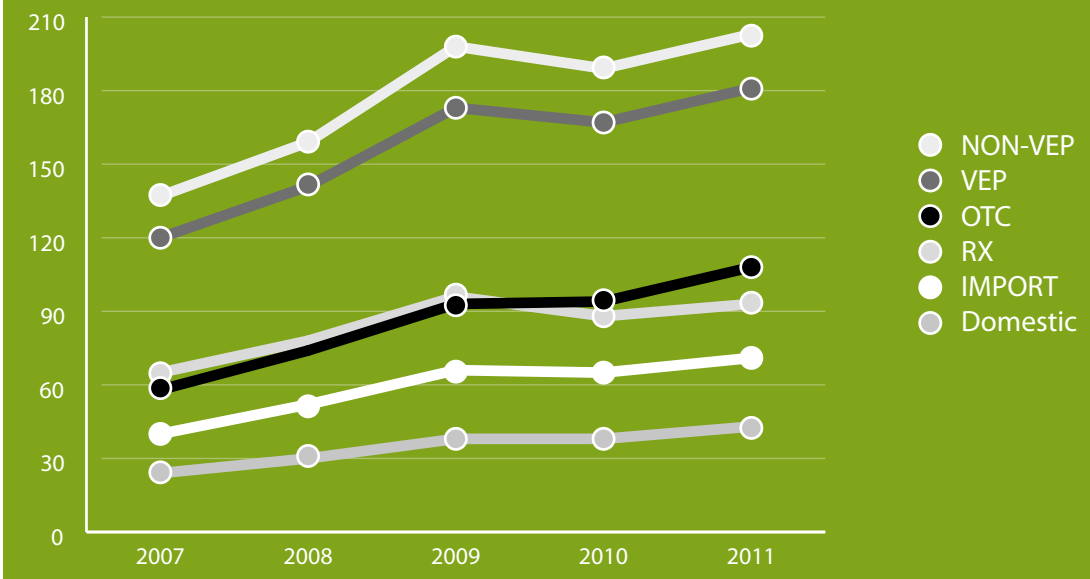


Table 11 Structure and dynamics of the pharmaceutical market in Russia in relation to the anatomical-therapeutic categories (in value terms)

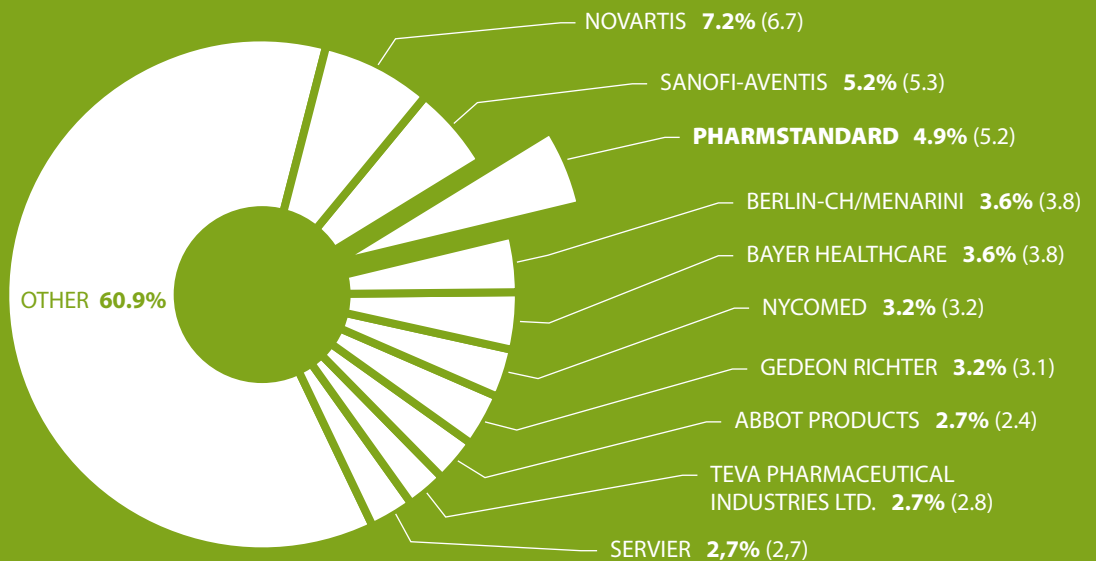
RUR bln	2010		2011		11/10
A - ALIMENTARY TRACT AND METABOLISM	76.8	19.0%	85.6	18.5%	+11.4%
R - RESPIRATORY SYSTEM	68.3	16.9%	77.6	16.8%	+13.7%
C - CARDIOVASCULAR SYSTEM	59.8	14.8%	68.5	14.8%	+14.5%
N - CENTRAL NERVOUS SYSTEM	40.6	10.0%	46.8	10.1%	+15.3%
G - GENITO-URINARY SYSTEM AND SEX HORMONES	35.1	8.7%	39.1	8.5%	+11.4%
OTHER (11 ATC)	124.2	30.7%	144.6	31.3%	+16.4%
TOTAL	**404.8**	**100.0%**	**462.2**	**100.0%**	**+14.2%**

Table 12 Structure and dynamics of the pharmaceutical market in Russia in relation to the anatomical-therapeutic categories (in volume terms)

Units bln	2010		2011		11/10
A - ALIMENTARY TRACT AND METABOLISM	0.89	20.3%	0.89	19.7%	+0.3%
R - RESPIRATORY SYSTEM	0.77	17.4%	0.79	17.5%	+3.4%
C - CARDIOVASCULAR SYSTEM	0.48	11.0%	0.51	11.2%	+4.9%
N - CENTRAL NERVOUS SYSTEM	0.89	20.2%	0.91	20.0%	+1.9%
G - GENITO-URINARY SYSTEM AND SEX HORMONES	0.11	2.5%	0.11	2.5%	+3.2%
OTHER (11 ATC)	1.26	28.6%	1.32	29.1%	+5.0%
TOTAL	**4.39**	**100.0%**	**4.53**	**100.0%**	**+3.1%**

All information is based on the data of the Market Research Centre Pharmexpert

Share of companies in the retail segment of the pharmaceutical market in Russia measured by sales



Thus, it is clearly follows from the above that the influence of price fluctuation on consumption, is a tendency and is common across the retail segment of the market.

According to the results of 2011, the Company holds the third place in the retail segment with a share of 4.9%. This change in the Company's position, from the second to the third place, was due to the fact that the first position in 2011 is occupied by Novartis and Sandoz as a consolidated entity (while in the previous periods, these companies submitted separate retail audits; their positions in the audit a year earlier had been Nos.9 and 5 respectively).

Two of the Company's pharmaceutical products have been in the TOP-10 bestselling brands of the retail segment: Arbidol® and Pentalgin®. It is worth noting that Arbidol® has been in the leading position for the last six years. Pentalgin® remained in the eighth position.

Table 13 TOP-10 brands of the retail segment
(in value terms)

	Brand name	Retail sales in 2011, RUR bln
1	**Arbidol**	5.7
2	**Essentiale**	4.7
3	**Actovegin**	4.0
4	**Viagra**	3.8
5	**Concor**	3.5
6	**Nurofen**	3.4
7	**Linex**	3.3
8	**Pentalgin**	3.2
9	**Theraflu**	3.1
10	**Alflutop**	2.8

The TOP-20 domestic manufacturers' brands of the retail segment include eight Pharmstandard products: Arbidol® (No.1), Pentalgin® (No. 2), Complivit® (No. 8), Terpincod® (No.14), Codelac® (No. 15), Afobazol® (No. 17), Amixin® (No. 19) and Flucostat® (No. 20).

Table 14 TOP-20 domestic manufacturers' brands of the retail segment
(in value terms)

	Brand name	Retail sales in 2011, RUR bln
1	**Arbidol**	5.7
2	**Pentalgin**	3.2
3	**Anaferon**	2.4
4	**Mexidol**	2.3
5	**Actovegin**	2.2
6	**Preductal**	1.9
7	**Viferon**	1.8
8	**Complivit**	1.6
9	**Antigrippin**	1.6
10	**Mydocalm**	1.3
11	**Cortexin**	1.2
12	**Kagocel**	1.1
13	**Reduxin**	1.1
14	**Terpincod**	1.1
15	**Codelac**	1.1
16	**Essliver**	1.0
17	**Afobazol**	1.0
18	**Grippferon**	0.9
19	**Amixin**	0.9
20	**Flukostat**	0.9

If we analyze the Company's portfolio from the point of view of its presence in the market, we shall see that is represented virtually in all significant therapeutic categories of the retail segment. The Company's products are present in 108 anatomical-therapeutic categories (ATC3) out of 289 (ATC3). These categories' share of the retail segment is 74% in value terms, and in volume terms it is 88%. The share of the Company in the total of these segments is different from the share of the Company in the whole of the retail segment. In 2011 the share of Pharmstandard in these 108 competitive therapeutic categories amounted to 6.7% in value terms and 11.5% in volume terms. This means that the Company's portfolio of pharmaceutical products has a significant representation in the most important categories of the retail segment of the pharmaceutical market.

Forecast. Retail Segment 2012

The results of 2011 indicate that the tendency of consumption increase is the dominant driving factor of the market growth, primarily due to such increase in the retail sector. This increase accompanies structural changes in consumption with a shift towards the products with stable or decreasing prices. Thus, in 2011, the transitional period tendency observed in 2010 continued: before the transition began, the main factor of growth had been increasing prices; as the situation developed, the role of the main factor moved to the increase in consumption; and at the end of this stage, both factors - the price and consumption increase - are going to be at work. It is important to bear in mind that the price factor will be mainly affected by a structural shift in consumption, not by an actual growth of average prices.

As we noted in the previous annual reports (2009 and 2010), one of the main factors influencing growth of the pharmaceutical market, will be the increase in consumption of medicines in volume terms. The tendency of increasing consumption with respect to pharmaceutical products that surfaced in 2010 will continue in 2011: the increase in consumption of pharmaceutical products will become a long-term foundation of further growth of the Russian pharmaceutical market. It would be reasonable to suggest that in future, the rate of market growth, owing to the increasing consumption of pharmaceuticals, may be more significant.

All information is based on the data of the Market Research Centre Pharmexpert

Review of the Company's product portfolio

General review

As at 31.12.2011, the list of pharmaceutical products sold by the Company included 250 items.

The Company's portfolio is diversified and is represented in 108 anatomical therapeutic chemical groups accounting for 37% of their total number (ATC groups of the third level). The anatomical therapeutic chemical groups in which the Company's pharmaceutical products are represented, account for 74 % of the total pharmaceutical market in value terms and 88% of the market in volume terms.

The TOP-10 Pharmstandard products occupy key positions in their respective groups: Arbidol® and Amixin® (J05B Antivirals, excluding anti-HIV products), Pentalgin® (N02B Non-narcotics and anti-pyretics), Complivit® (A11A Multivitamins with minerals), Terpincod® and Codelac® (R05D Antitussives), Flucostat® (J02A Systemic agents for fungal infections), Afobazol® (N05C Tranquillisers) and Corvalol (N05B Hypnotics/Sedatives), Phosphogliv® (A05B Hepatic protectors, lipotropics).

In 2011, two brands, Arbidol® and Pentalgin® were in the TOP-15 brands as per volume of sales in the whole of the pharmaceutical market in Russia, and in TOP-10 in the retail segment.

Nine of the Company's brands were included in the TOP-25 for domestically manufactured products: Arbidol®, Pentalgin®, Complivit®, Flucostat®, Codelac®, Amixin®, Phosphogliv®, Afobazol® and Terpincod®.

The following segments of the pharmaceutical market are of prime importance for Pharmstandard: J05 Antivirals for systemic use, N02 Analgesics, R05 Cough and cold preparations, A11 Vitamins, N05 Psycholeptics, J02 Systemic agents for fungal infections, A05 Cholagogues and hepatic protectors, A07 Antidiarrhoels, oral electrolyte repacers and intestinal anti-inflammatories. In 2011, just like in 2010, growth continued in all segments, except for Systemic Antivirals, which was due to the absence of flu and cold pandemic during the final months of 2011.

Results 2011

Strategy 2011

Depending on the registration status and the type of retail in pharmacies, the portfolio of the Company is divided into Over-the-Counter Products (OTC) and Prescription Products (Rx). The Company's portfolio also includes products which are sold under trade names and INN. In 2009, the annual report included TPP (third party products) as a separate group. This group of products has also been included in the 2011 report, with a number of additional positions.

The Company's product portfolio, as in previous years, is divided into two groups depending on the mode of promotion: products in the active stage of promotion, which generate most of the growth for the Company, and products which have reached the level of stable sales and consumption and are not being promoted.

Branded products which are in the active stage of promotion, represent the main element of the pharmaceutical business of the Company, i.e. 85%. This segment includes:

- Those brands which form the current basis of sales (the most significant products with respect to sales in value terms);
- The brands which generate growth in value terms ("the drivers of growth", both new products and products with a history of presence in the Russian market).

The purpose of our strategy of increasing sales through promotion of branded products is to maintain the volume of their sales and to support positive sales trends. In 2011, the main means of achieving these goals in this group of pharmaceutical products, were:

- Maintaining the dominant position in terms of "quality" and / or "quantity" of the target audience exposure to advertising;
- Expansion of the current brands' sales through increasing the share of sub-brands or new SKU which attract new customers.

Among these brands are such leading brands as Arbidol®, Pentalgin®, Complivit®, Codelac®, Flucostat®.

As for the portfolio of products which made a considerable contribution to the increases in sales ("growth drivers") in 2011, below are the key tactical elements of our approach with respect to these products:

- Development and launch of new Company's products, including through acquisition of third party brands;
- Active investment approach which insures taking over a larger market share;
- Expansion of the target audience and into new therapeutic sub-groups;
- Expansion of the market for such products (through working with the end consumer, using the federal target programmes etc.).

Among these brands are Acipol®, Afobazol®, Phosphogliv®, Rastan®, Biosulin®, Combilipen®.

Last year the Federal Reimbursement Programme (FRP) played a big role in the Company's strategy of increasing the share of Rx brands in its sales structure. In 2011, the Company actively participated in the Open auctions with respect to 7 nosologies* and other federal programmes organised by the Ministry of Healthcare and Social Development of the Russian Federation for the purpose of meeting demand of Russian citizens in expensive medicines. Most Rx Company products and the third party products are sold through these programmes.

Structure and review of the Company's product portfolio

In 2011, Pharmstandard's total revenue from sales of pharmaceutical products grew by 41.9% and amounted to RUR 42,113.8 million, an increase of RUR 12,427.2 million vs RUR 29,686.6 million in the previous year. The share of sales in the Company's total revenue amounted to 98.2%. In the overall structure of sales, the share of organic pharmaceutical products accounts for 45.7%, the share of TPP for 51.6%, and other products for 0.9%. Pharmstandard's revenue from sales of medical equipment amounted to 1.8% of the Company's overall sales. Revenue gain in 2011 (+RUR 12,427.2 million) more than doubled in relation to the figure for the previous year (+RUR 5,649 million).

Sales of pharmaceutical products (including TPP) amounted to 42.3% or RUR 12,294.1 million. Total sales amounted to RUR 41,350.2 million.

All information is based on the Company's data and the data of the Market Research Centre Pharmexpert

The table below shows the Company's sales results in 2011 (including TPP):

SALES 2011	2011		2010		Growth 2011/ 2010	
	RUR mln	% of total sales	RUR mln	% of total sales	RUR mln	%
Pharmaceutical products	41,350.2	96.9%	29,056.1	97.9%	12,294.1	42.3%
Organic products	19,236.9	45.1%	18,875.3	63.6%	361.6	1.9%
OTC	15,438.6	36.2%	15,581.1	52.5%	-142.5	-0.9%
Branded	13,270.5	31.1%	13,339.0	44.9%	-68.5	-0.5%
Non-branded	2,168.1	5.1%	2,242.1	7.6%	-74.0	-3.3%
Rx	3,798.2	8.9%	3,294.2	11.1%	504.0	15.3%
Branded	3,411.4	8.0%	2,806.9	9.5%	604.5	21.5%
Non-branded	386.8	0.9%	487.3	1.6%	-100.5	-20.6%
TPP	21,726.0	50.9%	9,893.8	33.3%	11,832.1	119.6%
Velcade	3,596.4	8.4%	3,838.2	12.9%	-241.7	-6.3%
Coagil	1,707.3	4.0%	1,799.5	6.1%	-92.2	-
Mildronate	1,071.8	2.5%	1,211.7	4.1%	-139.8	-11.5%
Prezista	1,243.6	2.9%	942.5	3.2%	301.1	-
Pulmozyme	1,612.1	3.8%	610.2	2.1%	1,001.9	164.2%
Irs-19, Imudon	1,312.6	3.1%	533.5	1.8%	779.1	146.0%
Mabthera	8,239.3	19.3%	0.0	0.0%	8,239.3	-
Reduxin	1,459.5	3.4%	490.3	1.7%	969.2	197.7%
Other TPP	1,483.3	3.5%	467.9	1.6%	1,015.4	217.0%
Other sales - substances	387.4	0.9%	287.0	1.0%	100.3	35.0%
Sales of medical equipment and disposables	763.6	1.8%	630.5	2.1%	133.1	21.1%
Total sales of group of companies Pharmstandard	**42,113.8**	**98.7%**	**29,686.6**	**100.0%**	**12,427.2**	**41.9%**
PJSC Biolek (Ukraine)	540.1	1.3%	0.0	0.0%	541.7	-
Total sales of group of companies Pharmstandard including PJSC Biolek	**42,653.9**	**100.0%**	**29,686.6**	**100.0%**	**12,968.9**	**43.7%**

Organic sales growth (excluding TPP) amounted to 2.4% or RUR 461.9 million and total sales amounted to RUR 19,624.2 million.

This table shows the Company's organic sales in 2011 (excluding TPP):

SALES 2011 EXCLUDING TPP	2011		2010		Growth 2011/ 2010	
	RUR mln	% of total sales	RUR mln	% of total sales	RUR mln	%
Pharmaceutical products	19,624.2	93.8%	19,162.3	96.8%	461.9	2.4%
Organic products	19,236.9	91.9%	18,875.3	95.4%	361.6	1.9%
OTC	15,438.6	73.8%	15,581.1	78.7%	-142.5	-0.9%
Branded	13,270.5	63.4%	13,339.0	67.4%	-68.5	-0.5%
Non-branded	2,168.1	10.4%	2,242.1	11.3%	-74.0	-3.3%
Rx	3,798.2	18.1%	3,294.2	16.6%	504.0	15.3%
Branded	3,411.4	16.3%	2,806.9	14.2%	604.5	21.5%
Non-branded	386.8	1.8%	487.3	2.5%	-100.5	-20.6%
Other products - substances	387.4	1.9%	287.0	1.5%	100.3	35.0%
Sales of medical equipment and disposables	763.6	3.6%	630.5	3.2%	133.1	21.1%
Total sales of group of companies Pharmstandard	**20,387.8**	**97.4%**	**19,792.8**	**100.0%**	**595.0**	**3.0%**
PJSC Biolek (Ukraine)	540.1	2.6%	0.0	0.0%	541.7	-
Total sales of group of companies Pharmstandard including PJSC Biolek	**20,928.0**	**100.0%**	**19,792.8**	**100.0%**	**1,136.7**	**5.7%**

The main reason for the slowing down of the growth of organic sales was the situation with Arbidol® due to falling consumption of anti-viral and immunomodulating pharmaceutical products caused by the absence of flu pandemic during 2011. This is applicable to all participants of the pharmaceutical market in Russia without exception.

If we review organic sales structure and sales dynamics of pharmaceutical products excluding TPP and Arbidol®, we shall arrive at a more accurate understanding of the figures.

All information is based on the Company's data and the data of the Market Research Centre Pharmexpert

The table below shows organic sales of the Company for 2011 (excluding TPP and sales results of Arbidol®):

SALES 2011 EXCLUDING TPP	2011		2010		Growth 2011/ 2010	
	RUR mln	% of total sales	RUR mln	% of total sales	RUR mln	%
Pharmaceutical products	15,613.4	95.3%	13,572.9	95.6%	2,040.5	15.0%
Organic products	15,226.0	93.0%	13,285.9	93.5%	1,940.2	14.6%
OTC	11,427.8	69.8%	9,991.7	70.3%	1,436.1	14.4%
Branded	9,259.6	56.5%	7,749.5	54.6%	1,510.1	19.5%
Non-branded	2,168.1	13.2%	2,242.1	15.8%	-74.0	-3.3%
RX	3,798.2	23.2%	3,294.2	23.2%	504.0	15.3%
Branded	3,411.4	20.8%	2,806.9	19.8%	604.5	21.5%
Non-branded	386.8	2.4%	487.3	3.4%	-100.5	-20.6%
Other sales - substances	387.4	2.4%	287.0	2.0%	100.3	35.0%
Sales of medical equipment and disposables	763.6	4.7%	630.5	4.4%	133.1	21.1%
Total sales of group of companies Pharmstandard	**16,377.0**	**100.0%**	**14,203.4**	**100.0%**	**2,173.6**	**15.3%**

So, pharmaceutical sales grew by 15%, and both OTC and Rx products exhibited a similar level or growth. However, in absolute terms, the contribution of the OTC segment is three times higher that of the Rx segment (+RUR 1.4 billion and +RUR 0.5 billion respectively). It is worth noting that it is branded products that still drive the growth.

In 2011, sales of the TOP-10 brands accounted for 69% in the structure of organic sales of pharmaceutical products. At the same time, despite the overall negative dynamics of the TOP-10 brand sales (-0.8%), each individual product, except Arbidol®, experienced considerable growth (from the point of view of the market and the products' potential). These products are characterised by significant volume of sales in absolute terms and, usually, a double-digit growth, in relation to 2010 figures. The main driving force in this case is sales growth in volume terms which points to a stable demand for these products.

ALL DATA IN FOLLOWING TABLES IS QUOTED EXCLUDING SALES RESULTS OF BIOLIK

This table shows sales results for TOP-10 pharmaceutical products of the Company in 2011:

№	BRAND	2011			2010			Volume 11/10		Sales 11/10	
		Volume, mln packs	Sales, mln RUR	% of total sales	Volume, mln packs	Sales, mln RUR	% of total sales	Change	%	Change	%
1	Arbidol	25.839	4011	20.8%	42.640	5589	29.6%	-16.802	-39.4%	-1,579	-28.2%
2	Pentalgin	41.915	2375	12.3%	38.124	1988	10.5%	3.791	9.9%	387	19.4%
3	Complivit	16.608	1458	7.6%	14.903	1228	6.5%	1.705	11.4%	230	18.7%
4	Terpincod	7.782	1207	6.3%	7.470	1047	5.5%	0.312	4.2%	160	15.3%
5	Phosphogliv	2.487	925	4.8%	2.083	699	3.7%	0.404	19.4%	226	32.3%
6	Codelac	9.858	872	4.5%	8.317	692	3.7%	1.542	18.5%	181	26.1%
7	Afobazol	4.991	772	4.0%	4.093	607	3.2%	0.898	21.9%	165	27.1%
8	Flucostat	5.770	717	3.7%	5.609	653	3.5%	0.161	2.9%	64	9.8%
9	Amixin	1.289	570	3.0%	1.367	564	3.0%	-0.077	-5.7%	6	1.0%
10	Biosulin	0.794	409	2.1%	0.731	361	1.9%	0.064	8.7%	48	13.3%
	TOP 10 total	**117.333**	**13,316**	**69.2%**	**125.336**	**13,429**	**71.1%**	**-8.003**	**-6.4%**	**-113**	**-0.8%**
	Other brands	548.020	5,920	30.8%	582.266	5,446	28.9%	-34.246	-5.9%	474	8.7%
	TOTAL SALES	**665.353**	**19,237**	**100.0%**	**707.602**	**18,875**	**100.0%**	**-42.249**	**-6.0%**	**362**	**1.9%**

* all Flucostat forms (tablets and injections)
** all Amixin forms (№125 и №60)

In 2011, the share of TPP products in the overall sales structure of the Company grew from 33.3 to 51.6%. TPP sales grew by 119.6% or RUR 11,832.1 million and amounted to RUR 21,726 million. This was due to the inclusion of Mabthera® (Roche) in the list of third party products. This product contributed RUR 8.2 billion to the total growth of RUR 11.8 billion in 2011.

TPP 2011/2010 Brand name	Status	Volume, thousand items		Total, RUR mln	
		2011	2010	2011	2010
Velcade	RX	81.6	79.0	3,596.4	3,838.2
Coagil	RX	44.3	34.1	1,707.3	1,799.5
Mildronate	RX	4,711.2	5,240.9	1,071.8	1,211.7
Prezista	RX	63.0	45.9	1,243.6	942.5
Pulmozyme	RX	223.4	80.4	1,612.1	610.2
Irs-19, Imudon	OTC	5,361.0	2,178.0	1,312.6	533.5
Mabthera	RX	208.5		8,239.3	0.0
Reduxin	RX	1,155.6	438.9	1,459.5	490.3
Other TPP	OTC\RX	11,683.4	2,790.7	1,483.3	467.9
Total		**23,532.05**	**10,887.94**	**21,725.97**	**9,893.82**

In 2011 Pharmstandard continued the successful implementation of the joint venture project with Latvian Company Grindeks, launched in 2008, for exclusive sales and promotion of Mildronate® in the Russian pharmaceutical market. The sales of Mildronate® in 2011 amounted to RUR 1.1 billion.

All information is based on the Company's data and the data of the Market Research Centre Pharmexpert

OTC products

Below is a detailed description of our leading brands, dynamics of the positions they occupy in the respective market segments (Source: the data of Marker Research Centre Pharmexpert), the changes in the indicators related to the perception of the brands by representatives of target audiences (on the basis of the data of COMCON-Pharma, TGI-Russia "The Russian index of target groups"), as well as the dynamics of these brands' sales in 2011.

In 2011, the revenue from sales of OTC products decreased by RUR 142 million (or 1.0%).

Simulation of the behaviour of the OTC portfolio, without taking into account the contribution of Arbidol®, shows that in 2011 revenue of the Company from OTC sales would have amounted to RUR 11,427.8 million, representing an increase of 14.4% or RUR 1,436.1 million vs the previous year. The figure is two times above the level of growth of the total OTC portfolio in the period 2010/2009 (RUR 740.4 million or +5.0%). This is a clear indication of the Company's product diversification and sales intesification for the whole range of its products.

This table shows sales results of the TOP-10 Pharmstandard OTC products for 2011:

№	BRAND	2011			2010			Volume 11/10		Sales 11/10	
		Volume (mln packs)	Sales (mln RUR)	% of total sales	Volume (mln packs)	Sales (mln RUR)	% of total sales	Change	%	Change	%
1	Arbidol	25.839	4011	26.0%	42.640	5589	35.9%	-16.802	-39.4%	-1,579	-28.2%
2	Pentalgin	41.915	2375	15.4%	38.124	1988	12.8%	3.791	9.9%	387	19.4%
3	Complivit	16.608	1458	9.4%	14.903	1228	7.9%	1.705	11.4%	230	18.7%
4	Terpincod	7.782	1207	7.8%	7.470	1047	6.7%	0.312	4.2%	160	15.3%
5	Codelac	9.858	872	5.7%	8.317	692	4.4%	1.542	18.5%	181	26.1%
6	Afobazol	4.991	772	5.0%	4.093	607	3.9%	0.898	21.9%	165	27.1%
7	Flucostat	5.724	709	4.6%	5.609	653	4.2%	0.116	2.1%	56	8.5%
8	Amixin	1.162	528	3.4%	1.208	514	3.3%	-0.045	-3.8%	14	2.7%
9	Acipol	2.157	283	1.8%	1.164	141	0.9%	0.993	85.3%	143	101.5%
10	Corvalol	42.444	267	1.7%	41.986	230	1.5%	0.458	1.1%	37	16.2%
	TOP 10 total	**158.480**	**12,483**	**80.9%**	**165.514**	**12,690**	**81.4%**	**-7.034**	**-4.2%**	**-207**	**-1.6%**
	Other brands	453.270	2,956	19.1%	498.566	2,892	18.6%	-45.296	-9.1%	65	2.2%
	TOTAL SALES	**611.750**	**15,439**	**100.0%**	**664.080**	**15,581**	**100.0%**	**-52.330**	**-7.9%**	**-142**	**-0.9%**

* only Flucostat tablets
** only Amixin №125

Multivitamins and Minerals. Complivit®

"Multivitamins and minerals" historically is one of the most significant segments for Pharmstandard. In 2011, the volume of this segment in value terms amounted to RUR 7.8 billion, with the growth of +9% in relation to 2010. In volume terms, however, it grew by +1%. The growth of consumption of this category of products had entered its active stage in 2010 alongside the observed stagnation in prices.

Pharmstandard's share in this segment in 2011 was 20% in value terms and 36% in volume terms. It is worth noting that Pharmstandard is the only TOP-3 company (which between them control 70% of this category) showing growth in volume terms. During the last years our leading position within this segment, in volume terms, has been fairly stable: with a 36% share of the market, while the nearest competitor's share is almost two times smaller. This means that our strategic potential for growth within this segment is determined, and more and more

so, by the increase in the relative brand "value" in the eyes of the consumers, which should enable us to introduce changes in the price positioning of our products and, consequently, to increase our share in value terms.

Among all the products of Pharmstandard presented in this segment, the largest share belongs to Complivit®. At present, it is the leader in volume terms (33%) and in second position in value terms (18%).

As regards the indicators of consumer attitude to the Complivit® brand, it shows an increase in the indexes of awareness, consumption and brand loyalty. This is also true for all the sub-brands launched in the market. In one year brand awareness grew almost by 30%! We are continuing with the strategy of expansion of the product range of Complivit® as umbrella brand.

One of the sub-brands of Complivit®, Complivit® Calcium D3 made an impressive progress. Active media campaign and an effective communication component resulted in the increase of the market share of this sub-brand in the segment "A12A Calcium Products" in two years from 6.9% to 11.8% (the growth according to the market audit amounted to +43%, and the growth of the segment amounted to +11% in value terms during 2011/2010). Product awareness for Complivit® Calcium D3 has experienced a three-fold increase.

The above developments resulted in an increase of the share of sub-brands in the sales structure of the Complivit® brand. In 2011, it reached 52% as compared to 32% in 2009, which represents a 10% increase of its share in the brand structure, on average. The share of new products from this line, launched in 2011, reached 2% by the end of the year (sub-segment «vitamins for children»).

In 2011, Complivit®, with its 7.6% share (it was 6.5% in 2010) in the overall sales structure of the Company, was one of its most significant brands. In 2011, the sales of Complivit® in value terms increased by 19% in value terms and in volume terms by 11%.

Non-narcotics analgesics and antipyretics. Pentalgin®

The category "Non-narcotics analgesics and antipyretics" is one of the largest segments in terms of the volume of consumption, both in volume and in value terms. Virtually all socio-demographic groups of the population of Russia consume products from this segment. In the last five years, we have been observing an increase in the average price per package in this category, which was caused by both the actual increase in prices and by consumers switching from the "traditional" analgesics of the bottom price segment to the brands of the middle and premium segments. This segment exhibits a low-level price elasticity: the unimpeded growth of the average price per package has not led to a negative trend with respect to consumption in volume terms.

The volume of this category in 2011 amounted to RUR 14.3 billion and RUR 565 million packages. Pharmstandard holds the first position in the manufacturers' rating of this category and enjoys a two-fold advantage over the nearest competitor with its share amounting to 27.8% in value terms and 26.9% in volume terms.

Among all the Company's products in this segment, the Pentalgin® brand has the largest share of the market. In 2011 its share increased (i.e. the brand grew faster than the segment) and amounted to 23% in value terms. Pentalgin® is the leader in this category. Furthermore, its sales in volume terms are several times higher than that of its nearest competitors for market share in value terms. The Pentalgin® brand is the only branded product which is in a considerable demand, in volume terms, among the TOP-5 products of the category (in total it amounts to 75% of the segment in volume terms).

It is also worth noting that in 2011, as compared to 2010, the Pentalgin® brand exhibited the biggest gain in absolute terms, among all the products in this category. This means, that that this product has kept and strengthened its position as a result of the Company's strategy to maintain its leading position by means of increasing the number of loyal consumers and the number of those consumers who have been switching from the «traditional» analgesics of a lower price segment to Pentalgin®. One of the elements of this strategy, launched in 2010, was introduction to the Russian market of a new form of Pentalgin® (Pentalgin® No. 12) which has a new formulation (contains a spasmolitic component) and a wider range of indications. In 2011, the Pentalgin® line expanded, with addition of two popular forms, Pentalgin® No. 4 and Pentalgin® No. 24.

The Company was able to successfully launch a new, codeine-free form of Pentalgin® in 2010 and to expand this line of products in 2011, because it had begun developing codeine-free analgesic and products for cold and flu symptoms (sold without doctor's prescription) as early as in 2008.

In 2011, sales of codeine-free Pentalgin® grew by 636% or RUR 450.1 million, as compared to the growth of RUR 70.7 million a year earlier. One does

All information is based on the Company's data and the data of the Market Research Centre Pharmexpert

not need doctor's prescription, to purchase codeine-free Pentalgin®, while those consumers who prefer the traditions form of codeine containing Pentalgin®, can easily buy in pharmacies on presentation of doctor's prescription. All these facts confirm that the Company managed to control and considerably minimise the risks inherent in the above mentioned limitation on codeine containing products, owing to timely preparation and implementation of a correct strategy.

In 2011, Pentalgin® was one of the most significant Company's brands, with a share of 12.3% in the overall structure of sales (in 2010 it was 10.5%). In 2011, the Pentalgin® brand grew by 19.4% in value terms and 9.9% in volume terms vs 2010.

Systemic agents for fungal infections. Flucostat®

Pharmastandard's active penetration into the category of "Systemic agents for fungal infections" is directly connected with its purchase, in 2006, of CJSC "Masterlek" and the Flucostat® brand. This category has a significant potential, as in the last five years it has been showing a stable growth both in value and in volume terms (since 2007 is has grown by 75% and 59% respectively). In 2011 this category's volume was RUR 6.7 billion and 27.9 million packages. This segment is price elastic: while during 2006-2009 the average price per package was in stagnation and, at the same time, the consumption was steadily growing, in the 2009-2010 period the average price reduced to the level of 2006 which allowed the segment to grow by 16% in volume terms. In 2011, the growth in volume terms amounted to 4%.

In 2011, Pharmstandard was the leader of the "Systemic agents for fungal infections" segment in volume terms with a share of 20.6%, while in value terms it held the second place with a share of 15.6%.

Pharmstandard is represented in this segment by the Flucostat® brand. With its share of 20% in value terms, Flucostat® is the leading brand in the segment. Moreover, the Flucostat® brand is the most affordable branded product.

The strategy of Flucostat® promotion in 2011 focused on maintaining its market share by means of strengthening the position of the brand in the retail segment. It was essential because the market of products containing fluconazole is highly competitive (comprising more than 18 trademarks and more over 36 manufacturers in 2011).

Following an effective media campaign in 2011 the number of loyal consumers of Flucostat® increased by several times (according to analytical centre Comcon).

In 2011, Flucostat® was in the eighth place in the TOP-10 best selling Company's products with a share of 3.7% in the Company's structure of pharmaceutical sales. The growth of sales in volume terms, as compared to 2010, amounted to 2.9% and in value term to 9.8%. Sales of this product in 2011 amounted to RUR 717 million and 5.8 million packages.

Antivirals, excluding anti-HIV products. Arbidol®. Amixin®

Sales of systemic antivirals is one of the strategic directions of the Company. Pharmstandard's presence and progression in this segment is another example of the successful implementation of the Company strategy of growth through acquisition of brands possessing a high potential for development in relevant segments.

The category "Antivirals, excluding anti-HIV products" has, for the last few years, been exhibiting high rates of growth both in volume and in value terms. The main external factor determining the rate of development of this category, is the severity of flu epidemics during the autumn-winter periods. It is precisely for this reason that this category is characterised by the "shifting" of peak consumption periods and, consequently, of peak sales. A perfect example of such "shifting" could be observed during the season of 2009-2010 when a sharp increase in sales in 2009 was followed by a decrease in sales in 2010.

A small flu outbreak at the beginning of 2011 was followed by a period of steady sales unaccompanied by any factors contributing to a surge in sales.

In this segment, Pharmstadard is represented by two products: Arbidol® and Amixin®. The Company's total share in the «Antivirals, excluding anti-HIV products» segment is 50%. For the last six years Arbidol® has been a clear leader in this segment; its share is five times more that of the nearest competitor. Amixin® occupies the third position in this category. It is noteworthy that our objective in this category is to increase our total presence, i.e. our presence as a Company. That is why at present the Company is focused on the creation of an anti-virus product portfolio and on the development of new pharmaceutical products for this segment.

As already mentioned above, the sales dynamics in this segment, is largely influenced by external factors, chief among them are cold and flu pandemics. 2011 was a post-epidemic period and a flu outbreak was limited to one month only (February). For reference: in previous years, such outbreaks lasted at least 2 or 3 months (according to the data of Rospotrebnadzor (Federal Service on Customers' Rights, Protections and Human Well-Being Surveillance)).

For this reason our strategy with respect to «Antivirals, excluding anti-HIV products» segment in 2011 was focused on the following:

- End consumer
  - To increase the number of loyal Arbidol® consumers (because during the periods outside pandemics, they become the core consumers);
  - To increase awareness, consumption and the number of loyal consumers of Amixin® (Amixin®'s wide range of indications and its broader consumer base, make its sales potential outside mass pandemics much higher).

- Pharmacies:
  - To increase the number of pharmacists loyal to Arbidol® and familiar with the scientific and evidentiary data concerning this product, as well as with its advantages over the main competitors;
  - To expand the nation-wide distribution network for Arbidol® No. 40 and all forms of Amixin®.

- Doctors:
  - To maintain the current level of prescription by therapists;
  - To increase the number of prescriptions by pediatricians.
  - Results of the implementation of the above strategy in 2011:

Arbidol® kept its position of No.1 best selling pharmaceutical product in Russia.

Awareness of Arbidol® and the number of its loyal consumers, according the data of Comcon, increased in relation to 2010. Amixin® exhibited market growth of 32% as compared to the figures of 2010 and therefore increased its share in the segment. Sales of Amixin® in 2011 amounted to RUR 570 million.

It is worth mentioning that in 2010 the Company launched a new form of Arbidol® which contained 40 capsules. Effectively, we created a special form for loyal consumers which was conducive to completion of the recommended course of treatment with this product. Now we can see a steady growth of this very form which confirms that the number of loyal costumers is increasing.

In 2011, just like a year earlier, the Arbidol® brand was in the leading position in the structure of Pharmstandard product sales. Its share amounted to 20.8% or RUR 4.0 billion. Sales of this product vs 2010 decreased by 28.2% or RUR 1,579 million. These variations were caused primarily by the changes in the sales structure in the periods between the seasons (Autumn 2009/Winter 2010 and Autumn 2010/Winter 2011). Secondly, the dynamics of sales in volume terms was related to the changes in the product form: the share of the form containing 40 capsules increased which, in turn, led to the decrease in sales of the form containing 10 capsules.

Tranquilizers. Afobazol®

The segment of tranquilizers includes a wide-range of products united by the area of application: all of them are administered either episodically or as a course of treatment to relieve the states of increased agitation and neuroses. In 2010, sales in this category amounted to 243.8 million packages and RUR 10.2 billion (with a 9% increase as compared to 2010).

The share of Pharmstandard in this segment in 2011 amounted to 14.5% in value terms and 19.6% in volume terms. The rate of growth within this segment exceeds that of the segment itself (15% and 9% respectively), which is primarily due to the outstanding effect of promotion of the innovative product Afobazol® which was acquired from Russian company Masterpharm in 2008. Since the acquisition of Afobazol®, the share of Pharmstandard in this segment of the market increased by 1.5 times (from 10% to 15% in value terms).

In 2011 the share of the Afobazol® brand in this segment amounted to 9.8% in value terms which corresponded to the first place in the list of TOP products in this category. It is noteworthy that in 2010 it had been only in the third position.

Afobazol® is the driver of this segment: its total growth in value terms was the biggest in 2011. Moreover, Afobazol®, with its large market share, has one of the highest indexes of relative gain.

An intensive media campaign encompassing national television, print media and the Internet, led to an increase in the number of consumers recognising the Afobazol® brand by 30% as compared to 2010. The following factors of success are also worth mentioning: the action mechanism of the product which defined its clinical profile (in particular, it does not cause such side effects as drowsiness, dependency and addiction); and also our work with a wide range of medical specialists (general practitioners, cardiologists, gynaecologists, dermatologists, neurologists and gastroenterologists) aimed at increasing awareness and relevance of the issue of disorders characterised by agitation among the patients with somatic diseases.

All information is based on the Company's data and the data of the Market Research Centre Pharmexpert

In 2011, sales of Afobazol® amounted to RUR 722 million representing an increase of 27% (RUR 165 million) in value terms and 22% (0.8 million packages) in volume terms. The rate of growth of the brand's sales corresponds to the positive dynamics of the brand and is a result of the effective promotional campaign.

Cough and cold products. Codelac® and Terpincod®

This category unites products included in two segments: "cough medicines" and "expectorants". It includes pharmaceutical products used for clearance of the cough syndrome which may accompany multiple diseases of the upper and lower respiratory tracts (including infectious diseases, such as, for example, flu and cold). In 2011, sales in this category grew by 19% in value terms vs 2010. This category has been showing a stable growth in value terms for the last five years. However, in volume terms it has been in stagnation in the last five years (211.4 million packages were sold in 2011) which is due to the "historically" high level of market saturation with this type of medications.

The share of Pharmstandard in this segment in 2011 amounted to 14.2% in value terms and 11.2% in volume terms. It has been experiencing a downturn tendency during the last three years. This is due to changes in the regulation of pharmaceutical circulation at the regional level with respect to the group of products which include, among others, such products as Codelac® and Terpincod®.

In 2011, Codelac® and Terpincod® were in the third and fourth places, their market share amounting to 6.3% each (in value terms).

In 2010 and 2011, the main strategic emphasis was on the promotion of the new form of Codelac®, Codelac® Broncho (tablets and syrup). The combined pharmaceutical product was found, in clinical trials, to be more efficient in the treatment of cough accompanied by stubborn phlegm in comparison to single products containing ambroxol. Our promotional efforts, directed primarily at general practitioners and pediatricians, as well as at pharmacies, resulted in a significant increase of Codelac® Broncho's market share in the segment in 2011. In 2011, the share of Codelac® Broncho (tablets and syrup) in the general sales structure of the Codelac® brand increased from 5% (2009) to 14% (2011). Sales of Codelac® amounted to RUR 872.2 million and grew by 26% in value terms and 18.5% in volume terms vs 2010.

The appearance of a new, improved form of Codelac® Broncho will allow the Company to minimise its possible risks following the introduction of Russian Government Decree No. 599 dated 20 July 2011 which stipulates that from 1 June 2012 products with a small amount of codeine will only be sold at pharmacies with doctor's prescription. For example, in 2011 sales of Codelac® Broncho (codeine-free) amounted to RUR 122.0 million or 14.4% of total revenue from the Codelac® product line (RUR 872.2 million). Growth of Codelac® Broncho (codeine-free) amounted to 48.2% or RUR 39.7 million vs RUR 82.7 million a year earlier. Thus, we see a positive sales dynamics which is the result of our strategy of strengthening the brand's position by increasing the number of its forms which are not going to be affected by these new regulations. On the other hand, it is also going to improve accessibility of effective therapies to all consumers.

Antidiarrheal microorganisms (probiotics). Acipol®

In 2010, Pharmstandard acquired the Acipol® brand which enabled us to enter the market of probiotics (antidiarrheal microorganisms). In 2010 this segment was worth RUR 7.5 billion, with a volume of consumption of 32.5 million packages (the growth in relation to 2010 was 13% and 1% respectively).

The share of Acipol®, in 2011, amounted to 5.8% in value terms (in the last five years the brand increased its share more than ten times). Its share in volume terms was 6.1%. It is also worth mentioning that the growth of the Acipol® brand in 2011 exceeded the growth of the segment itself, both in value and in volume terms, which allowed it to move to fourth place in the market of probiotics.

Since 2011, Acipol® has been in the stage of active promotion overseen by Pharmstandard's marketing and promotion team. Work with pediatricians forms the backbone of its promotional strategy, as products from this category are actively prescribed for the treatment of various forms of disbacteriosis occurring in children.

In 2011, Acipol® was in the TOP-10 best selling OTC products in value terms. Its sales amounted to RUR 283 million, an increase of 101% vs RUR 141 million in 2010.

Prescription products (Rx)

The Company's Rx products are sold both in the commercial segment of the pharmaceutical market, through the FRP, and in the hospital segment of the market. The priorities for our work in each segment are defined depending on the work strategy for each product at the stage of promotion. For the majority of Rx products at the stage of promotion, the focus was on the commercial segment as the largest segment of the market with a 50% share of Rx products, in value terms. Given that the share of Rx products

in the Company's sales structure in 2011 was lower than the share of OTC sales (Rx 19.3%, OTC 78.6%), there is an obvious potential for increasing the Company's Rx sales and the number of Rx products.

In 2011, Pharmstandard enjoyed great sales results in the segment of Rx products which have won trust of the inhabitants of Russia due to their outstanding quality. Revenue from sales of Rx products amounted to RUR 3,798.2 million and increased by RUR 504 million or 15.3% vs. RUR 3,294.2 million in 2010.

In 2011, Pharmstandard achieved excellent organic sales results for its Rx products which have won trust of the inhabitants of Russia owing to the their excellent quality and accessibility. Sales leaders in value terms were Phosphogliv® (RUR 924.6 million), Biosulin® (RUR 409.2 million), Combilipen® (RUR 404.9 million), Rastan® (355.9 million), Octolipen® (RUR 188.7 million), Picamilon® (RUR 169.2 million). The main drivers of growth were: Phosphogliv® (+RUR 225.8 million, or 32.3%), Combilipen® (+RUR 125.8 million, 45.1%), Octolipen® (+RUR 95.9 million, or 103.2%), Azitrox® (+ RUR 50.0 million, or 50.3%), Biosulin® (+RUR 48.0 million, 13.3%) and Artrozan® (+RUR 48.0 million, or 134.3%).

This table shows sales results of the Company's TOP-10 Rx products for 2011:

№	BRAND	2011			2010			Volume 11/10		Sales 11/10	
		Volume mln packs	Sales mln RUR	% of total sales	Volume mln packs	Sales mln RUR	% of total sales	Change	%	Change	%
1	Phosphogliv	2.487	925	24.3%	2.083	699	21.2%	0.404	19.4%	226	32.3%
2	Biosulin	0.794	409	10.8%	0.731	361	11.0%	0.064	8.7%	48	13.3%
3	Combilipen	4.020	405	10.7%	2.919	279	8.5%	1.101	37.7%	126	45.1%
4	Rastan	0.249	356	9.4%	0.336	439	13.3%	-0.086	-25.7%	-83	-19.0%
5	Octolipen	0.920	189	5.0%	0.482	93	2.8%	0.438	90.8%	96	103.2%
6	Picamilon	4.010	169	4.5%	3.959	155	4.7%	0.051	1.3%	14	9.2%
7	Azitrox	0.874	149	3.9%	0.631	99	3.0%	0.242	38.4%	50	50.3%
8	Cyclodol	2.470	113	3.0%	2.730	120	3.7%	-0.260	-9.5%	-7	-5.7%
9	Cocarboxylase Hydrochloride	2.180	98	2.6%	4.402	216	6.5%	-2.223	-50.5%	-117	-54.4%
10	Sulfocam-phocainum	2.024	92	2.4%	2.620	103	3.1%	-0.596	-22.8%	-11	-11.1%
	TOP 10 total	**20.027**	**2,905**	**76.5%**	**20.893**	**2,565**	**77.9%**	**-0.866**	**-4.1%**	**341**	**13.3%**
	Other brands	33.576	893	23.5%	22.629	729	22.1%	10.947	48.4%	163	22.4%
	TOTAL SALES	**53.603**	**3,798**	**100.0%**	**43.522**	**3,294**	**100.0%**	**10.081**	**23.2%**	**504**	**15.3%**

Phosphogliv®

In 2011, the volume of the category of "Hepatic protectors/lipotropics" exceeded RUR 13 billion, with a growth of 11%. In the last five years this category has grown two and a half times. In volume terms, this category is stable and in 2011 amounted to 28 billion packages.

In 2011, Pharmstandard was in forth position in this segment and its share of this segment amounted to 7.8% in value terms and 7.5% in volume terms. Moreover, since 2006 the Company`s share increased five times exceeding, on an annual basis, the rate of growth of this segment.

In this segment, the Company is represented by Phosphogliv®. In 2011, Phosphogliv® held the fifth position in the Company's TOP-10 best selling products, with a share of 4.8%. In relation to 2010, Phosphogliv® grew by 32.3% (RUR 226 million) in volume terms and by 19% (404 million packages) in value terms.

All information is based on the Company's data and the data of the Market Research Centre Pharmexpert

The success of the Phosphogliv® promotional campaign in 2010-2011 was determined by the following factors: an extended reach to the main target audiences among medical professonals (gastroenterologists, infectiologists, general practitioners) which became possible through the reorganisation of the field force; and also the launch of the nation-wide educational programme on chronic hepatitis (together with the scientific association "Russian Society for the Study of Liver"). The programme enabled us to create awareness about the issue of diagnosing and treating hepatitis and subsequently to establish such programmes for patients at a regional level (alcohol and non-alcohol induced liver diseases).

It is also worth noting, that in 2010 open comparative randomised study PHG-M3/P01-09 «ORION» on application of Phosphogliv® in combined therapy of chronic hepatitis C was launched. Its final results will be published in 2012. Phosphogliv® was included in the list of Vital and Essential Products (VEP), on the basis of the scientifically sound evidence of its efficacy. Apart from that, in 2011, Phosphogliv® Forte was launched and actively promoted. Its share in the overall sales structure has already reached the level of 7%. This new form is in demand in the market and is a successful addition to the Phosphogliv® line of products contributing to the implemenation of our promotional strategy with respect to target audiences.

Biosulin®

In 2011, sales of Biosulin® amounted to RUR 409 million, an increase of 8.7% (64 thousand packages) in volume terms and 13.3% (RUR 48 million) in value terms. In 2011, there were two channels through which this product was sold: within the framework of regional auctions and through the sub-programme Diabetes Milletius, a part of the federal target programme Prevention and Management of Social Diseases.

The Biosulin® brand is represented by two forms of production - catridges and vials. In the structre of sales, catridges account for 58% in volume terms and to 72% in value terms. In 2011, Biosulin® sales were boosted by the launch of reusable insulin pen system Biomatik®Pen designed for Pharmstandard by Ypsomed AG (Switzerland) - a worldwide leading developer and manufacturer of injection systems.

Rastan®

Rastan® is the first domestic pharmaceutical product to be procured under the 7 nosologies programme. In 2010 and 2011 the demand of Russia's inhabitants in the growth hormone was fully met with supplies of a domestic product.

In 2010, the work on creating a new therapeutic dosage form of Rastan® was completed (solution for subcutaneous injection); it contains 15 mg of somatropin per package. This product is fully ready for use and is administered with a modern injection system Biomatik®Pen ensuring high precision dose delivery.

In 2011, revenue from sales of Rastan® amounted to RUR 355.9 million representing a decrease in sales of this product by 19% (RUR 83 million) in value terms and 25.7% (86 thousand packages) in volume terms. This change in sales in volume terms was caused by a consistent increase in manufacturing dosage forms with higher somatropin content resulting in a reduction in the total number of packages. The reduction in sales in value terms was due to the absence of auctions in 1H2011 and also to the reduction in the selling prices at the state open auctions within the framework of the 7 nosologies federal programme which took place in 2H2011.

Combilipen® and Octolipen®

One of the most successful launches of a new prescription medicine was Combilipen®. Launched in 2008, this is a product for the comprehensive treatment of neurological diseases, including polyneuropathy of various etiologies, which has been at the stage of active promotion after its launch in 2008. As a result of the successful promotion campaign, sales of this product amounted to more than RUR 400 million in value terms in the forth year of its sales. In 2011, sales of Octolipen® amounted to RUR 405 million, an increase of 45.1% (RUR 126 million) in value terms and 37.7% (1.101 million packages) in volume terms vs 2010.

It is also worth noting that in 2011 Octolipen® which is used for the treatment of neurological disorders as well as for Diabetes Milletius complications, grew by 103% (RUR 96 million) in value terms and amounted to RUR 189 million vs RUR 93 million a year earlier. In volume terms, the growth of this product amounted to 90% (438 million packages) and totalled 920 million packages vs 482 million packages in the previous year.

Marketing and Promotion

A more vigorous promotion of the Company's products is the strategic platform for success which will allow us to expand our sales and marketing capabilities.

The Sales and Marketing department is responsible for promoting our branded pharmaceutical products to medical and pharmaceutical professionals and consumers. The list of promoted products in 2011 included more than 50 brands. The contribution of the promoted products to the total sales of pharmaceutical products, excluding TPP, in 2011 was over 70%.

In 2011, the following tactical principles formed the foundation of our strategy:

- increasing efficiency of the personnel from the Sales and Marketing Department by means of active introduction of standard analytical algorithms which include such types of activity as programmes for client monitoring, planning daily and monthly activities, monitoring investment in the marketing.
- raising the efficiency of interaction between the Sales and Marketing Department, the Pharmacy Chain Department and the Commercial Department to achieve synergy of application of specialised marketing tools and mechanisms;
- formation of specialised 'product teams' comprising experts from various departments.

In 2011, the structure of the Sales and Marketing Department did not change considerably. Our efforts were primarily focused on the personnel selection, improving personnel qualifications and 'field' efficiency.

As at the end of 2011, the structure of promotion comprised:

- the division of endocrine and biotechnological product promotion;
- the division of Rx product promotion
- the division of OTC product promotion

As at the end of 2011, the structure of marketing was represented by the following product groups:

- multivitamins and minerals and biologically active supplements;
- products for the treatment of cardiology diseases;
- products for the treatment of neurological diseases;
- products for the treatment of liver diseases;
- products for the treatment of flu and colds;
- analgesics, products for women's health, products for the treatment of skin diseases;
- biotechnological products.

This approach ensures the high level of expertise within each specialised division. A significant feature, in 2011, was the creation of the Pharmacy Chain Department as a separate entity and its expansion into the regions outside Moscow. Thus, in 2011, we continued the enhancement of our regional teams of managers working with pharmacy chains, whose responsibilities include building up and supervising distribution, as well as launching BTL programmes in the regional pharmacy chains.

As at 31 December 2011, marketing and promotion staff headcount was 749 vs 687 in 2010.

The motivating payment system continues to function, successfully, in the Sales and Marketing department. It is based on a variable part of wages which is paid every quarter. The amount of a bonus depends on the fulfillment of quantitative goals (such as the resale plan for the period) and also of qualitative goals.

All promotional staff are trained on a regular basis, which in our opinion is an important factor ensuring the fulfillment of business objectives and an additional motivating factor for the success of the Company. In addition to auditorium-based training, a system of distant learning was introduced in 2010, which led in an increase in the efficacy of training in general and in the savings made by the promotional divisions. Apart from the information portal with its training materials and testing system, video-conferencing technology was also actively used throughout 2011.

The system of regular reporting continues to operate successfully within the Sales and Marketing department encompassing the monitoring of retail sales and distributors' stocks, the monitoring of retail prices, sales reports and p&l analysis of each brand. These approaches allow us to conduct regular re-assessments of key performance indicators and to facilitate operational decisions for the future.

Implementation of the above strategy as a whole enabled us to meet our targets, including sales growth with respect to most promoted brands as compared to the previous period.

All information is based on the Company's data and the data of the Market Research Centre Pharmexpert

Changes in legislation in 2011

In 2011 two Federal Laws which have a direct impact on the activities of the Company, were passed:

- Federal Law No. 99-FZ On Licensing of Certain Activities of 04.05.2011, in force from 21.10.2011.
- Federal Law No. 323-FZ on the Fundamentals of Citizens' Health Protection in the Russian Federation of 21.11.2011, in force from 22.11.2011.

Two years have passed since Federal Law No. 61-FZ On the Circulation of Pharmaceuticals (12.04.2010). Two laws introducing changes to Federal Law No. 61-FZ , several Government Decrees and orders of the Ministry of Healthcare and Social Development directed at reorganising the industry in line with the new law were passed throughout 2010.

During 2011, a number of drafts were published. They contained proposed changes to Federal Law On the Circulation of Pharmaceuticals, to Decrees and orders of various Ministries, including GMP and GCP Rules, administrative procedures concerning registration of pharmaceutical products, licensing the manufacture of pharmaceutical products and circulation of narcotics and their precursors. A considerable number of these drafts are at the stage of discussion and endorsement. These drafts are expected to be passed in 2012.

The new Law On the Circulation of Pharmaceuticals and new bylaws introduced new regulations into the way Pharmstandard manages pharmaceutical product circulation and its component enterprises.

From 2010, an application to the Ministry of Healthcare and Social Development to start the process of registration of a pharmaceutical product, can be filled in both on the Ministry's web site, in an electronic form, and also on paper.

After the enactment of Law On the Circulation of Pharmaceuticals, a new system of payment for the registration was introduced. The payment used to cover the fee and the work of expert organisations. At present, all the payments are included in the list of state duties and are regulated by Tax Code of the Russian Federation.

The procedure of product quality verification during registration and making amendments in the registration documents as well as the procedure of obtaining a decision regarding introduction of a pharmaceutical product into civil circulation have changed. Before the enactment of the new law, the pre-registration evaluation procedure was done in two stages: during the pre-registration procedure and in the form of preliminary state monitoring after the registration papers have been issued. The Federal Service on Surveillance in Health Care and Social Development of the Russian Federation made its decision regarding the possibility of licensing a pharmaceutical product for manufacture on the basis of the preliminary evaluation.

At present, an evaluation is conducted during the registration procedure. The registration documents are issued by the Ministry of Healthcare and Social Development a pharmaceutical product is considered to have been licensed for manufacture.

Federal Law On the Circulation of Pharmaceuticals introduced a new procedure: confirmation of state registration of a pharmaceutical product. It takes place 5 years after the initial registration of a new pharmaceutical product for the purpose of issuing an indefinite registration certificate.

Following the endorsement of Federal Law No. 61-FZ On the Circulation of Pharmaceuticals, a timetable for making changes in the registration documents was adopted, in order to bring the registration documentation in line with the Law and its bylaws.

In 2010–2011, Pharmstandard did a lot of work to label its products in line with the new Federal Law. Labeling sections of registration documents of 176 pharmaceutical products have been amended. This work was done in compliance with the adopted timetable.

According to the Schedule of Inspections of legal entities and sole traders in 2011, drawn by The Federal Service on Surveillance in Health Care and Social Development and agreed with the Prosecutor General's Office of the Russian Federation, inspections took place at:

- LLC Pharmstandard and OJSC Pharmstandard-Leksredstva (federal monitoring of pharmaceutical products in circulation);
- OJSC Tyumen Plant of Medical Equipment and Tools (federal monitoring of manufacturing, circulation and exploitation of healthcare products).

In all cases, the inspections established full compliance with relevant legislation.

Company's Development Plans for 2012

Following the enactment of Federal Law No. 99-FZ On Licensing of Certain Activities of 04.05.2011, the principle if an indefinite license term has been established, and the list of activities requiring licenses was changed, among them:

- production of pharmaceutical products;
- circulation of narcotics, psychotropic substances and their precursors, cultivation of narcotics-containing plants;
- pharmaceutical practice.

Licenses issued before the enactment of this Federal Law are valid indefinitely.

In 2012, OJSC Pharmstandard and OJSC Pharmstandard-Leksredstva are expected to have their licenses for pharmaceutical activities to be reissued, to update the list of their activities, in compliance with Decree of the Government of the Russian Federation of 22.12.2011 No. 1081 on Licensing the Pharmaceutical Activity.

Pharmaceutical activities license reissuing is also scheduled for 2012 for OJSC Pharmstandard-Leksredstva for the purpose of obtaining an indefinite term license. Later, OJSC Pharmstandard-UfaVITA and OJSC Pharmstandard-Tomskhimpharm are expected to have their licenses for the manufacture of pharmaceutical products to be reissued.

Apart from that, on expiry of the current licenses held by OJSC Pharmstandard-UfaVITA and OJSC Pharmstandard-Tomskhimpharm, they shall be reissued, in compliance with the Decree of the Government of the Russian Federation No. 1085 of 22.12.2011 On Licensing the Activities Related to the Circulation of Narcotics, Psychotropic Substances and their Precursors, Cultivation of Narcotics-Containing Plants.

Vital and Essential Products 2011–2012

Price control for the products included in the list of Vital and Essential Products for 2011, was based on the principles and methods which had become statutory in 2010. There were no significant changes in the regulatory and legal framework during 2011.

The retail price limit for 2011 for Vital and Essential Products registered before 26.10.2010 and manufactured by Russian companies was fixed at 8% above the level of 2010.

According to the list of Vital and Essential Products for 2011 (Order of the Government of the Russian Federation dated 11 November 2010 No. 1938) the list of Vital and Essential Products manufactured by Pharmstandard expanded and included three more products: acetylsalicylic acid, paracetamol in tablets, Mildronate®.

As at the end of 2011, the state registry contained 129 of maximum retail prices for Vital and Essential Products which were either manufactured or owned by Pharmstandard (with respect to 51 international nonproprietary names (INN) or 55 brand names).

In 2011, revenue from sales of products included in the list of Vital and Essential Products increased, as compared to 2010, by RUR 8,289.2 million or 45.2% and amounted to RUR 26,615.6 million which was 62.4% of the Company's total revenue in 2011.

In 2011, the number of product names included in the list of Vital and Essential Products grew by 27% and amounted to 142 items in the list.

Type of product	Product status	2010		2011		% Change
		Number of products	% of total figure	Number of products	% of total figure	
All (Organic +TPP)	OTC	38	34%	38	27%	0%
	Rx	74	66%	104	73%	41%
Total:		**112**	**100%**	**142**	**100%**	**27%**
Organic products	OTC	37	42%	37	35%	0%
	Rx	52	58%	68	65%	31%
Total:		**89**	**100%**	**105**	**100%**	**18%**
TPP	OTC	1	4%	1	3%	0%
	Rx	22	96%	36	97%	64%
Total:		**23**	**100%**	**37**	**100%**	**61%**

Though there was no 2012 inflation-related price adjustment for Vital and Essential Products in 2011, there is no doubt that the Company's plans regarding the expansion of its business, the growth in volume of both its manufacturing output and sales, alongside the increase in the number of its products, have had their effect on the Vital and Essential Products scheduled for manufacture and sales in 2012. Working in a dynamically developing market, in a situation when the Company's sphere of interests is constantly expanding, it is not easy to make a forecast indicating maximum figures. However, it is possible to say even now that the number of Vital and Essential Products sold by Pharmstandard, will increase in 2012 at least by 32 products, 21 of which will be organic.

Type of product	Product status	2011		2012		% Change
		Number of products	% of total figure	Number of products	% of total figure	
All (Organic +TPP)	OTC	38	27%	48	28%	26%
	Rx	104	73%	126	72%	21%
Total:		**142**	**100%**	**174**	**100%**	**23%**
Ortanic products	OTC	37	35%	46	37%	24%
	Rx	68	65%	80	63%	18%
Total:		**105**	**100%**	**126**	**100%**	**20%**
TPP	OTC	1	3%	2	4%	100%
	Rx	36	97%	46	96%	28%
Total:		**37**	**100%**	**48**	**100%**	**30%**

Supplies of pharmaceutical products through state open auctions in 2011

IN 2011, PHARMSTANDARD WON A NUMBER OF OPEN AUCTIONS WITH RESPECT TO THE 7 NOSOLOGIES PROGRAMME* AND OTHER FEDERAL PROGRAMMES ORGANISED BY THE MINISTRY OF HEALTHCARE AND SOCIAL DEVELOPMENT OF THE RUSSIAN FEDERATION WHICH ARE DESIGNED TO MEET THE DEMAND OF THOSE RUSSIAN CITIZENS WHO REQUIRE COSTLY PHARMACEUTICAL PRODUCTS.

There is a definite tendency, at present, of foreign pharmaceutical companies actively developing co-operation with Russian partners within the framework of the Development Strategy for the Pharmaceutical Industry of the Russian Federation for the Period until 2020. The main reasons for this are the stable and growing pharmaceutical sales in the Russian Federation and the continued transfer of know-how for localisation of the manufacture of pharmaceutical products previously absent in the Russian market.

A perfect example of this is the co-operation between Roche (Switzerland) and the group of companies Pharmstandard (Russia) which resulted in the beginning of localised production of Mabthera (rituximab) in the Russian Federation a year ago. This partnership succeeded in successfully transferring the final stage of manufacture of this original biotechnological product to OJSC Pharmstandard-UfaVITA (Ufa, the plant is a part of the group of companies Pharmstandard).

This by no means is the only example of such co-operation. For instance, at present, the group of companies Pharmstandard carry out the secondary packaging, the full-cycle production and the marketing support for promotion of such famous products owned by foreign and Russian companies, as Mabthera®, Velcade®, IRS®-19 and Imudon®, Prezista®, Mildronate®, Coagil VII etc.

In 2011, sales of third-party products (TPP) grew by 119.6% or RUR 11,832.1 million and amounted to RUR 21,726 million. The share of TPP sales in total sales in 2011 was 50.9% (in 2010 it was 33%). The following products were the main growth drivers: Mabthera®, (RUR 8,239.3 million), Velcade® (RUR 3,596.4 million), Coagil VII (RUR 1,707.3 million), Pulmozyme® (RUR 1,612.1 million), IRS®-19 and Imudon® (RUR 1,312.6 million), Prezista® (RUR 1,243.6 million), Mildronate® (1,071.8 million).

The reason for this significant change in the shares of organic (46.5% in 2011 vs 64.9% in 2010 of total pharma sales) and TPP (52.5% in 2011 vs 34.0% in 2010 of total pharma sales) products was the change in the supply timescale. For example, according to the terms with respect to the state open auctions won by the Company in 4Q2010, additional supply and cash collections related to these sales under the contracts with the Ministry of Healthcare and Social Development took place during 1Q2011and 2Q20011. But in 4Q2011 the Ministry of Healthcare and Social Development organised open auctions for the procurement of products within the framework of the 7 nosologies programme, to meet the demand in pharmaceutical products in 2012 for the amount of RUR 21 billion (inclusive of VAT), with a provision that the products should be supplied by the end of 2011.

As a result, sales of TPP in 4Q2011 amounted to RUR 9,986.6 million, an increase of 165% or RUR 6,212.9 million. The share of TPP in 4Q2011 was equal to 45.9% of total TPP sales for the previous year. It is worth mentioning that despite the tight timescale, all supplies of pharmaceutical products related to the state open auctions won by the Company in the fourth quarter of 2011 were delivered in full and on time, and cash collections related to these sales were received in full before 31 December 2011.

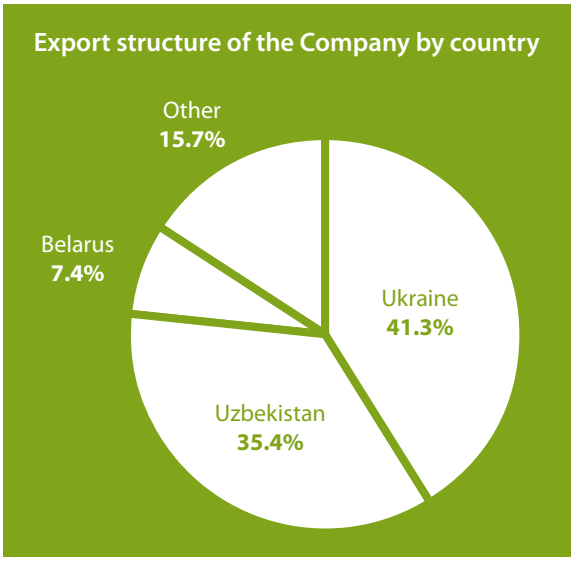
According to Federal Law 323-FZ On the Fundamentals of Health Protection of Russia's Citizens, the authority of the Russian Federation with respect to the organisation of Russian citizens' provision with pharmaceutical products under the 7 nosologies programme, is going to be transferred to the Russian federal subjects, as of 1 January, 2014. This will lead to state open auctions being held in each constituent region (at present, there are 83 such regions in Russia) which, in turn, is going to affect the way prices for the relevant pharmaceutical products are formed, as well as the timing and the volume of pharmaceutical products' supply.

Export

THOUGH THE MAIN MARKET FOR PHARMSTANDARD PRODUCTS IS THE TERRITORY OF THE RUSSIAN FEDERATION, THE COMPANY HAS BEEN ACTIVELY DEVELOPING EXPORT SALES OF ITS PRODUCTS.

The Company's products are exported to 14 countries, mostly CIS and 'near abroad' countries: Ukraine – 41.3%, Uzbekistan – 35.4%, Belarus – 7.4%. The share of export of the Company's pharmaceutical products in the overall structure of sales in 2011 was 1.8%.

Export structure of the Company by country



The Company's strategic planning includes active development and expansion in Ukraine, Latin and America (Venezuela, Argentina, Nicaragua), Africa (Nigeria, Egypt), Middle East (Iran, Iraq, Afghanistan, UAE).

Export of the Company's pharmaceutical products in 2011 increased by 25% and amounted to RUR 741.9 million vs RUR 593 million in 2010. The share of Top-10 exported pharmaceuticals amounts to 82.7% (RUR 613.5 million) of the Company's revenue from export. The Top-10 exported pharmaceutical products include Arbidol®, Complivit®, cocarboxylase hydrochloride, Afobazole®, Phosphogliv®, Citramon P, Pentalgin®, activated carbon, Ingalipt®, Allohol.

The Company's achievements in the main markets of the CIS, Ukraine and Kazakhstan, deserve a special mention. Together with Russia, Kazakhstan is a member of a customs and economic union, and by 2014 it is expected that requirements to registration and certification of pharmaceutical products

Share of each country in the export and sales growth in each country
(dynamics for the period 2009-2011 including financial discounts)

Country	2011		2010		2009		Growth 2011/2010		Growth 2010/2009	
	RUR mln	share, %	RUR mln	share, %	RUR mln	share, %	RUR mln	%	RUR mln	%
Ukraine	306.2	41.3%	248.1	42%	211.6	49%	58.1	23%	36.5	17%
Uzbekistan	262.8	35.4%	206.6	35%	119.9	28%	56.2	27%	86.7	72%
Belarus	55.0	7.4%	46.2	8%	43.8	10%	8.8	19%	2.4	5%
Kazakhstan	39.3	5.3%	21.2	4%	3.7	1%	18.1	85%	17.5	473%
Kyrgyzstan	16.9	2.3%	0.0	0%	0.0	0%	16.9		0.0	
Arminia	16.7	2.3%	24.5	4%	13	3%	-7.8	-32%	11.5	88%
Azerbaijan	13.6	1.8%	9.1	2%	2.2	1%	4.5	49%	6.9	314%
Moldova	13.5	1.8%	10.9	2%	9.5	2%	2.6	24%	1.4	15%
Latvia	6.0	0.8%	12.7	2%	3.9	1%	-6.7	-53%	8.8	226%
Turkmenistan	5.4	0.7%	0.0	0%	6.6	2%	5.4		-6.6	
Other countries	6.7	1%	14.0	2%	13.4	3%	-7.3	37%	0.6	651%
Total	**742.1**	**100%**	**593.3**	**100%**	**427.6**	**100%**	**148.8**	**25%**	**165.7**	**39%**

Distribution

are going to be unified. Ukraine is the second largest CIS market after the Russian Federation, and many developments in both markets go side by side, such as, for example, the introduction of a ceiling price for the products included in the list of Vital and Essential Products:

Ukraine: the volume of the pharmaceutical market is up to USD 3.4 bln[1].

- Introduction or requirements, almost identical to the GMP standards, regarding issuing licenses for local producers.
- The Ukrainian regulatory authority in the area of pharmaceutical product circulation has joined the European organisation PIC/S.
- Since 2012, a new law dealing with advertising of pharmaceutical products is going come into force.

Kazakhstan: the volume of the pharmaceutical market is up to USD 1.3 bln[2].

- Kazakhstan entered Single Economic Space, together with Russia and Belorus, which shall significantly ease trade between the member countries significantly.
- Kazakhstan maintains GMP standards. The programme for the development of the pharmaceutical industry in Kazakhstan, which came into force in 2010, envisages that all enterprises should meet GMP standards by 2014.
- Kazakhstan has one of the biggest hospital markets amongst the CIS countries. Its share of the total pharmaceutical market in the country is 30%. Procurement is made through the state owned company SK-Pharmacia.

To increase export sales in the future, Pharmstandard will:

- continue to actively register and launch new modern branded products;
- actively participate in the state procurement programmes (Kazakhstan, Ukraine, Belorus);
- develop the co-operation with international pharmaceutical companies within the framework of production localisation, not only in Russian but in other CIS countries too.

In general, the list of principal product distributors did not change in 2011 as compared to 2010. On the other hand, the Company has considerably increased the volume of procurement through the Open auctions, primarily such products as Mabthera®, Velcade®, Coagil® VII, Pulmozyme®, Prezista®. In 2011, the share of sales under the Ministry of Health and Social Development contracts accounted for 34.16% of the Company's total sales.

During 2011, the Company supplied products under 40 main contracts. In 2011, 5 top distributors accounted for 71% of sales. Sales of non-promoted organic products increased by 11% while sales of packaged products fell by 12% which was primarily due to regulations with respect to the segment of Vital and Essential Products and to the distributors losing interest in products belonging to the price segment below 10 roubles per pack product.

In 2011, the Company continued its credit policy aimed at reducing the risk of non-repayment of receivables based on the analysis of its contractors' financial standing and ability to pay.

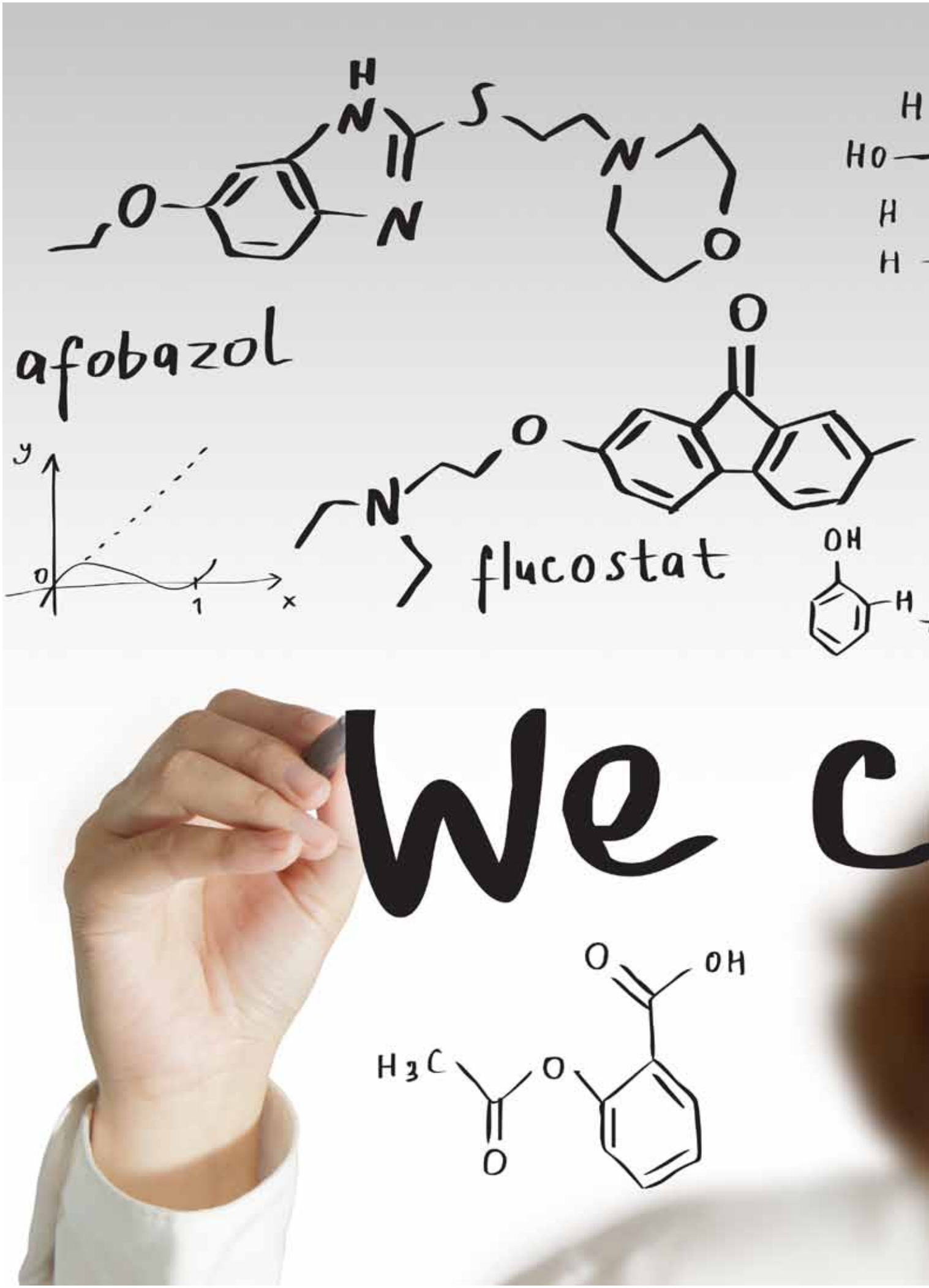
In 2011, our main distribution contracts provided for a credit period of 90–120 days in Russia and 180 days for export deals. The average stock was equal to 60 days of product sales excluding any out of stock situations.

The table below introduces the main distributors' share, excluding sales under state open auctions.

Distributors	% of sales	
	2010	2011
Katren	17%	19%
Protek	17%	16%
SIA International	13%	16%
Alliance Healthcare (Apteka-Holding)	13%	8,5%
Rosta	11%	11%
	71%	**71%**

1 according to the analytical system of market research PharmXplorer»/Pharmstandard conducted by Proxima Research

2 according to sk-pharma.kz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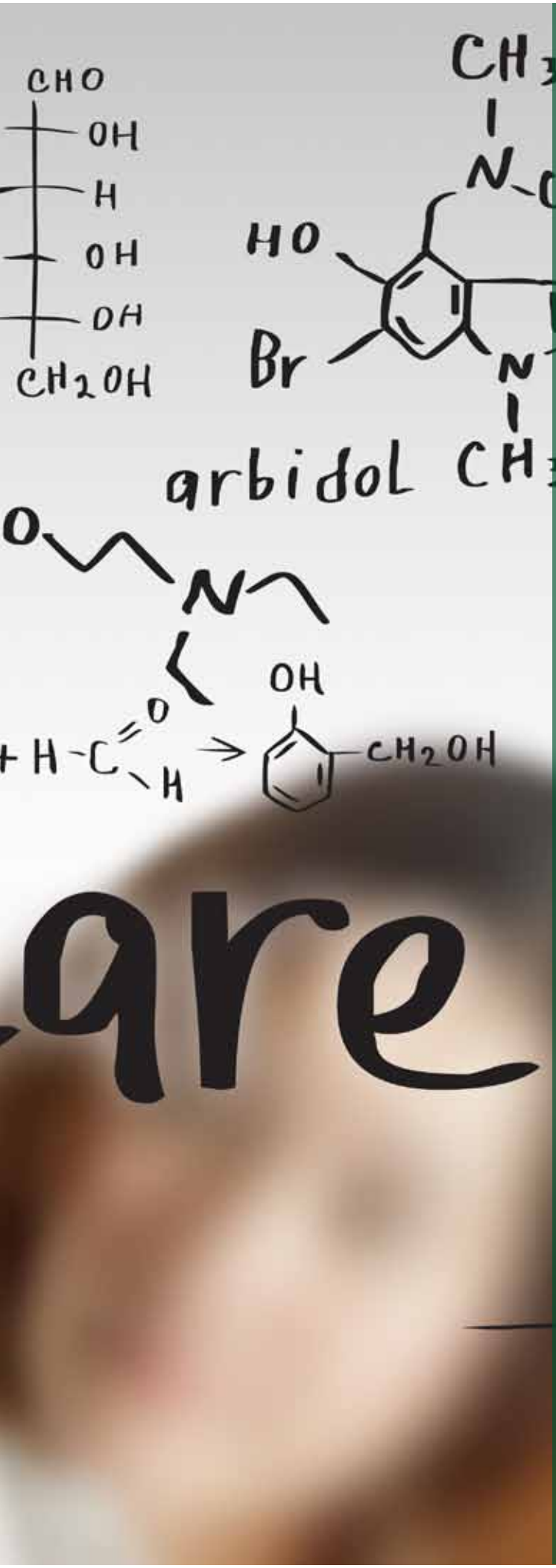

Research & Development

Pharmstandard actively introduces products resulting from new development and research.

In co-operation with leading Russian science and medical centres, our specialists conduct scientific research which results in the launch of at least 10 new products each year. More than 60 new pharmaceutical products were launched in the period from 2004 to 2011. The Company's product portfolio is continually expanding as new products are added to it: high-quality, generic and original products with a variety of therapeutic applications and innovative pharmaceutical products developed in Russia.

Research & Development

IN 2011, THE COMPANY'S PERSONNEL STARTED THE MANUFACTURE OF FOUR NEW PRODUCTS. FOLLOWING THE INTRODUCTION, IN 4Q2010 OF NEW LEGAL REGULATIONS, THE PERIOD OF REGISTRATION OF NEW PHARMACEUTICAL PRODUCTS IN THE RUSSIAN FEDERATION WAS EXTENDED , AND AS A CONSEQUENCE, THE PROCEDURE OF APPLICATION TO THE MINISTRY OF HEALTHCARE AND SOCIAL DEVELOPMENT CHANGED.

Such products as Next®, Cyclovita®, Akorta® which were scheduled for initial manufacture in 2011, will be registered and put into production in 1Q2012. Product Maxicold®, coated tablets, was registered in 2011 but the beginning of its manufacture was moved to 1Q2012 due to the need to complete the reconstruction of the production facilities. The manufacture of product Maxispray®, registered in 2011, was moved to 1Q2013 for the same reason.

Terpincod®N, product containing codeine, was also registered in 2011, but was taken off production due to the decree of the Government of the Russian Federation No. 599 dated 20 July 2011 stipulates that from 1 June 2012 pharmaceutical products containing a small amount of codeine will only be sold with a doctor's prescription.

Name of product	Therapeutical segment / product status	Sales value, RUR mln	Scheduled date of production commencement
Medira® (capsules)	Biologically active food supplement / OTC	1.863	February 2011
Gluconorm® (coated tablets)	A10B – hypoglycemic agent / OTC	6.297	May 2011
Water for injections in bottles, 2, 4, 5, 8,10 ml	V07AB – solvent / OTC	0.106	April 2011
Azitrox® (500 ml capsules No. 2)	J01F – antibiotic-azalid / Rx	6.522	December 2011

In 2012, we are planning to register and start the manufacture of **11 new products.**

The products which are scheduled to enter the manufacturing stage in 2012 are new brands, such as Next® and Cyclovita® and also extensions of product lines of already existing brands such as Codelac®, Complivit®, Octolipen®, Maxicold®, Neosmectine®.

Name of product	Therapeutical segment / product status	Sales value, RUR mln	Scheduled date of production commencement
Next® (coated tablets)	N02B – combined analgesic / OTC	22.274	March 2012
Maxicold® (coated tablets)	N02B – product for cold and fle symptoms / OTC	22.274	April 2012
Akorta® (coated tablets)	C10A – hypolipidemic agent / Rx	5.835	April 2012
Cyclovita® (coated tablets)	Biologically active food supplement / OTC	0.380	May 2012
Neosmektine® (powder with new taste)	A07B – antidiarrheal agent / OTC	3.654	May 2012
Glimepiride (4 ml tablets)	A10B – hypoglycemic agent / Rx	6.297	August 2012
Octolipen® (600 ml tablets)	A16A – metabolic agent / Rx	7.550	October 2012
Complivit® Ophtalmo for children (poweder suspension)	Biologically active food supplement / OTC	1.420	Novermber 2012
Codelac®NEO (drops)	R05D – central antitussive agent / OTC	1.154	November 2012
Codelac®NEO (Syrup)	R05D – central antitussive agent / OTC	1.154	December 2012
Bromdeksin syrup (without alcohol)	R05C – expectorate mucolytic agent /OTC	14.453	December 2012

Alongside the research and development and putting into production of new pharmaceutical products (generic products, new pharmaceutical forms of products and original combinations of known pharmacologically active substances) there is also co-operation with various pharmaceutical companies for the purpose of manufacturing pharmaceutical products under the trade marks of these companies.

In 2011, following the transfer of packaging and quality control know-how and the completion of the registration procedure, the manufacture of Revlimid® (Celgene) and Tamiflu® (Hoffmann la Roche) commenced at the Company's production facilities. The filling, packaging and quality control know-how transfer for Prezista® (Johnson & Johnson) was also completed, as well as the full cycle manufacture localisation for Mildronate® (Grindeks).

Roche (Switzerland) and the group of companies Pharmstandard have completed the localisation of production of Mabthera® (rituximab) in the territory

of the Russian Federation. The result of this partnership was the succeful transfer of the final stages of production of this biotechnological original product to the modern plant of OJSC Pharmstandard-UfaVITA.

Johnson & Johnson LLC, a pharmaceutical subdivision of Janssen, and OJSC Pharmstandard-UfaVITA signed a Memorandum of Intent outlining the main areas of co-operation as regards the localisation of full cycle manufacturing of Velcade® (bortezomib) included in the list of strategically important pharmaceutical products approved by a government Decree in July 2010.

Within the framework of the Company's co-operation with its partners, the first production facilities for the manufacture of cytostatic agents, in conformity with European GMP (Good Manufacturing Practice) standards, will be established in Russia.

The transfer of packaging and logistics know-how for the production of Actemra® (Hoffmann la Roche) and the commencement of its manufacture are scheduled for 2012. The transfer of know-how for full-cycle production of Velcade® (Johnson & Johnson), the transfer of the production know-how for Eurespal® syrup (Servier), the stage-by-stage transfer of the know-how for the manufacture of metered-dose asthma inhalers (Triniti-Chiesi) have been in process since 2010. These projects are scheduled to be completed in 2014.

Clinical trial in 2011

In October 2011, the Company began clinical trials of Arbidol® – ARBITR, in compliance with the laws and regulations of the Russian Federation stipulating procedures for clinical trials as well as with the international guidelines for clinical trials ICH-GCP. The main purpose of the trial was to obtain additional information regarding safety and effeciency of Arbidol® (INN – umifenovir) used for the prevention and treatment of flu and colds, including the information regarding possible resistance to Arbidol of certain virus strains. This trial will take place withing the framework of post-registration product study.

In 2011, the Company started the development of post-registration clinical trials of three products: Phosphogliv® capsules, Afobazo®l tablets and Amixin® tablets. The purpose of the trials is to obtain additional data about safety and efficiency of these products and about new indications to be added to the registration documents, including new indications use of Afobazol® for the treatment of children. The trials are scheduled to commence in 2012.

Biotechnolo

OJSC PHARMSTANDARD IS A PARTICIPANT IN BIOTECHNOLOGICAL PROJECT GENERIUM WHOSE MISSION IS DEVELOPMENT AND INTRODUCTION OF HIGH-TECH PHARMACEUTICAL PRODUCTS. AT THE BEGINNING OF 2012 ONE OF THE PARTICIPANTS OF IBC GENERIUM RECEIVED A SKOLKOVO FUND RESIDENT STATUS.

One of the most significant building stones of the project since its conception, was the creation of R&D centre Generium (NauchTechStroy Plus LLC) is a Russian technology cluster, the only one of its kind in the country.

The project was developed and realised through co-operation between JSC Pharmstandard and a group of Russian pharmaceutical companies.

In March 2012, during his working trip to Vladimir Region for a meeting of the Presidential Commission for Modernisation and Technological Development of Russia's Economy President of the Russian Federation Dmitry Medvedev visited biotechnology centre Generium.

The Scientific Research Centre has been designed to provide the best possible conditions for the researchers and operational staff to realise their full potential. Apart from the research and production facilities, the Centre includes a living quarter for the employees and their families designed to accommodate 600 people.

As at 31 December 2011, the Company's investment amounted to RUR 730 million including equity contributions, which have been invested in the construction of the R&D center, its equipment and furnishings and in the creation of its infrastructure.

gical project **Generium**

THE MAIN OBJECTIVES OF R&D CENTRE GENERIUM (NauchTechStroy Plus LLC)

- Reproduction of know-how for the manufacture of biotechnological vital and essential pharmaceutical products
- Development of new advanced forms using cell, genetic engineering and protein technologies
- Introduction to the market of 8–10 new genetically engineered pharmaceutical products annually
- Collaborations with leading Russian and foreign scientific centres for the purpose of realising long-term scientific projects
- Organisation of local and international scientific advisory council


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Employees. Social Policy

The objectives of the Company's corporate social policy are to increase the efficiency of its activities, to create conditions ensuring the employees are socially protected and work in a stable and secure environment. Achieving these goals, in turn, makes the Company more attractive to highly-qualified personnel, reduces labour turnover and ensures its smooth and successful operation.

Employees

AS ON 31 DECEMBER 2011, THE GROUP OF COMPANIES PHARMSTANDARD HAD 5,966 FULL-TIME EMPLOYEES. 45% OFOUR EMPLOYEES WERE MEMBERS OF TRADE UNIONS.

Throughout 2011, Pharmstandard did not experience any interruption to any activities due to trade unions actions. This is why we believe that the level of employees' satisfaction with working conditions is high.

The increase in the number of employees working at the group of companies Pharmstandard, was the due to the continuing strategy of making customer relations more efficient by employing more specialised staff and also due to the acquisition of pharmaceutical company PJSC Biolek (Ukraine) by means of buying 55% of its shares in January 2011 and the establishment of Pharmstandard-Medtechnika LLC in July 2011.

Increase in the headcount of the group of companies of Pharmstandard in 2011 was due to our continuing implementation of the strategy to promote further specialization of the Company sales force to increase effectiveness of our work with the customers as well as due to the effects of the acquisition of PCS Biolik in Ukraine in January 2011 and our investment in Pharmstandard Medtechnika LLC in July 2011.

The following table shows our headcount as of 31 December:

Number of personnel	2010	2011	Difference, %
Prodution / Logistics	3,750	3,951	5.4%
R&D	144	162	12.5%
Marketing and promotion	987	1,051	6.5%
Administrative personnel	700	802	14.6%
TOTAL	**5,581**	**5,966**	**6.9%**

The table below shows the figures for the number of personnel of each production entity within the group of companies Pharmstandard as well as OJSC Pharmstandard and Pharmstandard LLC as on 31.12.2011.

Number of personnel	Kursk	Ufa	Tomsk	Tyumen	Biolik	Pharmstandard-Medtechnika LLC	Moscow	TOTAL
Prodution / Logistics	1,252	1,384	484	327	462	42	0	**3,951**
R&D	27	36	16	10	4		69	**162**
Marketing & promotion	0	0	0	0	0	5	1,046	**1051**
Administrative personnel	102	148	109	55	102	25	261	**802**
TOTAL	**1,381**	**1,568**	**609**	**392**	**568**	**72**	**1,376**	**5,966**

Social Policy

OJSC PHARMSTANDARD, THE UNDISPUTED LEADER OF THE RUSSIAN PHARMACEUTICAL INDUSTRY, WORKING FOR THE BENEFIT OF THE COUNTRY AND ASPIRING TO SUPPLY ITS POPULATION WITH MODERN, HIGH-TECH PHARMACEUTICAL PRODUCTS.

The underlying principles of Pharmstandard's social policy have been brought into line with Russian national policy in the sphere of medical supplies, which stipulates for the substitution of expensive imported products with affordable local products manufactured in compliance with the highest international standards.

Pharmstandard holds opinions of doctors and patients regarding the pharmaceutical products it manufactures in high esteem and maintains high level of investment in development and manufacture of new products for the treatment of social diseases and improvement of patients standard of living.

Pharmstandard is known for its commitment to product efficiency and safety. To meet these challenges, Pharmstandard has organised a rigorous internal system of pharmacovigilance focused on the collection and analysis of information about adverse events observed during a medication intake period. Another important focal point of this system is ensuring efficient interaction with respective regulatory authorities. The quality assurance service conducts thorough monitoring of research, manufacture, logistics and promotion of the Company's products making sure they fully comply with international standards.

Pharmstandard is a socially responsible Company, which provides target support to the most vulnerable social groups and social welfare institutions on a regular basis.

The objectives of the Company's corporate social policy are to increase the efficiency of its activities, to create conditions ensuring the employees are socially protected and work in a stable and secure environment. Achieving these goals, in turn, makes the Company more attractive to highly-qualified personnel, reduces labour turnover and ensures its smooth and successful operation.

The system of social security is based on the Collective Agreement which stipulates the priorities of the Company's social policy. It includes:

- Social support for employees and retired personnel through the programmes of welfare assistance.
- Protection of the employees' health including provision of emergency medical service and regular preventative medical examination for the Company's employees.
- Provision of health resort treatment for the Company's employees and their children.
- Voluntary medical insurance and accident insurance.

Risk Management

Our history and the impeccable reputation we have earned during the years of working in the Russian pharmaceutical market, are the guarantees of our professional performance and consequently of the high-quality of the Company's products.

Pharmstandard's team of top professionals ensures our expertise in forecasting and minimising potential risks.


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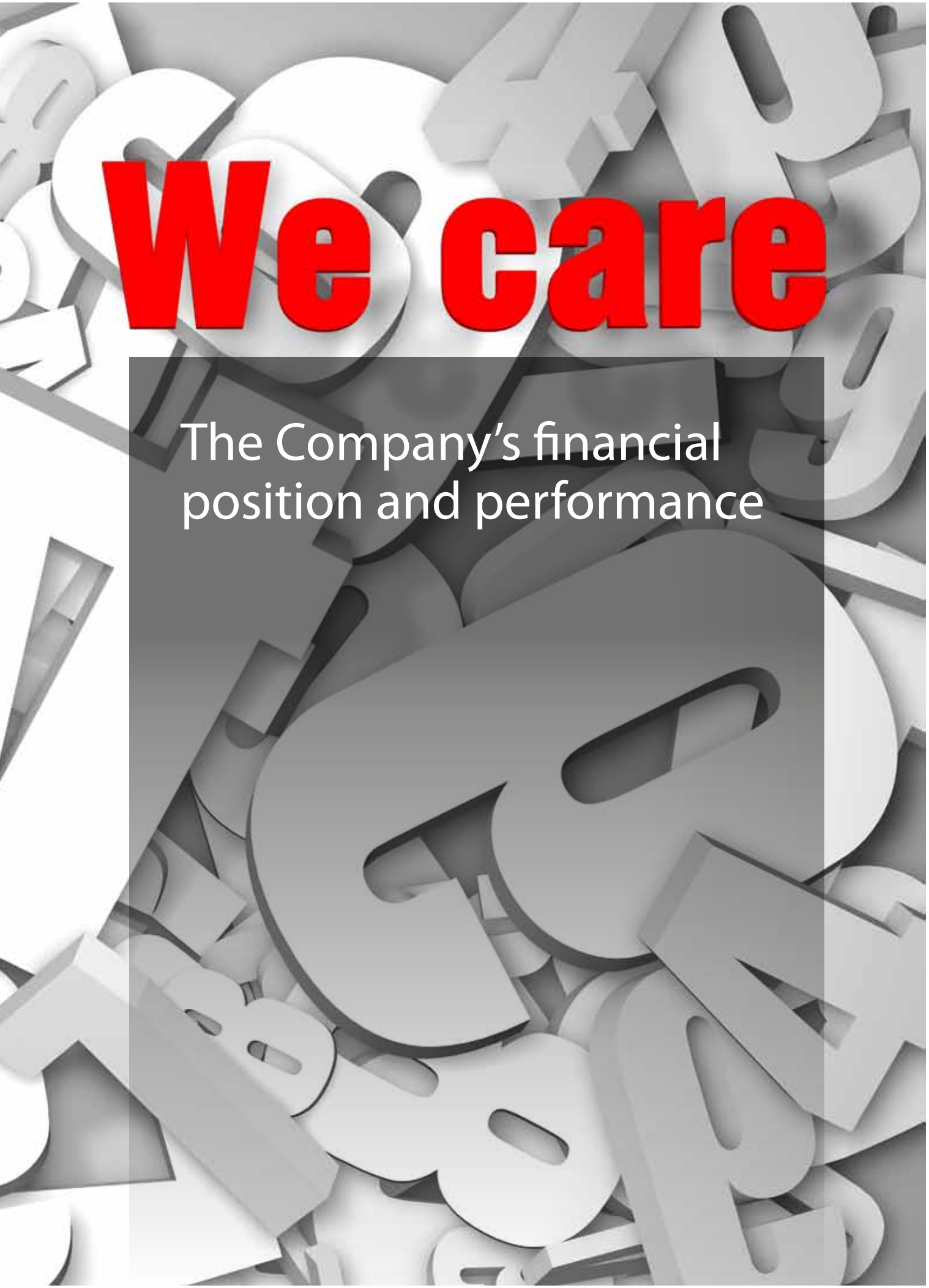
CATEGORY	CATEGORY SPECIFICATION	DEFINITION	POSSIBLE RISKS FOR PHARMSTANDARD GROUP	METHODS TO ADDRESS POSSIBLE RISKS	RISK PROBABILITY FOR PHARMSTANDARD GROUP
FINANCIAL	**INFLATION RISK**	a possibility that real value of assets (in the form of monetary assets), expected income and profit may decrease	risk of increase in raw material and supplies prices; lack of balanced mechanisms for establishing correlation between prices of raw material and supplies and prices of marketed products	changeover to shorter-term contractual obligations (conclusion of spot-contracts) with regard to the purchase of raw materials and supplies; appropriate pricing policy; reduction of time necessary for cost estimation	low
			risk of marketed products overpricing (use of non-competitive prices)	appropriate marketing policy and market monitoring	medium
			potential impairment of assets, including major brands (intangible assets)	regular monitoring of carrying costs evaluation carried out to determine asset recoverability	medium
	FOREIGN EXCHANGE RISKS	a risk of currency losses resulting from the change of the currency price rate with regard to the currency of payment in the period between the conclusion of a foreign trade, foreign economic or credit agreement and effecting of payments under such agreement	risks related to foreign currency loans and outstanding payments to raw materials suppliers	conclusion of contracts at a "budgeting rate"; additional assessment of the transaction	medium
	LIQUIDITY RISK	a possibility of losses on securities conversion or other commodities disposal resulting from the revision of their quality rating and realization value; insufficient funds for timely settlement of liabilities	risk of insufficient funds required for timely settlement of liabilities (discharge of taxes, payment of wages and salaries, repayment and servicing of loans)	an organized system for the planning and management of the scarcity of funds; the company has introduced new credit control standards to reduce the risk of overdue receivables	low
	CREDIT RISKS	risk of failure to collect receivables due from customers	risk of losses due to uncollectible accounts and delays with customer payments	the Company has introduced daily monitoring of the correlation between shipment and payment; tightened the measures for the changeover to delayed payment delivery system; developed reconciliation database and introduced weekly monitoring of receivables cash flow	low

CATEGORY	CATEGORY SPECIFICATION	DEFINITION	POSSIBLE RISKS FOR PHARMSTANDARD GROUP	METHODS TO ADDRESS POSSIBLE RISKS	RISK PROBABILITY FOR PHARMSTANDARD GROUP
OPERATIONAL	**PERSONNEL RISK**	risk of improper discharge of duties/ rules/procedures	risk of material errors and malpractices	enhancement of internal control measures	medium
		risk of inefficient corporate structure	risk of inefficient delegation of authority; creation of additional bureaucratic barriers, loss of operational efficiency of information flows established between distant enterprises	use of appropriate evaluation instruments for the existing business processes evaluation; organization of training sessions for the company personnel	low
		risk of key managers and specialists loss	risk of key managers and specialists loss	adequate compensation package	medium
		risk of qualified personnel shortage	risk of qualified personnel shortage	The Company's approach to building up its relationship with employees is based on Russian labour legislation and advanced human resource management methods and techniques. The standard of social provisions for employees meets the current requirements of the labor market. Regular training is organized by the Company for employees using its own and outside resources.	medium
	PROCESSES RISK	risk of incorrect organization of processes schedules and procedures	risk of incorrect organization of processes schedules and procedures	qualified personnel; a system of internal standards and procedures compliance control	low
		lack (inadequacy) of the information security system and/ or information access procedure	information security system inadequacy	creation of information access control; implementation of regular measures for identification and elimination of risk factors	low
	IT SYSTEMS RISK	technological risk of hardware or software failure	technological risk of hardware or software failure	creation of reserve database storage facilities/servers; qualified technical staff formation	low
	EXTERNAL FACTOR RISKS	risk of undetected competitive expansion	risk of competition within the pharmaceutical industry	development of R&D capabilities; analysis of the new pharmaceutical products market; portfolio diversification; expansion into new market segments through participation in government-sponsored schemes; support of import substitution strategy	low
		risk of inefficient acquisition	risk of losses resulting from the integration of acquired assets combined with the risk of weakened financial performance	thorough preliminary analysis; development of new methods	medium
		risk of participation in government-sponsored schemes	risk of overdue receivables (reserve) resulting from the sales of products under the FRP	collection of information; control of compliance with contractual terms and conditions; control of receivables structure and adequate diversification	medium
	RISK OF DIRECT FINANCIAL LOSSES	stock exchange risk	non-compliance with capital requirements or other legal (stock exchange) requirements	timely updating of information; distribution of responsibility areas among the corporate internal services; regular monitoring	medium
	LEGAL RISKS	state regulatory risk	risks due to changes in law and taxation	the Company focuses its attention on timely response to changes in law related to all areas in the industry; the functional of each Company's division implies monitoring of the RF statutes; in everyday affairs the Company applies up-to-date legal infoware; responsible officers of the Company regularly circularize amendments to law.	medium



The Company's financial position and performance

Management`s discussion and analysis

OUR (COMPANY'S) FINANCIAL POSITION AND PERFORMANCE SHOULD BE FURTHER REVIEWED ALONG WITH THE CONSOLIDATED FINANCIAL STATEMENTS, COMMENTS THERETO AND OTHER INFORMATION DISCLOSED IN THIS ANNUAL REPORT.

Performance

The table below presents an overview of the Company's performance, with the key figures representing the financial position as of 31 December 2011 and 2010, in absolute values and as percentage of sales.

In this table, third party products (hereinafter TPP) in the revenue section are presented separately. The purpose of such analytics is a more detailed reflection of the Company's performance with respect to its organic products and TPP (Third Party Products), manufactured and sold under agreements with other pharmaceutical companies.

	Year ended 31 December 2011						Year ended 31 December 2010	
	A		B		C		D	
	Consolidated results of the Company		Consolidated results of the Company, without Biolik		Biolik		Consolidated results of the Company	
	RUR mln	%	RUR mln	%	RUR mln	%	RUR mln	%
Revenue	42 653.9	100.0	42 113.8	100.0	540.1	100.0	29 686.6	100.0
Pharmaceutical products	41 890.3	98.2	41 350.2	98.2	540.1	100.0	29 056.1	97.9
OTC products	15 497.3	36.3	15 438.9	36.7	58.4	10.8	15 581.1	52.5
Branded	13 270.5	31.1	13 270.5	31.5	0.0	0.0	13 339.0	44.9
Non-branded	2 226.8	5.2	2 168.4	5.1	58.4	10.8	2 242.1	7.6
Rx products	4 279.4	10.0	3 798.2	9.0	481.2	89.1	3 294.2	11.1
Branded	3 509.4	8.2	3 411.4	8.1	98.0	18.1	2 806.9	9.5
Non-branded	770.0	1.8	386.8	0.9	383.2	71.0	487.3	1.6
TPP	21 726.0	50.9	21 726.0	51.6	0.0	0.0	9 893.8	33.3
Other sales	387.6	0.9	387.1	0.9	0.5	0.1	287.0	1.0
Medical equipment	763.6	1.8	763.6	1.8	0.0	0.0	630.5	2.1
Cost of sales	-26 728.4	62.7	-26 381.9	62.6	-346.5	64.2	-16 700.8	56.3
Gross profit	15 925.5	37.3	15 731.9	37.4	193.6	35.8	12 985.8	43.7
Selling and distribution costs	-3 642.1	8.5	-3 604.4	8.6	-37.7	7.0	-2 916.2	9.8
General and administrative expenses	-1 196.1	2.8	-1 144.0	2.7	-52.1	9.7	-892.0	3.0
Other expenses	-37.9	0.1	-8.2	0.0	-29.7	5.5	-300.8	1.0
Financial income	231.5	0.5	231.4	0.5	0.2	0.0	315.2	1.1
Financial expence	-43.2	0.1	-39.2	0.1	-4.1	0.8	-47.7	0.2
Profit before income tax	11 237.6	26.3	11 167.5	26.5	70.1	13.0	9 144.3	30.8
Income tax expense	-2 404.9	5.6	-2 387.6	5.7	-17.3	3.2	-1 980.5	6.7
Net profit	8 832.6	20.7	8 779.8	20.8	52.8	9.8	7 163.8	24.1
Attributable to equity holders of the parent	8 780.5		8 751.5		29.0		7 149.5	
Attributable to non-controlling interest	52.1		28.4		23.8		14.3	

The data for 2011 in the table includes financial performance of Ukrainian pharmaceutical company PJSC Pharmstandard-Biolik located in the city of Kharkiv. It manufactures immonubiological products, vaccines, serums, diagnostics products, nutrient mediums, blood products, hormonal, antiviral, antibacterial and enzymatic products. During 2011, Biolik was successfully integrated in the structure of the group of companies Pharmstandard.

The Company's core business is manufacture and sales of finished pharmaceutical products and substances, medical equipment. Sales of pharmaceutical products and medical equipment account for 98.2% and 1.8% of total sales, respectively. Pharmaceutical products and medical equipment are mainly sold under direct delivery contracts with wholesale distributors and/or medical institutions, as well as through state open auctions won by the Company.

In 2011, total sales amounted to RUR 42,653.9 million, which is 43.7% (RUR 12,967.3 million) above the corresponding 2010 figure (RUR 29,686.6 million).

In 2011, total revenue from sales of Vital and Essential Products (VEP) amounted to RUR 26,615.6 million or 62.4% of the Company's total revenue. Total revenue from sales of VEP, amounted to RUR 8,428.9 million or 40.3% of respective total revenue (excluding TPP).

ALL DATA IN THE FOLLOWING CHAPTERS IS QUOTED EXCLUDING FINANCIAL PERFORMANCE OF BIOLIK, EXCEPT WHEN STATED OTHERWISE.

Sales of Pharmaceutical Products

In 2011, total sales of the Company's pharmaceutical products in value terms amounted to RUR 41,350.2 million, an increase of RUR 12,294.1 million or 42.3% vs 2010 (RUR 29,056.1 million).

Organic sales of pharmaceutical products

Sales results for this category include pharmaceutical products manufactured at full-cycle production facilities of group of companies Pharmstandard, products procured from third parties for further resale, as well as manufactured by third parties on the Company's orders, excluding third party products sold by the Company through state open auctions under the 7 nosologies programme.

Growth of organic pharmaceutical product sales (excluding TPP) amounted to 2.4% or RUR 461.9 million in absolute terms. Total sales of organic pharmaceutical products in 2011 amounted to RUR 19,624.2 million vs RUR 19,162.3 million in 2010.

It should be noted that the main reason for the slower rate of growth of organic sales was a reduction in consumption of anti-viral and immunological products, including Arbidol®, due to the stable epidemiological situation in Russia, according to Rospotrebnadzor (Federal Service on Customers' Rights, Protections and Human Well-Being Surveillance).

Simulation of the above mentioned change in sales, without taking into account the contribution of Arbidol®, shows that in 2011 revenue of the Company from organic sales would have amounted to RUR 15,613.4 million, representing an increase of RUR 2,040.5 million or 15% vs the previous year (RUR 13,572.9 million).

Sales of OTC products in 2011 remained virtually at the level of 2010 and amounted to RUR 15,438.9 million as compared to RUR 15,581.1 million, or -0.9% (-RUR 142.2 million).

Sales of this category of products are largely driven by cold and flu products, analgesics and vitamins all of which are subject to seasonal demand: sales go up during the colder seasons and outbreaks of cold and flu.

In 2011, Arbidol® remained sales leader though its sales fell by 28.2% or RUR 1,578.6 and amounted to RUR 4,010.8 million vs RUR 5,589.4 a year earlier. This change in sales of this product was caused by a reduction in orders, which manufacturers of pharmaceutical products receive from distributors, due to the stable epidemiological situation in Russia, according to Rospotrebnadzor (Federal Service on Customers' Rights, Protections and Human Well-Being Surveylance), and also due to the stockpiles of such products in distributors' warehouses sufficient for maintenance of the current level of consumption.

The diagramme №1 reflects the dynamics of Arbidol® sales from 2007 to 2011.

In 2009, sales of Arbidol®, following the outbreak of the 'swine flu' pandemic (A(H1N1/09) strain), amounted to RUR 5,502.6 million vs RUR 2,730.6 million in 2008, an increase of 101.5%. In 2010, due to the anticipation of another pandemic which proved to be unjustified, sales of Arbidol® amounted to RUR 5,589.4 million or +15.8% (+RUR 86.8 million) as compared to 2009. In 2011, sales of a new form of Arbidol® (No. 40) amounted to 2.1 million items (+12.8% in relation to the level of 2010) which, in turn, led to a decrease in supply of the other forms (No. 10 and No. 20).

The OTC portfolio sales in 2011, without taking into account the contribution of Arbidol®, were RUR 11,428.1 million, representing an increase of 14.4% or RUR 1,436.4 million vs the previous year (RUR 9,991.7 million). Sales of only branded products on the same basis would have amounted, in 2011, to RUR 9,259.6 million vs RUR 7,749.5 million in 2010 (+19.5%).

Diagramme №2 shows the growth of branded OTC products and sales of Arbidol®.

Except for the above mentioned reduction in Arbidol® sales, the rest of OTC products showed a steady growth both in volume and in value terms.

The diagramme №3 presents the main leaders and growth drivers in the segment of branded OTC products in 2011.

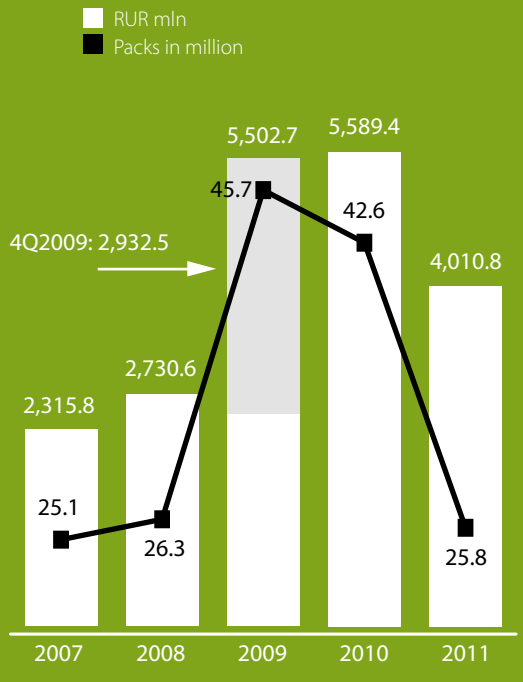
Sales of codeine free Pentalgin® and Codelac® Broncho in 2011 amounted to RUR 642.8 million representing an increase of 319.9% or RUR 489.7 million as compared to sales of codeine free products in 2010 (RUR 153.1 million).

Sales of Pentalgin® (codeine free) amounted to RUR 520.8 million or 21.9% of total revenue of the Pentalgin® product line in 2011(RUR 2,375 million). Growth of Pentalgin® (codeine free) in sales terms amounted to 536.6% or RUR 450.1 million (a year earlier it was RUR 70.7 million).

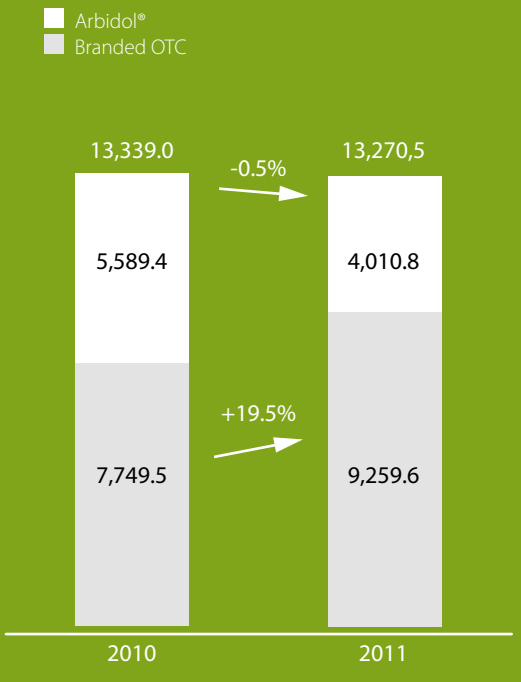
Sales of Codelac® Broncho (codeine free) amounted to RUR 122 million or 14% of total revenue of the Codelac® product line in 2011 (RUR 872.3 million). Growth of Codelac® Broncho (codeine free) amounted to 48.3% or RUR 39.7 million (a year earlier it was RUR 82.3 million).

In July 2011, Decree No. 599 of the Government of the Russian Federation of 20 July 2011 was published. It stipulates that as of 1 June 2012 preparations containing codeine can be purchased only with a doctor's prescription. It is worth noting that from 2008 the Company has been developing painkillers and products for cold and flu symptoms without codeine to be sold OTC.

1. Dynamics of Arbidol® sales



2. Growth of branded OTC products and sales of Arbidol®



The segment of non-branded OTC products shows a slight decrease in absolute terms, by RUR 73.7 million, from RUR 2,242.1 million in 2010 to RUR 2,168.4 million or 3.3%.

Sales of Rx products in 2011 grew by 504 million or 15.3%. Factor analysis of this change in sales results, for the segment of Rx products, shows that the price component contributed 21.9% to growth, while in volume terms sales fell by 6.6%.

Pharmstandard's 2011 excellent sales results in the segment of Rx products were due to trust these products gained among the inhabitants of Russia who value their impeccable quality and accessibility. In monetary terms, the sales leaders were Phosphogliv® (RUR 924.6 million), Biosulin® (RUR 409.2 million), Combilipen® (RUR 404.9 million), Rastan® (RUR 355.9 million), Octolipen® (RUR 188.7 million), Picamilon (RUR 169.2 million). The main growth drivers were Phosphoglive® (+RUR 225.8 million or 32.3%), Combilipen® (+125.8 million or 45.1%), Octolipen® (+RUR 95.9 million or 103.2%), Azitrox® (+RUR 50 million or 50.3%), Biosulin® (+RUR 48 million or 13.3%) and Artrozan® (+RUR 48 million or 134.3%).

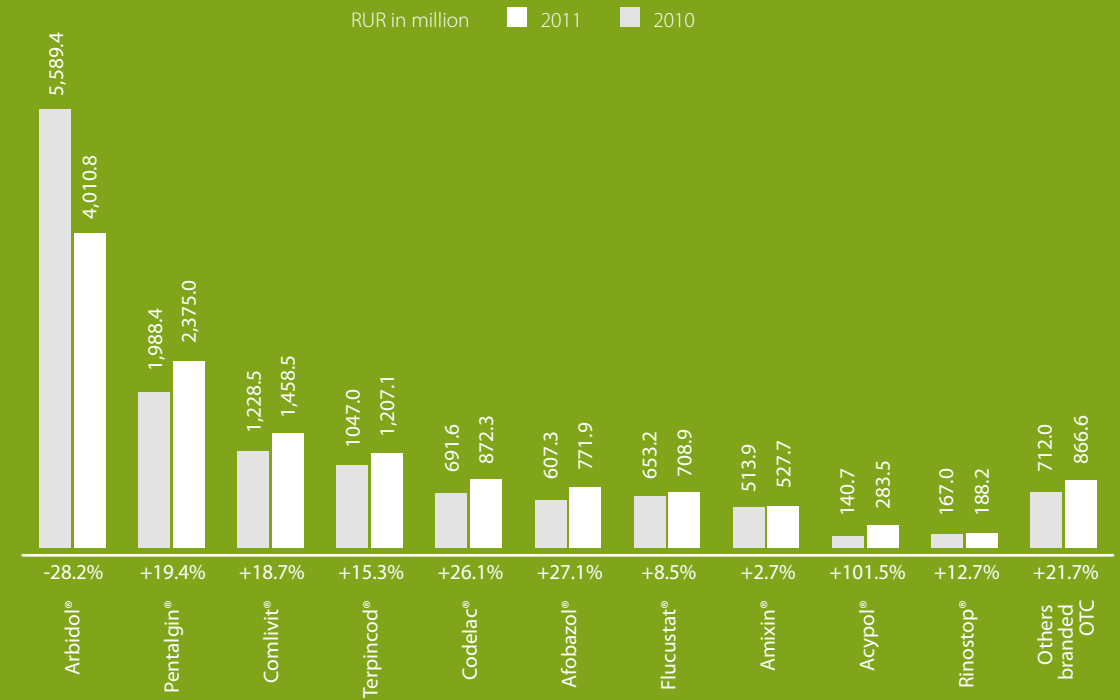
The diagramme №4 (on the next page) shows the main 2011 leaders and drivers in the segment of branded Rx products (RUR mln).

Cumulative gain of the segment of branded Rx products, excluding sales of Rastan® which was not supplied through state open auctions in first half of2011, amounted to RUR 688 million or 29.1%.

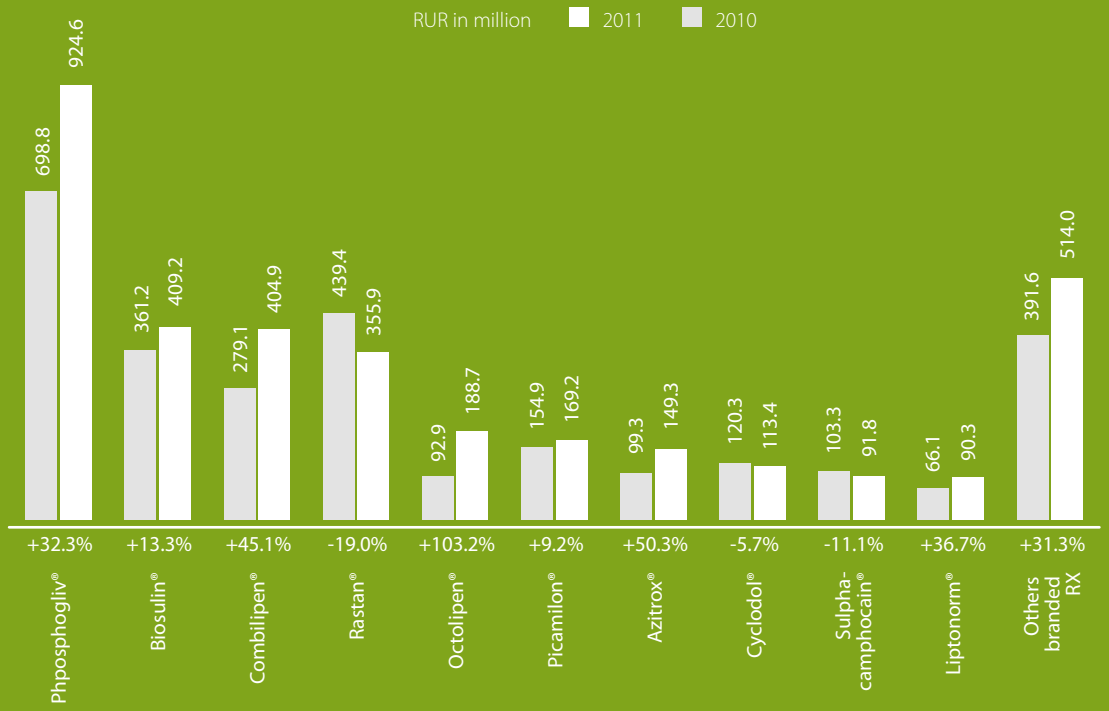
Sales of third party products (TPP) increased by 119.6% or RUR 11,832.1 million and totalled RUR 21, 726 million. The share of TPP in total sales for 2011 amounted to 52.5% (in 2010 it was 34.1%). The main sales growth drivers were Mabthera® (RUR 8,239.3 million), Velcade® (RUR 3,596.4 million), Coagil VII (RUR 1,707.3 million) Pulmozyme® (RUR 1,612.1 million), IRS®-19 and Imudon® (RUR 1,312.6 million), Prezista (RUR 1,243.6 million), Mildronate® (RUR 1,071 million).

Sales of third party products in 4Q2011 totalled RUR 9,986.6 million, an increase of 164.6% or RUR 6,213 million vs. RUR 3,773.6 million in 4Q2010. The share of TPP sales in 4Q2011 amounted to 45.9% of the Company's total TPP sales for the whole year. The increase is attributable to the commencement of sales of third party products (supplied in December 2011) under the 7 nosologies programme following the state open auctions in October. In 4Q2011 the Ministry of Healthcare and Social Development held state open auctions for procurement of pharmaceutical products under the 7 nosologies programme, to meet the demand in medicines in 2012 worth RUR 21,000 million (including VAT). Pharmstandard won auction contracts for procurement of TPP for

3. Main leaders and growth drivers in the segment of branded OTC products



4. Main 2011 leaders and drivers in the segment of branded Rx products



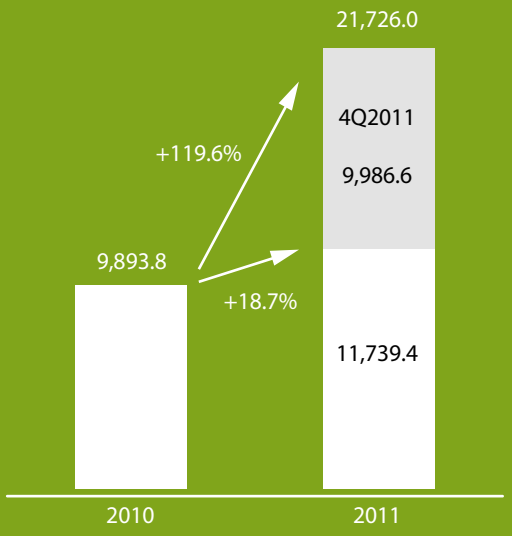
the amount of RUR 6,853.8 million (including VAT). All the products have been supplied in full and on time; the payment from the budget funds was received in December 2011.

The diagramme №5 shows the growth of TPP (RUR mln).

In 2011, Roche (Switzerland) and the group of companies Pharmstandard have completed the localisation of production of Mabthera® (rituximab) in the territory of the Russian Federation. The result of this partnership was a successful transfer of the final stages of production of this biotechnological original product to the modern plant of OJSC Pharmstandard-UfaVITA, a constituent part of the group of companies Pharmstandard.

Johnson & Johnson LLC, a pharmaceutical subdivision of Janssen, and OJSC Pharmstandard-UfaVITA signed a Memorandum of Intent outlining the main areas of co-operation as regards the localisation of full cycle manufacturing of Velcade® (bortezomib) included in the list of strategically important pharmaceutical products approved by a government Decree in July 2010. Within the framework of the Company's co-operation with its partners, the first production floor for the manufacture of cytostatic agents, in conformity with European GMP (Good Manufacturing Practice) standards, will be established in Russia.

5. Growth of TPP



The table shows the leading third party products sold in 2011 and 2010:

Brand	ATC	Category	2011			2010		
			Sales, RUR mln	% in Group	% of Pharma sales	Sales, RUR mln	% in Group	% of Pharma sales
Mabthera		RX	8 239.3	37.9	19.9	0.0	0.0	0.0
Velcade		RX	3 596.4	16.6	8.7	3 838.2	38.8	13.2
Coagil		RX	1 707.3	7.9	4.1	1 799.5	18.2	6.2
Pulmozyme		RX	1 612.1	7.4	3.9	610.2	6.2	2.1
Reduxin		RX	1 459.5	6.7	3.5	490.3	5.0	1.7
Irs-19, Imudon		OTC	1 312.6	6.0	3.2	533.5	5.4	1.8
Prezista		RX	1 243.6	5.7	3.0	942.5	9.5	3.2
Mildronate		RX	1 071.8	4.9	2.6	1 211.7	12.2	4.2
Other TPP			1 483.3	6.8	3.6	467.9	4.7	1.6
TOTAL			**21 726.0**	**100.0**	**52.5**	**9 893.8**	**100.0**	**34.1**

Sales of medical equipment

Sales of medical equipment in 2011 increased by RUR 133.1 million or 21% and totalled RUR 763.6 million vs RUR 630.5 million during 2010. The overall increase in the segment of medical equipment resulted primarily from the expansion of the line of products sold through Pharmstandard-Medtechnika LLC, a joint venture established for sales of medical equipment. This joint venture was set up by Pharmstandard and group of companies DGM in June 2011 to boost sales of medical equipment for disinfection and sterilisation.

Joint operation has enabled JSC Pharmstandard and the DGM Group of Companies to combine their respective expertise for sales of hi-tech Russian medical equipment for disinfection and sterilization. The main objectives of Pharmstandard-Medtechnika LLC include promotion of the full range of equipment for the construction of infection control systems and Central Sterilization Departments within medical establishments, marketing, sales (both direct and through distribution networks), provision of comprehensive services and training for clients.

Cost of sales

Cost of sales comprises API and other material costs («materials and components»), third party products for resale costs, overhead production costs, direct labour costs and amortization and depreciation.

In 2011, cost of sales increased by RUR 9,681.1 million or 58%, as compared with 2010, and amounted to RUR 26,381.9 million vs RUR 16,700.8 million in 2010. The share of cost of sales in the total sales increased in 2011, to 62.7% vs 56.3% in 2010:

	Year ended 31 December 2011		Year ended 31 December 2010	
	RUR mln	%	RUR mln	%
Sales of goods by Pharmstandard	42 113.8	100.0	29 686.6	100.0
Cost of sales	-26 381.9	62.6	-16 700.8	56.3

The main expenditure items in the structure of cost of sales were "API and other materials" and "third party products for resale costs" amounting in total to 91.9% of the overall costs of sales. A considerable share of the increase in the cost of sales was due to the growth of expenditure on "third party products for resale" by RUR 10,050.8 million or 121.5%, from RUR 8,272.4 million in 2010 to RUR 18,323.2 million in 2011, which was due to the state open auctions for product procurement under the 7 nosologies programme, won by Pharmstandard.

The table below demonstrates organic changes in sales and cost of sales, excluding third party products sales:

	Year ended 31 December 2011		Year ended 31 December 2010	
	RUR mln	%	RUR mln	%
Pharmstandard's organic sales	20 387.8	100.0	19 792.8	100.0
Cost of sales	-8 058.7	39.5	-8 428.5	42.6

In 2011, cost of sales of Pharmstandard's own, i.e. organic, products in relation to the respective sales was 39.5% which is 3.1% lower than the corresponding figure for the 12 months of 2010 (it was 42.6% in 2010). This change in cost of sales is mainly attributable to a reduction in expenditure for "API and other materials" due to the changes in the structure of sales described above and also due to the lower cost of basic supplies and raw materials consequent to the strengthening of the rouble in relation to foreign currencies during the period under review. The reduction in the ratio of cost of sales in relation to sales, accompanied by an increase in sales of organic products, could also be explained by the increase in sales of original products with a higher profit margin and a lower consumption of materials.

Below is a separate table presenting the changes in the third party products sales and cost of third party product sales:

	Year ended 31 December 2011		Year ended 31 December 2010	
	RUR mln	%	RUR mln	%
TPP	21 726.0	100.0	9 893.8	100.0
Cost of sales	-18 323.2	84.3	-8 272.4	83.6

The increase in the cost of sales of third party products in relation to their sales was caused by the changes in the sales portfolio structure during this period which was due to the following factors:

- inclusion in the portfolion of Mabthera®, a third party product (Hoffmann La Roche);
- selling price of some products increased;
- selling prices of certain products decreased, owing to the results of state open auctions.

Gross profit

Gross profit of the Company increased by RUR 2,746.1 million (or 21.1%): from RUR 12.985.8 million in 2010 to RUR 15,731.9 million in 2011. In relation to sales, total gross profit decreased from 43.7% in 2010 to 37.4% in 2011. This decrease was primarily due to a higher share of third party products in the Company's total sales structure.

In 2011, gross profit of the Company's pharmaceutical product segment was RUR 15,468.4 million, or 37.4% of pharmaceutical sales vs RUR 12,812.3 million or 44.1% in 2010.

A review of the Company's organic sales (i.e. excluding third party product sales) shows that 2011 gross profit was RUR 12,329.1 million, which exceeds the previous year's figure, RUR 11,364.4 million, by RUR 964.7 million, or 8.5%. Gross profit from the Company's organic sales in relation to the volume of sales amounted to 60.5% in 2011 as compared to 57.4% in 2010. This increase was caused primarily by (1) the change in cost of sales described above and (2) changes in the structure of sales as original products with a higher profit margin.

In 2011 and 2010 sales of TPP had similar profitability: 15.7% and 16.4% respectively.

In the segment of medical equipment gross profit in 2011 amounted to RUR 263.4 million, or 34.5% of this segment's sales volume which is significantly higher than the respective figure for 2010 (RUR 173.7 million or 27.6%). This positive change was brought about by the creation of a joint venture Pharmstandard-Medtechnika LLC (Pharmstandard 75% and DGM 25%).

Operating expenses

Operating expenses increased in absolute terms by RUR 940.2 million (24.7%) from RUR 3,808.2 million in 2010 to RUR 4,748.4 million in 2011. In relation to sales, in 2011 operating expenses decreased from 12.8% in 2010 to 11.3% in 2011. This decrease in relative terms was caused by the increase in third party products' share of sales. It is worth noting that operating costs with respect to TPP sales are considerably lower than the costs related to organic sales, primarily because TPP products do not require active promotion.

Selling and distribution costs (S&D) in 2011 increased by RUR 688.2 million (23.6%) and amounted to RUR 3,604.4 million vs RUR 2,916.2 million in 2010 (8.6% and 9.8% of sales in the respective years).

Organic S&D (excluding third party product expenses) in relation to sales amounted to 15.9% in 2011 vs 13.6% in 2010.

Marketing, advertising and promotional expenses accounted for 46.7% of the total S&D expenses, amounting to RUR 1,683.8 million, an increase of RUR 256.4 million or 18% in relation to the respective figure in 2010 (RUR 1,427.4). With respect to the Company's total sales, this expense category for 12 months of 2011 amounted to 4.0%, compared with 4.8% in 2010. The biggest share of S&D expenses is allocated to media support of branded organic OTC products which are in the stage of active promotion, by means of placing advertisements in mass media.

In 2011, labour costs increased by RUR 262.3 million or 31.8% vs 2010 and amounted to RUR 1,088.6 million (30.2% of S&D structure). This was mainly attributable to an increase in head count of marketing and promotion personnel, as well as to the increase in statutory contributions to social insurance funds due to higher rates established by the state.

Other S&D expenses grew by RUR 169.4 million (25.6%) in relation to the previous year and amounted to RUR 832 million (23.1% of S&D). Expenses increased due to the following main factors related to growing sales: an increase in expenses for transportation, insurance and certification of finished products, an increase in expenses on business travel and training of the growing number of employees involved in promotion, an increase in expenses on renting and repair and reconstruction works caused by expanding office and storage facilities (primarily as a consequence of increased supplies of TPP).

General and administrative expenses (G&A) in 2011 increased by RUR 252.1 million (28.3%) and amounted to RUR 1,144 million vs RUR 891.9 million in 2010 (i.e. 2.7% of the overall 2011 sales volume vs 3% in 2010). In 2011, G&A expenses (excluding TPP), accounted for 3.8% of total sales, which is similar to the level of 2010.

Labour costs represented the greatest share of general and administrative expenses (64.7% of G&A) and increased by RUR 189.1 million (34.3%), from RUR 551.2 million in 2010 to RUR 740.3 million in 2011. This was primarily due to the increase in headcount of qualified staff by 14.6%, the scheduled increase in payroll rates and the changes in the bonus plan, as well as to the growth of social contributions caused by changes in legislation.

Operating profit

In 2011 operating profit (revenue, cost of sales, operating expenses) increased significantly and amounted to RUR 10,983.5 million as compared to RUR 9,177.6 million in 2010 (in percentage terms the change amounted to +19.7%). In relation to sales, our operating profit accounted for 26.1% of sales in 2011 as compared to 30.9% in 2010.

Operating profit (without the contribution of TPP) amounted, in 2011, to 40.8% of total sales of Company's products vs 40% in 2010.

We attribute this increase in profitability of organic products primarily to (1) the changing sales structure as original products with a higher profit margin are gaining in prominence, (2) an increase in profitability due to changes in the material component in the cost structure, described above.

EBITDA

In 2011 EBIDTA amounted to RUR 11,831.2 mln or 28.1% in relation to total sales vs RUR 9,685.2 million or 32.6% in 2010. In absolute terms, EBIDTA grew, during the 12 months of 2011, by RUR 2,146 million or 22.2% as compared to the previous year.

In 2011, organic EBIDTA (excluding TPP) increased by RUR 726.6 million or 8.6% amounting to RUR 9,155.2 million (44.9% of sales) vs RUR 8,428.7 million (42.6%) in 2010.

Other expenses (income), net

The net amount of 'Other Expenses' in 2011 was RUR 8.2 million as compared to 'Other Expenses' of RUR 300.8 million in 2010. This was primarily due to (1) an increase in revenue from transactions related to non-core business operations under agreements signed with third parties, first of all revenue from agency commissions amounting to RUR 166.2 million; (2) recognition of financial discounts as per contract terms with respect to certain pharmaceutical products procured in 2010, for the amount of RUR 63.5 million; (3) In 2010 expenses related to joint venture NTS+ were recognized in other expenses line of RUR 248.3 million in comparison with RUR 53.1 million in 2011.

Financial income and financial expense

Our financial expense, mainly related to the interest on loans received, decreased by RUR 8.5 million or 17.9%, from RUR 47.7 million in 2010 to RUR 39.2 million in 2011. This was primarily due to of the repayment of the Citibank syndicated loan, as per agreement concluded in 2006 (full repayment made in 2011). The main source of financial income, which in 2011 amounted to RUR 231.4 million vs RUR 315.2 million in 2010, was interest from cash deposits in interest paying bank accounts.

Income tax expense

In 2011, the Company incurred RUR 2,387.6 million of income tax expense compared to RUR 1,980.5 million in 2010. Effective tax rate in 2011 was 21.4%.

Profit for the year and non-controlling interest

In 2011, the Company's profit grew by RUR 1,616 million (22.6%) and amounted to RUR 8.779.8 million as compared to RUR 7,163.8 million in 2010. These figures represent 20.8% and 24.1% of sales for the respective years.

The Company's profit (excluding TPP) accounted for 32.6% of organic sales in 2011 vs 31.2% in 2010.

In 2011, profit attributable to the equity holders of the Parent Company was RUR 8,751.5 million.

Earnings per Company's share in 2011 were RUR 242.07 which is 27.9% more than RUR 189.18 in 2010.

Weighted average number of ordinary shares in issue during 2011 was 36,272 (in 2010 it was 37,793). This change is attributable to OJSC Pharmstandard's repurchase of shares following the offer announced and executed in 1Q2011 by subsidiary OJSC Pharmstandard-Lekredstva. These shares are registered as treasury shares; weighted average number of shares for 2011 was calculated in compliance with the requirements of IAS33.

PJSC PHARMSTANDARD-BIOLIK

In 2011 Ukrainian company PJSC Biolik was successfully integrated into the Pharmstandard group of companies. It was the first acquisition by the Company of a manufacturing entity in Ukraine whose market is the second largest (after Russia) in terms of sales in the CIS. Biolik is the largest Ukrainian facility for the production of immunobiological preparations, vaccines, serums, diagnostics products, culture mediums, blood products, hormonals, antivirals, antibacterials and enzymatic products. Its products are sold in all regions of Ukraine and Russia and are imported to other CIS countries and to Europe.

In 2011, PJSC Pharmstandard-Biolik was in the 10th position amongst all the companies in Ukrainian pharmaceutical market, and also was one of the biggest players in the hospital sales and retail categories (source: Ukrainian system of market research «Pharmstandard»).

Sales of pharmaceutical products

The table below shows Biolik's structure of sales of pharmaceutical products in 2011:

	2011	
	RUR mln	%
Revenue	540.1	100.0
OTC products	58.4	10.8
Non-branded products	58.4	10.8
Rx products	481.2	89.1
Branded products	98.0	18.1
Non-branded products	383.2	71.0
Other sales	0.5	0.1

The table below contains sales data for the leading products in the 2011 portfolio (their aggregate share of total sales amounted to 62.1%). Finished products, especially Tuberculin, Heparin and Immunoglobulin, are the most prominent element in the structure of sales.

Brand	Category	2011	
		Sales, RUR mln	%
Tuberculin	Rx	91.7	17.0%
Heparin	Rx	51.5	9.5%
Anti-rabies immunoglobulin	Rx	37.8	7.0%
Doxorubicin	Rx	32.6	6.0%
Interferon leukocyte	OTC	25.9	4.8%
Dalargin	Rx	25.1	4.6%
Arcuron (Arduan)	Rx	23.7	4.4%
Hepatitis B vaccine	Rx	19.9	3.7%
Ftorolek	Rx	17.9	3.3%
Oxytocin	Rx	8.8	1.6%
Other products		204.7	37.9%
Total:		**539.6**	**100.0%**

The table below shows the structure of sales of branded Rx products:

Brand	2011	
	Sales, RUR mln	%
Dalargin	25.1	25.6%
Doxorubicin	32.6	33.2%
Idalek (Idarubicin)	0.8	0.8%
Mitoliek	11.9	12.1%
Pactalek	0.8	0.8%
Ftorolek	17.9	18.3%
Epilek	8.9	9.1%
Total sales of branded Rx products	**98.0**	**100.0%**

Among the branded products, all except Dalargin belong to the group of antineoplastic products; while Dalargin belongs to the group of medicines for the treatment of acid dependent diseases.

The main financial data:

	2011	
	RUR mln	%
Revenue	540.1	100.0
Cost of sales	-346.5	64.2
Gross revenue	**193.6**	**35.8**
Selling and distribution costs (S&D)	-37.7	7.0
General and administrative expenses	-52.1	9.7
Other operating expenses	-29.7	5.5
Financial income	0.2	0.0
Financial expense	-4.1	0.8
Profit before tax	70.1	13.0
Income tax expense	-17.3	3.2
Net profit, including	**52.8**	**9.8**
The share of OJSC Pharmstandard	29.0	
Non-controlling interests	23.8	

Liquidity and Capital Resources

Review

Our liquidity requirements arise primarily from the need to increase the Company's working capital, finance its capital investment projects and expand its product portfolio through selective acquisitions of subsidiaries and intangible assets. During the periods covered by the Company's Consolidated Financial Statements, we financed our operations and investments through free cash flow and short-term borrowings up to one month. In future, we also intend to fund acquisitions, if any, through free cash flow and, if necessary, through external borrowings and loans.

The following table summarises our cash flows in 2011 and 2010:

Cash flow	Year ended 31 December 2011, RUR mln	Year ended 31 December 2010, RUR mln
Net cash flow from operating activities	**8,056.9**	6,511.9
Net cash used in investing activities	**(1,680.3)**	(4,776.7)
Net cash used in financing activities	**(5,153.0)**	(377.1)
Cash and cash equivalents at the end of the period	**5,383.1**	4,156.3

Net cash from operating activities

Substantially, all our cash flows from operating activities for the periods covered by the Company's Consolidated Financial Statements were generated from sales of pharmaceutical products and medical devices.

Standard commercial contracts that we sign with distributors provide for a 90–120 day credit period from the date of shipment, and we offer individual credit conditions to each distributor. For product supplies under the state open auctions the credit period usually does not exceed 90 days from the moment of the Company's discharge of obligations under the contract. For product supplies within the framework of joint commercial projects with other, third-party, producers, the credit period is determined individually for each contract and is usually limited to a period of 60-110 days from the date of delivery of goods.

Net cash flow from operating activities for 2010 and 2011 amounted to RUR 6,512 million and RUR 8,057 million respectively. The increase in net cash from the Company's operating activities in 2011 mainly resulted from:

- an increase in sales through the state open auctions. The increase in net cash flow from operating activities was also due to sales, in 4Q2011, through the state open auctions for supply of required pharmaceutical products in 2012 won by the Company. In 2011, the Company continued its successful co-operation with third-party pharmaceutical producers with respect to such brands as Velcade®, Coagil® VII, Prezista®, Pulmozyme®, and also signed new production localisation and distribution agreements for Mabthera®;
- the increase in sales of the leading Company's brands such as Afobazol®, Complivit®, Pentalgin®, Codelac®, Biosulin®, Flucostat®;
- the increase in distribution and sales of pharmaceutical products sold under contracts with third-party manufacturers sold, outside the framework of Open state auctions, such as Mildronate®, Taufon®, Reduxin®, IRS®-19, Imudon®;
- the increase in sales and profitability in the segment of medical equipment and disposables, resulting primarily from the operations of a new joint venture, between the Company and DGM Trading Limited, regarding relating to distribution of medical equipment produced by both parties.
- the positive influence on the operating cash flow of the revenue from sales of products manufactured by Pharmstandard-Biolek (Ukraine) following the purchase of 55% of its shares by the Company in 2011.

On the other hand, the Company's operating cash flow was negatively affected by the reduction in sales of Arbidol®, one of the Company's leading brands, which was due to the favourable epidemiological situation with

respect to flu and cold viruses in Russia in 2011 leading to a general decrease in orders from the main distributors for anti-flu and anti-cold products, including such products manufactured by the Company.

The operating cash flows of the Company were negatively impacted by the increase in receivables in 2011 in the amount of RUR 1,801 mln and by the amount of RUR 2,957 mln in 2010 due to increase in sales to distributors under the commercial contracts with extended credit terms.

Operating cash flow with respect to payables virtually has not changed in 2011 as compared to cash inflow of RUR 6,816 mln in 2010 with respect to payables, which was due to

(i) the Company fulfilled its obligations under the state open auctions contracts in 2011 which were prepaid in the amount of RUR 1,337 mln in 2010
(ii) the increase in procurement of third-party pharmaceutical products and in related payables owed to their manufacturers in 2011 and
{iii) the offsetting decrease in payables, in 4Q2011, due to reduction in procurement of raw materials needed for the manufacture of Arbidol®, as compared to 4Q2010. Reduced level of procurement of Arbidol® raw materials was due to the forecast of the epidemiological situation with respect to flu and cold in the Russian Federation.

The increase of cash inflow with respect to the Company's inventories in 2011 as compared to cash outflow in 2010 was due to (i) supply by the Company of pharmaceutical products which had been in storage as of 31.12.2010 through the open auction contracts signed in 2010 and (ii) optimisation of the Company's product and raw materials stock in line with market requirements and the Company's production and sales plans.

The increase in cash outflow with respect to advance payments made by the Company, amounted to RUR 497 mln (RUR 83 mln in 2010). This change was primarily caused by the pre-payments made in December 2011 for supplies of TPP carried out in 2012, due to the increase in the range of Third Party Products sold by the Company.

Net cash used in investing activities

In 2010 and 2011 net cash used in investing activities amounted to RUR 4,777 million and RUR 1,680 million respectively. During these periods, the most significant investment activities included property acquisition, construction and modernisation of manufacturing facilities, construction of a R&D centre on the basis of a joint venture NauchtechStroy Plus LLC, acquisition of equipment and intangible assets, acquisition payments for Pharmstandard-Biolek, a new subsidiary in Ukraine, as well as operations with short-term bank deposits and promissory notes. In 2010 and 2011, the Company paid RUR 1,052 million and RUR 1,752 million, respectively, for acquisition of property, manufacturing facilities and equipment. These acquisitions were primarily made for the development of the Company's production capacities, including (i) the construction of new storage facilities, the reconstruction of the facilities for manufacturing injectable pharmaceutical products, the reconstruction of the manufacturing facilities for the production of cytostatics, the construction of a new manufacturing facility for the production of multivitamin products, as well as the acquisition of new equipment for these facilities in Ufa; (ii) the construction of a new logistics facility, the expansion and reconstruction of the manufacture of existing and new tablet form products in Kursk; (iii) the construction of the R&D complex NauchtechStroy Plus LLC; (iv) replacement of fully depreciated equipment at all manufacturing facilities of the Company.

In 2011, the Company did not invest in intangible assets, as compared to 2010 when it acquired the Acipol® trademark for RUR 806 million.

In 2011, the Company paid RUR 202 million to purchase a 55% share in its subsidiary Biolek, while in 2010, the Company made an initial payment relating to this acquisition in the amount of RUR 184 million.

In 2011, net cash used for purchase of financial assets, promissory notes and bank deposits, amounted to RUR 1,787 million (as compared to RUR 3,312 million in 2010). In 2011, the net cash inflow from operations with these financial instruments amounted to RUR 2,012 million (as compared to RUR 772 million in 2010).

Net cash used in financing activities

In 2010 and 2011, the net cash used in financing activities amounted to RUR 377 million and RUR 5,153 million, respectively. In 2011, the Company made payments amounting to RUR 5,474 million according with the terms of the offer announced by its subsidiary OJSC Pharmstandard-Leksredstva in January 2011 with respect to repurchasing the Company's own 1,824,750 of its ordinary shares. Other significant cash flows in financing activities included the following: (i) the repayment of a Citibank syndicated loan denominated in US dollars and received in 2006 with all the outstanding amounts concerning the loan in question having been fully repaid in December 2011 in the amount of RUR 386 million in 2011 and RUR 395 million, respectively; (ii) the procurement, in 2011, of short-term loans (up to a period of one month) for funding current activities of the Company and the repayment of such loans, with the total borrowings amounting to RUR 2,300 million and the total cost of borrowing for these loans - to RUR 1,600 million.

Contractual obligations and other commitments

As of 31 December 2011, the most significant contractual obligations of the Company were as follows: (i) obligations to third parties in relation to purchases from third party manufacturers of such products as Velcade®, MabThera®, Pulmozyme®, Mildronate®, Coagil®, Reduxin® amounting to RUR 8,318 million (RUR 6,717 million in 2010); (ii) obligations of the Company's subsidiary, Pharmstandard-Biolek, including promissory notes, which amount to RUR 432 million and are denominated in USD and EURO. These promissory notes originate mainly from the period prior to the Company's purchase of the subsidiary and are now Pharmstandard-Biolek's debts to the companies affiliated with previous and current non-controlling shareholders of Pharmstandard-Biolek with respect to several manufacturing agreements.

As of 31 December 2011, we had no other significant contractual obligations, except for certain liabilities incurred in the ordinary course of business, such as trade payables, wages and tax payables.

Disclosures About Market Risk

Operating environment

Russian economic reforms and the development of the legal, tax and regulatory framework in compliance with the market economy are in process. Future stability of the Russian economy to a large extent depends on these reforms and changes, as well as on the efficacy of economic, financial and monetary measures being undertaken by the government.

The Russian economy is vulnerable to global market downturns and economic slowdowns. In Russia, the global financial crisis has resulted in the reduction of gross domestic product, capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions. While the Russian government has developed and introduced a range of stabilization measures to provide liquidity to Russian banks and companies, there is still no certainty regarding access to capital and the cost of capital for the Company and its counterparties, which can affect the financial position, performance and business prospects of the Group.

Starting from 2009, the Russian government has undertaken a range of measures to improve the situation of the pharmaceutical market. Among these measures are: the enacted Laws on Circulation of Medicinal Products, on the Fundamentals of Citizens' Health Protection in the Russian Federation, introduction of mandatory registration of prices for Vital and Essential Products, tightening of control over manufacturers' and importers' pricing policy and distributors' and retailers' mark-up policy with respect to medicinal products, the enacted Transfer Pricing Law, as well as revision of the list of OTC products. However, currently we do not expect these measures to greatly influence the sales structure and profitability of the Company, since it responds in a timely way to such changes and undertakes adequate measures both in the area of the Company's management on the whole and in the area of modification of existing Company business processes, procedures and policies.

Credit risk

Our principal credit risk arises from the customers' possible failure to fulfill their payment obligations under sales contracts. In compliance with the Company's general principles for doing business, substantially all of our sales are made on credit terms. The credit terms depend on our credit and marketing practices with respect to a particular customer. We manage credit risk by relying on a policy which ensures that products are only sold to customers with an appropriate credit history. Moreover, we carry out daily monitoring of sales and receivables by means of effective internal control procedures and undertake necessary measures following such analysis. Our Credit Committee including CEO, CFO and CCO approves the Company's Credit Policy, which is revised in response to particular circumstances. According to the Company's Credit Policy, customers are generally divided into three categories: (i) customers with maximum credit limit; (ii) customers with individual credit limit to be approved by the credit committee and (iii) customers who have to make prepayments. The majority of our sales contracts are concluded with the customers who fall under the first category (in 2010 and 2011, approximately 60% of sales, excluding sales under state open auctions were made to our five major distributors). The carrying amount of the accounts receivable, net of provisions, represents the maximum amount of exposure to credit risk, at the end of each quarter. We believe that, other than the concentration with the five major customers, we have no significant concentrations of credit risk. Although collection of receivables can be influenced by various economic factors, the management believes that there is no significant risk of loss beyond with respect to provisions stipulated by respective contracts.

Currency Risk

A certain amount of our purchases is denominated in currencies other than the Russian rouble (the functional currency of Russian businesses and reporting currency used in our Consolidated Financial Statements). We incur currency risk whenever we enter into transactions denominated in a currency other than our functional currency. Generally, our foreign currency transactions, which account for a substantial proportion of the Company's purchases of raw materials, as well as for acquisition of subsidiaries and intangible assets, are settled in US dollars and

Euro. Therefore, our cost of sales, operating expenses presented in our Consolidated Financial Statements as well as payables and borrowings reflected on the balance sheet of the Company, can be influenced by the foreign exchange rate fluctuations. We reduce the foreign exchange risk by monitoring changes in exchange rates in the currencies in which our cash, payables, loans and borrowings are denominated. In particular, for the reduction of this risk we use up-to-date prediction methods and an individual approach to each deal involving foreign currencies in our contractual activity. Our well-designed budgeting system enables one to make timely management decisions related to all subsidiaries of the Company. In 2011 the Russian rouble had strengthened against those currencies essentially due to the positive changes in the global stock and commodity markets and in the Russian economy. In the second half of 2011, the Russian rouble was affected by the negative developments in the world economy and consequently devalued against certain currencies (primarily the US dollar and Euro).

We expect that during 2012 also, the rate of the Russian rouble will not change significantly in relation to the US dollar and Euro as compared with the rates as of the date of the Company's Consolidated Financial Statements issuance. It is also worth mentioning that, despite the fact that the functional currency of Pharmstandard-Biolek, the Company's subsidiary, is Ukrainian Hryvnia, we do not expect any significant currency risk with respect to Pharmstandard-Biolek, due to a relative stability of Ukrainian Hryvnia in relation to the Russian rouble, US dollar and Euro in the past periods and a relative insignificance of this subsidiary to the overall business activity of the Company.

Interest rate risk

We believe that the Company's cash flow is not exposed to a serious interest rate related risk because the Company did not have any significant debt as of 31 December 2011. All our financial instruments have had a fixed interest rate and have been were of a short-term nature. At present, we have no reasons to believe that the current market interest rates with respect to deposits and debt financing are likely to change considerably in the short-term horizon.

Liquidity risk

Our policy with respect to reducing the liquidity risk is to maintain sufficient cash and cash equivalents or to have available funding through an adequate amount of committed credit facilities to meet our operating and financial commitments. We perform continuous monitoring of cash deficit risks, as well as of our scheduled liability repayments accuracy. Moreover, we perform daily planning and control of cash flow. The management of the Company believes that it has sufficient resources of both available cash and bank deposits, necessary to maintain an adequate liquidity level.

Capital Risk Management

The Company's principle objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for our shareholders and maintain an optimal capital structure, which ensures the reduction of the cost of capital. The Company manages and adjusts its capital structure depending on external economic conditions. To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt, and repurchase its own shares from shareholders as was the case with the offer made by subsidiary OJSC Pharmstandard-Leksredstva, at the beginning of 2011.

Commodity price risk

We do not think that the Company is subject to any significant material risk resulting from fluctuations in the prices of raw materials and supplies used in our production processes because, on the whole, our business does not significantly depend on any specific commodity and because there is no significant correlation between the rise and fall of the prices of different raw materials and supplies, as well as commodities for resale procured by the Company.

Consolidated Financial Statements for the year ended 31 December 2011

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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 ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, 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.

Management's responsibility for the consolidated financial statements

Management 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entity's 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, 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 the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

23 April 2012

Consolidated statement of financial position as at 31 December 2011

(in thousands of Russian Roubles)

	Notes	2011	2010
ASSETS			
Non-current assets			
Property, plant and equipment	11	5,543,692	4,168,079
Intangible assets	12	6,717,624	6,686,210
Prepayment for subsidiary acquisition	5	–	184,072
		12,261,316	**11,038,361**
CURRENT ASSETS			
Inventories	13	7,145,291	7,466,214
Trade and other receivables	14	14,247,421	12,376,059
VAT recoverable		369,712	480,142
Prepayments	15	745,734	219,621
Short-term financial assets	17	3,446,041	3,682,023
Cash and short term deposits	16	5,383,072	4,156,258
		31,337,271	**28,380,317**
Non-current assets classified as held for sale	8	18,030	–
Total assets		**43,616,617**	**39,418,678**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	21	37,793	37,793
Treasury shares	7	(1,825)	–
Foreign currency translation reserve		24,923	(245)
Retained earnings		29,718,088	26,409,993
		29,778,979	**26,447,541**
Non-controlling interests		514,968	428,214
Total equity		**30,293,947**	**26,875,755**

	Notes	2011	2010
Non-current liabilities			
Deferred tax liability	28	581,790	642,334
Derivative financial instruments		–	11,249
Other non-current liabilities		9,265	–
		591,055	**653,583**
CURRENT LIABILITIES			
Trade and other payables	9, 20	11,234,988	10,747,197
Short-term borrowings and loans	18	733,550	395,823
Income tax payable		163,792	223,006
Other taxes payable	19	599,285	523,314
		12,731,615	**11,889,340**
Total liabilities		**13,322,670**	**12,542,923**
Total equity and liabilities		**43,616,617**	**39,418,678**

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

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

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

23 April 2012

The accompanying notes on pages 99–135 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended 31 December 2011

(in thousands of Russian Roubles)

	Notes	2011	2010
Revenue	22	42,653,887	29,686,636
Cost of sales	23	(26,728,419)	(16,700,838)
Gross profit		**15,925,468**	**12,985,798**
Selling and distribution costs	24	(3,642,115)	(2,916,202)
General and administrative expenses	25	(1,196,149)	(891,954)
Other income	26	294,693	188,025
Other expenses	26	(332,596)	(488,852)
Financial income	27	231,519	315,167
Financial expense	27	(43,235)	(47,680)
Profit before income tax		**11,237,585**	**9,144,302**
Income tax expense	28	(2,404,948)	(1,980,506)
Profit for the year		8,832,637	7,163,796
Other comprehensive income			
Exchange differences on translation of foreign operations		29,136	(245)
Other comprehensive income for the year		29,136	(245)
Total comprehensive income for the year		**8,861,773**	**7,163,551**
Profit for the year			
Attributable to:			
Equity holders of the Parent		8,780,520	7,149,543
Non-controlling interests		52,117	14,253
		8,832,637	**7,163,796**

	Notes	2011	2010
Total comprehensive income for the year			
Attributable to:			
Equity holders of the Parent		8,805,688	7,149,298
Non-controlling interests		56,085	14,253
		8,861,773	**7,163,551**
Earnings per share (in Russian roubles)			
- basic and diluted, based on profit for the year attributable to equity holders of the Parent	21	242.07	189.18

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

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

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

23 April 2012

The accompanying notes on pages 99–135 are an integral part of these consolidated financial statements.

Consolidated cash flow statement
For the year ended 31 December 2011

(in thousands of Russian Roubles)

	Notes	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		11,237,585	9,144,302
Adjustments for:			
Depreciation and amortisation	11,12	888,859	792,016
Change in allowance for impairment of financial assets	14,26	111,606	(42,815)
Write-down of inventories to net realizable value	13	52,778	43,068
Loss recognized on non-current assets classified as held for sale	8,26	16,537	–
Reversal of impairment – intangible assets	12,26	–	(29,258)
Impairment charge and reversal of impairment – property, plant and equipment	11,26	45,736	76,002
(Gain) loss from disposal of property, plant and equipment	26	(22,619)	5,311
Foreign exchange (gain) loss		(22,947)	4,412
Gain from disposal of financial assets	26	–	(47,487)
Expense related to the joint venture	6.1,26	53,142	248,298
Financial income	27	(231,519)	(315,167)
Financial expense	27	43,235	47,680
Operating cash flows before working capital changes		**12,172,393**	**9,926,362**
Increase in trade and other receivables	14	(1,800,534)	(2,956,557)
Decrease (increase) in inventories	13	416,459	(4,750,590)
Decrease (increase) in VAT recoverable		111,789	(221,210)
Increase in trade prepayments	15	(497,438)	(82,892)
(Decrease) increase in trade payables and other payables	20	(2,917)	6,815,907
Increase (decrease) increase in taxes payable other than income tax		76,069	(45,212)
Cash generated from operations		**10,475,821**	**8,685,808**
Income tax paid	28	(2,546,132)	(2,326,126)
Interest paid		(40,839)	(45,063)
Interest received		168,077	197,294
Net cash from operating activities		**8,056,927**	**6,511,913**

	Notes	2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	11	(1,751,518)	(1,051,934)
Purchase of intangible assets	12	–	(806,032)
Cash paid for subsidiary acquisition	5	(202,226)	(184,072)
Cash in acquired subsidiary	5	5,702	–
Cash received from sale property, plant and equipment		42,213	5,783
Cash received from sale of short-term financial assets	17	2,012,351	772,048
Cash paid for short-term financial assets	17	(1,786,820)	(3,311,700)
Cash paid for other financial assets		–	(481,065)
Cash received from sale of other financial assets		–	528,552
Cash paid for acquisition of assets transferred to the joint venture	26	–	(248,298)
Loans provided to related parties		–	(1,400,000)
Loans repaid by related parties		–	1,400,000
Net cash used in investing activities		**(1,680,298)**	**(4,776,718)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from loans and borrowings	18	2,332,250	1,300
Repayment of loans and borrowings	18	(2,010,994)	(395,087)
Cash paid for treasury shares	7	(5,474,250)	–
Cash received from sale of treasury shares		–	16,690
Net cash used in financing activities		**(5,152,994)**	**(377,097)**
Net increase in cash and cash equivalents		**1,223,635**	**1,358,098**
Net foreign exchange differences		**3,179**	–
Cash and cash equivalents at the beginning of the year	**16**	**4,156,258**	**2,798,160**
Cash and cash equivalents at the end of the year	**16**	**5,383,072**	**4,156,258**

The accompanying notes on pages 99–135 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2011

(in thousands of Russian Roubles)

	Equity attributable to equity holders of the parent					Non-controlling Interests	Total equity
	Share capital	Treasury shares	Foreign currency translation reserve	Retained earnings	Total		
Balance at 31 December 2009	**37,793**	**(6)**	**–**	**19,243,766**	**19,281,553**	**413,961**	**19,695,514**
Profit for the year	–	–	–	7,149,543	7,149,543	14,253	7,163,796
Other comprehensive income for the year	–	–	(245)	–	(245)	–	(245)
Total comprehensive income for the year	**–**	**–**	**(245)**	**7,149,543**	**7,149,298**	**14,253**	**7,163,551**
Sales of treasury shares	–	6	–	16,684	16,690	–	16,690
Balance at 31 December 2010	**37,793**	**–**	**(245)**	**26,409,993**	**26,447,541**	**428,214**	**26,875,755**
Profit for the year	–	–	–	8,780,520	8,780,520	52,117	8,832,637
Other comprehensive income for the year	–	–	25,168	–	25,168	3,968	29,136
Total comprehensive income for the year	**–**	**–**	**25,168**	**8,780,520**	**8,805,688**	**56,085**	**8,861,773**
Acquisition of subsidiary (Note 5)	–	–	–	–	–	30,669	30,669
Acquisition of treasury shares (Note 7)	–	(1,825)	–	(5,472,425)	(5,474,250)	–	(5,474,250)
Balance at 31 December 2011	**37,793**	**(1,825)**	**24,923**	**29,718,088**	**29,778,979**	**514,968**	**30,293,947**

The accompanying notes on pages 99–135 are an integral part of these consolidated financial statements.

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

1. Corporate information

OJSC "Pharmstandard" ("the Company") and its subsidiaries ("the Group") principal activities are production and wholesale distribution of pharmaceutical and medical products. The Company is incorporated in the Russian Federation. Since May 2007, the Company's shares are publicly traded (Note 21). The Group's corporate office is in Dolgoprudny, Likhachevsky proezd, 5B, Moscow region, Russian Federation and its manufacturing facilities are based in Kursk, Tomsk, Ufa, Tyumen (all Russian Federation) and Kharkov (Ukraine). The Company holds the shares in joint ventures and controlled the following subsidiaries consolidated within the Group as at 31 December 2011 and 2010:

	Entity	Country of incorporation	Activity	2011 % share	2010 % share
SUBSIDIARIES:					
1.	"Pharmstandard" LLC	Russian Federation	Central procurement	100	100
2.	"Pharmstandard-Leksredstva" OJSC	Russian Federation	Manufacturing of pharmaceutical products	100	100
3.	"Pharmstandard-Tomskhimpharm" OJSC	Russian Federation	Manufacturing of pharmaceutical products	91	91
4.	"Pharmstandard-Ufavita" OJSC	Russian Federation	Manufacturing of pharmaceutical products	100	100
5.	"Pharmstandard-Biolik" PJSC	Ukraine	Manufacturing of pharmaceutical products	55	–
6.	"TZMOI" OJSC	Russian Federation	Manufacturing of medical equipment	100	100
7.	Donelle Company Limited	Cyprus	Finance and holding Company	89	89
8.	Aphopharm CJSC	Russian Federation	Assets holder	89	89
9.	MDR Pharmaceuticals	Cyprus	Assets holder	50.05	50.05
10.	Vindexpharm CJSC	Russian Federation	Assets holder	100	100
11.	"Pharmstandard-Phitofarm-NN" LLC*	Russian Federation	Manufacturing of pharmaceutical products	99	99
JOINT VENTURES:					
12.	"NauchTechStroy Plus" LLC**	Russian Federation	Distributing of medical equipment	37.5	50
13.	Moldildo Trading Limited***	Cyprus	Intermediary holding company	75	–
14.	"Pharmstandard-Medtechnika" LLC ***	Russian Federation	Research and development Company	75	–

These consolidated financial statements were authorised for issue by the Board of Directors of OJSC "Pharmstandard" on 23 April 2012.

* As of 31 December 2011 this entity is classified as non-current asset held for sale (Note 8).
** This joint venture was formed in February 2010 and it is in start up phase now (see Note 6.1).
*** This joint venture was formed in June 2011 and since 3rd Quarter 2011 started its activity (see Note 6.2).

2. Basis of preparation of the financial statements

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

Basis of accounting

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

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

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial period except that the Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2011.

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

- Amendment to IAS 24 *Related Party Disclosures;*
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments;*
- Amendment to IAS 32 *Financial Instruments: Presentation* – Classification of rights issues denominated in a foreign currency;
- Amendment to IFRIC 14/IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction* – Prepayment of a minimum funding requirement;
- Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Limited Exemption from Comparative* IFRS 7 *Disclosures for First-time Adopters;*

- Improvements to IFRSs-2010, effective for annual periods beginning on or after 1 July 2010 or effective for annual periods beginning on or after 1 January 2011 — a new collection of amendments to IFRSs that will not be included as part of another major project. The following table shows the list of IFRSs where amendments have been made that can result in accounting changes for presentation, recognition or measurement purposes and the topics addressed by these amendments:

IFRS (amended in 2010)	Subject of amendment
IFRS 3R *Business Combinations, effective from* 1 July 2010	Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS
	Limiting the accounting policy choice to measure non-controlling interests upon initial recognition
	Un-replaced and voluntarily replaced share-based payment awards
IAS 27R *Consolidated and Separate Financial Statements*, effective from 1 July 2010	Clarifying that the amendments to IAS 21, IAS 28 and IAS 31 resulting from IAS 27R should be applied prospectively
IFRS 1 First-time Adoption of IFRSs	Accounting policy changes (IAS 8) in the year of adoption is not applicable
	Introducing guidance for entities that publish interim financial in the year of adoption
	Revaluation basis as deemed cost
	Use of deemed cost for operations subject to rate regulation
IFRS 7 *Financial Instruments: Disclosures*	Amending and removing existing disclosure requirements
IAS 1 *Presentation of Financial Statements*	Clarification of statement of changes in equity
IAS 34 *Interim Financial Reporting*	Events and transactions that require disclosure under IAS 34
IFRIC 13 *Customer Loyalty Programmes*	Clarification of fair value of award credits

The amendment to IAS 24 is twofold. The amendment clarified the definition of a related party, however, without changing the fundamental approach to related party disclosures. It emphasises a symmetrical view on related party relationships and clarifies how a person or key management personnel impacts related party relationships of an entity. Furthermore, the amendment provides for an exemption to related party disclosures for government-related entities. The amendment is effective for financial years beginning on or after 1 January 2011.

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010 and it clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with paragraph 41 of IAS 39 *Financial Instruments Recognition and Measurement*. The equity instruments issued are measured at their fair value, unless this cannot be reliably measured, in which case, they are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* classifies certain rights issues, options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment is effective for financial years beginning on or after 1 February 2010.

Amendment to IFRIC 14/IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction* – Prepayment of a minimum funding requirement was made to remove an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset. The amendment is effective for financial years beginning on or after 1 January 2011.

Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters. IFRS 1 has been amended to allow first-time adopters to utilize the transitional provisions of IFRS 7 Financial Instruments: Disclosures as they relate to the March 2009 amendments to the standard. These provisions give relief from providing comparative information in the disclosures required by amendments to IFRS 1 in the first year of application. The amendment is effective for financial years beginning on or after 1 July 2010.

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

IFRSs and IFRIC interpretations not yet effective

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

- IFRS 7 *Financial Instruments: Disclosures* – Requires additional disclosure about financial assets that have been transferred but not recognised and continuing involvement in derecognised assets (effective for annual periods beginning on or after 1 July 2011).
- IFRS 9 *Financial Instruments – Classification and Measurement* (effective for annual periods beginning on or after 1 January 2015).
- IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1 January 2012).
- IFRS 10 *Consolidated Financial Statements* replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 *Joint Arrangements* – Introduces new accounting requirements for joint arrangements (effective for annual period beginning on or after 1 January 2013).
- IFRS 12 *Disclosure of Interests in Other Entities* – Requires enhanced disclosures about both consolidated and unconsolidated entities (effective for annual period beginning on or after 1 January 2013).
- IFRS 13 *Fair Value Measurement* – Definition, guidance and disclosure requirements about fair value measurements (effective for annual periods beginning on or after 1 January 2013).
- IAS 27 *Separate Financial Statements* – The consolidation guidance in IAS 27 is replaced by IFRS 10. The requirements relating to separate financial statements are unchanged (effective for annual periods beginning on or after 1 January 2013).
- IAS 28 *Investments in Associates and Joint Ventures* – Amendments for conforming changes based on the issuance of IFRS10, IFRS11 and IFRS12 (effective for annual periods beginning on or after 1 January 2013).
- IAS 1 *Presentation of Financial Statements* – Amendments to revise the way other comprehensive income is presented (effective for annual periods beginning on or after 1 July 2012).
- IAS 19 *Employee Benefits* – Amended standard resulting from the Post-Employment Benefits and Termination Benefit projects (effective for annual periods beginning on or after 1 January 2013).
- IAS 32 *Financial Instruments: Presentation* – Amendments for offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014).

Adoption of new and revised International Financial Reporting Standards

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

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 will change the categories of financial assets to those that are carried at amortised cost and those that are carried at fair value. This will mainly affect the classification of the Group's available for sale financial assets and held to maturity investments.

IFRS 9 will also affect the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. In particular for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 11 Joint Arrangements will replace IAS 31 Investments in Joint Ventures. The standard will remove the option to proportionately recognise the assets and liabilities of jointly controlled entities and equity accounting will be the only accounting treatment. The standard which will be applied retrospectively will result in a reduction in all assets, liabilities, income and expenses leaving net assets and profit for the period unchanged. The Group is currently in the process of quantifying the effect of introduction of IFRS 11.

3.1 Basis of consolidation

Subsidiaries

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

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

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

Business combinations

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

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

Prior to 1 January 2010, business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Interest in joint ventures

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

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

3.2 Cash and short-term deposits

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

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

Interest receivable on deposits is classified as other receivables.

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 provision 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. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

3.5 Property, plant and equipment

Property, plant and equipment are stated at cost or deemed cost at the date of transition to IFRS (herein referred to as cost) less accumulated depreciation and impairment losses. Deemed cost was determined for property, plant and equipment at 1 January 2004 by reference to their fair value through valuation by an independent appraisal company. Depreciation is calculated on a straight-line basis. The depreciation periods, which represent the estimated useful economic lives of the respective assets, are as follows:

	Number of years
Buildings	10 to 50
Plant and machinery	5 to 30
Equipment, motor vehicles and other	2 to 7

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

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

3.6 Goodwill

Goodwill on an acquisition of a subsidiary is included in intangible assets. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

3.7 Other intangible assets

Intangible assets acquired separately from business combinations are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination are initially recognised at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with a finite life are amortised on a straight-line basis over the useful economic lives (for trade marks useful economic life is estimated between 15 and 20 years) and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset.

3.8 Investments and other financial assets

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

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

Loans and receivables

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

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, if an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit or loss, is transferred from other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through the profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised.

Fair value

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

Amortised cost

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

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in the profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the profit or loss. For more information in relation to trade receivables see Note 3.3.

3.9 Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest method.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

3.10 Income taxes

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

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

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

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

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

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

3.11 Leases

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

3.12 Derecognition of financial assets and liabilities

Financial assets

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

Financial liabilities

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

3.13 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

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

3.14 Equity

Share capital

Ordinary shares are classified as equity.

Dividends

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

Treasury shares

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

3.15 Revenue recognition

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

3.16 Employee benefits

In 2011, the Group allocated social contributions primarily under provisions of the Russian legislation.

In 2011, under provision of the Russian legislation, social contributions are made through a social tax ("ST") calculated by the Group by the application of a ST rate 34% to the gross remuneration of each employee. The rate 34% was applicable only to the gross remuneration of each employee not more than RR 463 calculated from the beginning of the year. The Group allocates the ST to three social funds (state pension fund, social and medical insurance funds), where the rate of contributions to the pension fund was 26% depending on the annual gross salary of each employee. The Group's contributions relating to ST are expensed in the year to which they relate.

Total contributions for ST amounted to RR 537,901 during the year ended 31 December 2011 (2010: RR 335,067) and they were classified as labour costs in these consolidated financial statements.

In addition, the Russian legislation provides for a decrease the current ST rate from 34% to 30% effective from 1 January 2012. Furthermore, the new ST rate 30% will be applicable to the gross remuneration of each employee not more than RR 512 calculated from the beginning of the year and ST rate 10% will be applicable in excess of the gross remuneration of RR 512 from the moment of excess until the year end.

3.17 Foreign currency transactions

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

At 31 December 2011, the exchange rates used for translation foreign currency balances were US$ 1 = 32.20 roubles; Euro 1 = 41.67 roubles; 1 Ukrainian Hryvnia = 4.01 roubles (2010:
US$ 1 = 30.48 roubles; Euro 1 = 40.33 roubles).

The functional currency of the foreign operations of the Ukrainian subsidiary is the Ukrainian Hryvnia (Note 5). The functional currency of the other foreign operations is the United States dollar (US$). As at the reporting date, the assets and liabilities of those subsidiaries are translated into the presentation currency of the Group (the Russian Rouble) at the rate of exchange ruling at the reporting date and its statement of comprehensive income is translated at the weighted average exchange rate for the year. 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.

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

The determination of impairments involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. The determination of the recoverable amount of 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 2011 was RR 1,561,361 (2010: RR 1,180,469). More details are provided in Note 12.

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 condition of customers were to deteriorate, actual write-offs might be higher than expected. As at 31 December 2011, allowances for doubtful accounts receivable amounted to RR 135,600 (2010: RR 48,781). More details are provided in Note 14.

Allowance for write-down of inventories to net realizable value

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

Fair value of derivatives

The fair value of derivatives is determined using valuation techniques. These valuation techniques are based on assumptions such as future interest rate changes and the applicable notional amount. Management believes the estimated fair values resulting from the valuation technique which are recorded in the statement of financial position and the related changes in the fair values recorded in the profit or loss are reasonable and the most appropriate at the reporting date.

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As of 31 December 2011 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Note 29.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

5. Business combinations

PJSC "Biolik" acquisition

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

Of the total consideration amount, guarantee payment of RR 39,670 (US$ 1,320 thousand) is contingent upon achievement by "Biolik" of certain operational and financial targets by 31 December 2011. In 2011 the amount of RR 28,951 (US$ 990 thousand) from that guarantee payment was paid. More details about repayment of remaining amount of RR 10,625 (US$ 330 thousand) are provided in Note 30. In January 2011, the Company finalized process of acquisition of 55% ordinary shares and on 18 January 2011, the acquired shares of "Biolik" were transferred to the Company. In June 2011, PJSC "Biolik" was renamed as PJSC "Pharmstandard-Biolik".

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

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

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

	Fair value recognised on acquisition
Property, plant and equipment	288,136
Cash and cash equivalents	5,702
Trade and other receivables	97,320
Inventories	136,679
Prepayments	28,111
	555,948
Deferred tax liability (Note 28)	19,449
Other long-term liabilities	8,783
Trade and other payables (Note 20)	418,924
Short-term borrowings and loans	25,461
Income tax and other taxes	15,176
	487,793
Fair value of net assets	**68,155**
Group's share of the fair value of net assets	37,486
Goodwill arising on acquisition (Note 12)	359,531
Consideration paid	**397,017**

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

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

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

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

From the date of acquisition PSC "Pharmstandard-Biolik" has contributed RR 540,077 of revenue and RR 70,126 of profit before tax to the consolidated financial results of the Group in 2011.

6. Joint ventures

6.1. Joint venture "NauchTechStroy Plus"

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

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

Because the Group's share in net assets of NTS+ after the date of increase of share capital was less than the Group's share in net assets before the date of increase of share capital the Group recognized a loss RR 53,142 presented as other expenses for the year ended 31 December 2011 (Note 26).

NTS+ did not generate any revenues or income in 2010 and 2011. The Group's share in aggregate amounts of "NTS+" assets, liabilities and expenses proportionately included in the Group's consolidated financial statements are detailed below:

	31 December 2011	31 December 2010
Current assets	101,562	156,831
Long-term assets	332,745	223,600
Current liabilities	(42,332)	(6,586)
Expenses	(27,494)	(16,160)

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

6.2. Foundation of joint venture "Pharmstandard-Medtechnika"

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

"Pharmstandard-Medtechnika" was formed as a trading and distributing company for the purposes of distribution medical equipment as manufactured by the Group and by DGM.
Since 3rd quarter 2011 "Pharmstandard-Medtechnika" started its activity. The management of the Company

considers the formation of new joint venture "Pharmstandard-Medtechnika" as an additional source of revenue and profitability in medical equipment operating segment.

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

	31 December 2011
Current assets	198,048
Current liabilities	(86,661)
Revenue	119,188
Expenses	(136,611)

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

7. Offer for 4.9% of Company's ordinary shares

On 18 January 2011, OJSC "Pharmstandard-Leksredstva" proposed voluntary offer to purchase up to 1,850,000 ordinary shares of the Company with par value 1 (one) Russian Rouble representing about 4.9% of the Company's authorized share capital. Under the terms of the offer, all Company's shareholders were invited to sell their ordinary shares of the Company at a price of 3,000 Russian Roubles per one share. On 18 February 2011, OJSC "Pharmstandard-Leksredstva" closed this offer and purchased 1,824,750 ordinary shares of the Company representing about 4.8% of the Company's authorized share capital for a cash consideration of RR 5,474,250. The difference between the face value of these ordinary shares and consideration paid was debited directly to retained earnings.

8. Non-current assets classified as held for sale

In 4th Quarter 2011, the Company's management approved a plan to dispose of "Pharmstandard-Phitopharm" LLC located in Nizhny Novgorod, Russia. This subsidiary did not conduct any operating activities during 2011 and has only minor assets (primarily property, plant and equipment) totalling RR 34,567 (Note 11). The fair value of these assets less the cost of sale of "Pharmstandard-Phitopharm" LLC is estimated based on the expected selling price, of RR 18,030. A loss on non-current assets classified as held for sale of RR 16,537 was recognized as part of other expense (Note 26 and 31).

9. Segment information

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

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

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

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

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, financial assets, receivables and operating cash. There were no assets unallocated to segments as of 31 December 2011 and 2010. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate liabilities. Capital expenditure comprises additions to property, plant and equipment.

No significant intercompany transactions have been existed between these operating segments.

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

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

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

Year ended 31 December 2010	Production and wholesale of pharmaceutical products	Production and wholesale of medical equipment	Group
Sales to external customers	29,056,140	630,496	29,686,636
Total revenue	**29,056,140**	**630,496**	**29,686,636**
Gross profit	12,812,092	173,706	12,985,798
Segment result	**8,885,953**	**(9,138)**	**8,876,815**
Financial income, net			267,487
Profit before income tax			**9,144,302**
Income tax expense			(1,980,506)
Profit for the year			**7,163,796**
Segment assets	38,521,575	897,103	39,418,678
Total assets	**38,521,575**	**897,103**	**39,418,678**
Segment liabilities	**11,224,770**	**45,741**	**11,270,511**
Unallocated liabilities			1,272,412
Total liabilities			**12,542,923**
Acquisition of property, plant and equipment (Note 11)	1,032,007	18,125	1,050,132
Intangible assets acquisition (Note 12)	806,032	–	806,032
Depreciation and amortisation	738,026	53,990	792,016
Reversal of impairment of intangible assets (Note 12)	29,258	–	29,258
Impairment charge of property, plant and equipment (Note 11)	–	76,002	76,002

As at 31 December 2010 the unallocated liabilities of RUR 1,272,412 consist of income tax payable of RR 223,006, deferred tax liability of RR 642,334, derivative financial instruments of RR 11,249 and short-term borrowings and loans of RR 395,823.

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

The table below shows the revenue from these customers:

Customer	2011	2010
The Ministry of health and social department (state open auctions)	13,289,821	3,102,226
Customer 1 (only third party products, Note 22)	3,615,047	3,838,173
Customer 2	4,008,796	3,479,700
Customer 3	3,547,568	3,394,848
Customer 4	3,523,700	2,633,100

The Group's sales to the Ministry of health and social department represent about 30% of the Group's revenue for 2011 (2010: 10%).

In 2011 and 2010, the Group purchased Velcade® in-bulk form from the Customer 1, packed it on production facilities of the OJSC "Pharmstandard-Ufavita" and sold back to the Customer 1 for RR 3,596,447 (2010: RR 3,838,173). Management applied judgment and concluded that all risks associated with ownership of goods were transferred to the Group upon purchase and to the Customer 1 upon sale. Therefore, these transactions were presented in the statement of comprehensive income on a gross basis.

10. Balances and transactions with related parties

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

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

The nature of the related party relationships for those related parties with whom the Group entered into transactions or had balances outstanding at 31 December 2011 and 2010 are detailed below.

Balances with related parties

2011	Short-term financial assets (a)	Cash and short-term deposits – (a) Note 16	Short-term loans and borrowings – (b)	Trade and other receivables – (a) Note 14	Trade payables, other payables and accruals – (c) Note 20
Other related parties[1]	200,000	5,285,895	32,900	20,922	1,391,371
Total	**200,000**	**5,285,895**	**32,900**	**20,922**	**1,391,371**

2010	Short-term financial assets (a)	Cash and short-term deposits – (a) Note 16	Short-term loans and borrowings – (b)	Trade and other receivables – (a) Note 14	Trade payables, other payables and accruals – (c) Note 20
Other related parties	632,000	3,887,404	–	53,699	770,545
Total	**632,000**	**3,887,404**	–	**53,699**	**770,545**

(a) This balance primarily represented cash, short-term bank deposits and interest receivable at a bank controlled by a related party and immaterial trade receivables for agency fee from sales of certain products of the related party.

(b) This balance primarily represented non-interest loan received by "NauchTechStroy Plus" LLC from another participant of this joint-venture (Note 20). Since July 2011, this participant is a member of the Board of Directors of the Company.

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

Cash balances with the related bank carry no interest. Short-term financial assets at 31 December 2011 include cash deposits in the related bank and carry 6.5%-7.0% interest p.a. (for more details see Notes 16 and 17).

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

Significant transactions with related parties

Statement of comprehensive income caption	Relationship	2011	2010
Revenue	Other related parties	4,620	–
Interest income from deposits placed in a related bank (included in financial income)	Other related parties	23,349	122,083
License fee (included in distribution costs) (A)	Other related parties	(30,470)	(30,341)
Warehouse rental expenses (included in distribution costs) (B)	Other related parties	(86,816)	(74,636)
Office rental expenses (included in general and administrative expenses) (B)	Other related parties	(48,277)	(26,671)
Marketing and advertising expenses (included in distribution costs) (C)	Other related parties	–	(80,658)
Cost of sales (D)	Other related parties	(1,827,287)	(679,463)
Agency fee income (included in other income) (E)	Other related parties	89,755	–
Consulting expenses (included in general and administrative expenses)	Other related parties	(3,300)	–
Interest income from loan provided to majority shareholder	Majority shareholder	–	31,483

(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) Marketing and advertising expenses
In 2010, the Group acquired the results of clinical research related to one of the Group pharmaceutical products developed by a Russian scientific institute from a related party. This research was performed in 2007-2010 and the related party acted as an intermediary between the scientific institute and the Group. The Group plans to use the research result to promote the product on the market and, accordingly, related cost was classified as marketing and advertising expenses in the consolidated financial statements.

(D) Cost of sales
In 2010, the Group signed purchase contracts for supply of third-party product Koagil VII manufactured by a related party. RR 1,608,196 (2010: RR 679,463) includes the cost of this product sold by the Group through open state auctions (Notes 22 and 23). As of 31 December 2011 the Group had no unsold inventory balances of Koagil VII. The remaining amount of RR 219,091 included in the cost of sales line primarily represents the cost of raw materials purchased from a related party.

(E) Agency fee income
In 2011, the Company held an agency contract with the related party for distribution and sales of certain products owned by a related party.

Loan received from a related party

In December 2011, the Company's joint-venture "NauchTechStroy Plus" received an interest-free short-term loan from another participant of this joint-venture (Note 20). Since July 2011, this participant is a member of the Board of Directors of the Company. In accordance with the Group's accounting policies the Group recognized RR 32,250 of the total amount of this loan as a proportional part of Group's liabilities in this joint-venture.

Compensation to key management personnel

Total compensation to key management personnel, amounted to RR 56,514 for the year ended 31 December 2011 (2010: RR 46,343). Such compensation represents the payroll and bonuses included in general and administrative expenses.

11. Property, plant and equipment

Property, plant and equipment consist of the following:

31 December 2011	Land	Buildings	Plant and machinery	Equipment, motor vehicles and other	Assets under construction	Total
COST						
Balance at 31 December 2010	33,912	2,246,158	2,713,592	416,169	846,848	6,256,679
Additions	–	16,867	28,256	100,672	1,624,647	1,770,442
Transfers	16,702	643,741	332,418	26,029	(1,018,890)	–
Disposals	–	(6,602)	(24,367)	(38,992)	(4,228)	(74,189)
Acquisition through business combination (Note 5)	–	123,249	109,546	7,374	47,967	288,136
Transfers to non-current assets classified as held for sale (Note 8)	–	(52,297)	(6,042)	(614)	(6,249)	(65,202)
Effect from change of Group's share in joint-venture (Note 6.1)	(4,461)	(2,622)	(4,591)	(523)	(41,148)	(53,345)
Foreign exchange differences	–	7,937	7,460	603	4,709	20,709
Balance at 31 December 2011	**46,153**	**2,976,431**	**3,156,272**	**510,718**	**1,453,656**	**8,143,230**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance at 31 December 2010	–	342,769	1,495,846	214,324	35,661	2,088,600
Depreciation charge	–	74,775	380,920	83,686	–	539,381
Disposals	–	(1,101)	(11,709)	(33,063)	–	(45,873)
Impairment and reversal of impairment (a)	–	38,232	(7,333)	2	14,835	45,736
Transfers to non-current assets classified as held for sale (Note 8)	–	(26,943)	(3,104)	(588)	–	(30,635)
Effect from change of Group's share in joint-venture (Note 6.1)	–	(56)	(112)	(35)	–	(203)
Foreign exchange differences	–	597	1,520	208	207	2,532
Balance at 31 December 2011	**–**	**428,273**	**1,856,028**	**264,534**	**50,703**	**2,599,538**
NET BOOK VALUE						
Balance at 31 December 2010	**33,912**	**1,903,389**	**1,217,746**	**201,845**	**811,187**	**4,168,079**
Balance at 31 December 2011	**46,153**	**2,548,158**	**1,300,244**	**246,184**	**1,402,953**	**5,543,692**

31 December 2010	Land	Buildings	Plant and machinery	Equipment, motor vehicles and other	Assets under construction	Total
COST						
Balance at 31 December 2009	32,986	2,204,001	2,518,059	282,375	205,512	5,242,933
Additions	–	3,867	81,951	132,931	831,383	1,050,132
Transfers	1,144	38,888	142,168	5,948	(188,148)	–
Disposals	(218)	(598)	(28,586)	(5,085)	(1,899)	(36,386)
Balance at 31 December 2010	**33,912**	**2,246,158**	**2,713,592**	**416,169**	**846,848**	**6,256,679**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance at 31 December 2009	–	276,562	1,094,501	152,566	33,459	1,557,088
Depreciation charge	–	66,232	350,885	63,684	–	480,801
Disposals	–	(25)	(23,340)	(1,926)	–	(25,291)
Impairment (a)	–	–	73,800	–	2,202	76,002
Balance at 31 December 2010	–	**342,769**	**1,495,846**	**214,324**	**35,661**	**2,088,600**
NET BOOK VALUE						
Balance at 31 December 2009	**32,986**	**1,927,439**	**1,423,558**	**129,809**	**172,053**	**3,685,845**
Balance at 31 December 2010	**33,912**	**1,903,389**	**1,217,746**	**201,845**	**811,187**	**4,168,079**

(a) Impaired assets primarily represent equipment for production of medical disposables, including syringes, removed from active use due to decline in customer demand and low profitability of these disposables. In 2011, the management of the Group approved the plan to discontinue the operations of production line of medical disposables. The impairment charge equals to the carrying value of those equipment and assets under construction.

In 2011 and 2010, the Group did not borrow money for capital construction and there were no new qualifying assets, therefore no interest expense was capitalized.

The Group assets include only a minor 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 2011 was RR 9,833 (2010: RR 8,682). Such payments are reassessed by the state authorities on an annual basis. No such reassessment has been completed for 2012 and beyond as of the date of approval of these consolidated financial statements for issue.

12. Intangible assets

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

	Goodwill	Trademarks and patents	Total
COST			
Balance at 31 December 2009	1,180,469	5,924,109	7,104,578
Additions (a)	–	806,032	806,032
Balance at 31 December 2010	**1,180,469**	**6,730,141**	**7,910,610**
ACCUMULATED AMORTISATION AND IMPAIRMENT			
Balance at 31 December 2009	–	942,443	942,443
Reversal of impairment	–	(29,258)	(29,258)
Amortisation expense	–	311,215	311,215
Balance at 31 December 2010	**–**	**1,224,400**	**1,224,400**
NET BOOK VALUE			
Balance at 31 December 2009	**1,180,469**	**4,981,666**	**6,162,135**
Balance at 31 December 2010	**1,180,469**	**5,505,741**	**6,686,210**

(a) In 2010, additions represent acquisition of Acipol trade mark.

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

Name	Carrying amount		Remaining amortization period (years)	
	2011	2010	2011	2010
Afobazol®	1,747,256	1,851,570	17	18
Arbidol®	1,508,393	1,611,825	14	15
Acipol®	734,385	788,120	14	15
Flucostat®	586,786	627,023	14	15

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	
	2011	2010	2011	2010	2011	2010
Carrying amount of goodwill	1,342,507	961,615	218,854	218,854	1,561,361	1,180,469

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 (2010: 5%). The discount rate applied to cash flow projections is 14.3% (2010: 14.7%).

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.

13. Inventories

Inventories consist of the following:

	2011	2010
Raw materials – at cost	3,369,275	1,931,686
Work in progress – at cost	211,645	304,338
Finished goods – at net realisable value (a)	3,564,371	5,230,190
	7,145,291	**7,466,214**

(a) On 31 December 2010, finished goods balance included third party products in the amount of RR 2,566,037 designated for sale under the terms of the state open auctions won by the Company.

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

	2011	2010
Balance at 1 January	41,164	20,002
Additional write-downs	53,453	43,534
Unused amounts reversed	(675)	(466)
Utilised during the year	(34,959)	(21,906)
Foreign exchange differences	(64)	–
Balance at 31 December	**58,919**	**41,164**

14. Trade and other receivables

	2011	2010
Trade receivables (net of allowance for impairment of receivables of RR 135,600 (2010: RR 48,781))	13,973,032	12,271,212
Interest receivable – third parties	145,744	51,148
Interest receivable – related parties (Note 10)	8,450	53,699
Other receivables (a)	120,195	–
	14,247,421	**12,376,059**

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

At 31 December 2011 RR 287,216 (2010: RR 153,236) of trade receivables were denominated in currencies other than Russian Roubles, primarily in US$ (RR: 163,302) and Ukrainian Hryvnia (RR: 122,976).

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

	2011	2010
Balance at 1 January	48,781	94,910
Additional allowance	94,046	3,017
Unused amounts reversed	(7,440)	(45,832)
Utilised during the year	(819)	(3,314)
Translation differences	1,032	–
Balance at 31 December	**135,600**	**48,781**

15. Prepayments

	2011	2010
Trade prepayments for services and materials	245,734	219,621
Trade prepayments for third parties products	500,000	–
	745,734	**219,621**

16. Cash and short-term deposits

Cash and short-term deposits consist of the following:

	2011	2010
Cash in bank – Russian Roubles	5,273,076	3,898,237
Cash in bank – Ukrainian Hryvnia	7,072	–
Cash in bank – US$ and Euro	41,614	8,021
Short-term bank deposits with original maturity less than 90 days – Russian Roubles	–	250,000
Short-term bank deposits with original maturity less than 90 days – Ukrainian Hryvnia (a)	30,042	–
Cash deposits on state open auctions – Russian Roubles (b)	31,268	–
	5,383,072	**4,156,258**

(a) Short-term bank deposits bear an interest rate of 10.5% p.a. on average.

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

17. Short-term financial assets

	2011	2010
Accounted for as loans and receivables:		
Promissory notes	586,820	614,700
Short-term bank deposits – Russian Roubles -Note 10 (a)	2,500,000	2,697,000
Short-term bank deposits – US$	321,961	304,769
Short-term loans (b)	25,000	50,000
Accounted for as available for sale:		
Securities	9,340	11,866
Other	2,920	3,688
	3,446,041	**3,682,023**

(a) This item includes cash deposits of RR 200,000 (31 December 2010: RR 632,000) restricted for use and placed in the related bank to secure certain bank guarantees obtained by the Group for participation in state open auctions announced by the Government of the Russian Federation.

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

The short-term bank deposits as of 31 December 2011 bear interest at a rate from 6.5% p.a. to 10% p.a. The short-term loan provided to third parties as of 31 December 2011 bears interest at 14% p.a.

18. Borrowings and loans

	2011	2010
Short-term borrowings and loans		
Short-term loan – Russian Roubles (a)	700,000	–
Loan from related party – Russian Roubles (Note 10)	32,250	–
Current portion of long-term borrowings and loans	1,300	395,823
	733,550	**395,823**

	2011	2010
Long-term borrowings and loans		
Citibank loan (b)	–	394,523
Other loans – Russian Roubles (Note 10)	1,300	1,300
Less: Current portion of long-term borrowings and loans	(1,300)	(395,823)
	–	–

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

(b) The Citibank loan was provided in December 2006 in two credit facilities:
- Facility A in the total amount of US$ 91 million with maturity period of 3 years (on 18 December 2009 this facility was repaid); and
- Facility B in the total amount of US$ 55 million with maturity period of 5 years (on 18 December 2011 this facility was repaid).

In 2011, the Group repaid US$ 12,945 thousand (RR 386,252 at the exchange rate as of the date of payment) of the Citibank loan (2010: US$ 12,940 thousand (RR 395,087)).

19. Other taxes payable

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

	2011	2010
Value-added tax	512,696	445,634
Property and other taxes	86,589	77,680
	599,285	523,314

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

	2011	2010
Trade payables	1,412,990	2,140,639
Payables for products procurement – third parties (a)	7,346,166	5,972,929
Payables for products procurement and other payables – related parties (Note 10, a)	1,391,371	770,545
Advances received (b)	103,359	1,337,032
Issued promissory notes – US$ (c)	277,030	–
Other payables and accruals	704,072	526,052
	11,234,988	**10,747,197**

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

Advances received as of 31 December 2010 represented advances received from the Ministry of health and social department under state open auctions. The Company made deliveries and recorded sales in respect of these advances in 2011.

This balance primarily represents the interest free promissory notes issued by the Company's subsidiary "Pharmstandard-Biolik" before the date of acquisition. The promissory notes are payable to the companies affiliated with the non-controlling shareholders of Biolik. These payables have arisen prior to the acquisition of Biolik by the Company in January 2011. These notes remain outstanding as of 31 December 2011 and are payable on demand (Note 5).

At 31 December 2011 RR 1,597,538 of total payables were denominated in currencies other than Russian Rouble, primarily in US$ (2010: RR 1,620,292).

21. Share capital

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

As of 31 December 2011 and 2010 more than half of voting shares of OJSC "Pharmstandard" were held by Augment controlled by Victor Kharitonin, a Russian citizen.

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

In 2008 and 2009, 969,815 ordinary shares representing 2.56% of share capital of the Company were sold by Augment and were offered at LSE. Also, in 2009 Augment reacquired 55,000 ordinary shares. In 1st Quarter 2011, approximately 4.8% of the Company's shares were acquired by the Company's subsidiary "Pharmstandard-Leksredstva" and were recognized as treasury share (for more details see Note 7).

After these transactions, "Pharmstandard-Leksredstva" holds 4.83% of issued shares as treasury shares, Augment holds 54.32% of share capital and 40.85% of share capital is publicly listed of which 27.56% is on the LSE.

In accordance with Russian legislation, dividends may only be declared from accumulated undistributed and unreserved earnings as shown in Russian statutory financial statements. The Company had approximately RR 20,559,281 (unaudited) of undistributed and unreserved earnings as of 31 December

2011 (2010: RR 14,179,754 – unaudited). In addition, the Company's share in the undistributed and unreserved earnings of the subsidiaries and joint ventures was approximately RR 14,883,682 (unaudited) as at 31 December 2011 (2010: RR 11,809,047 – unaudited).

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

Earnings per share

Earnings per share are as follows:

	2011	2010
Weighted average number of ordinary shares outstanding (Note 7)	36,271,978	37,792,603
Profit for the year attributable to the shareholders	8,780,520	7,149,543
Basic and diluted earnings per share, Russian Roubles	242.07	189.18

22. Revenue

Revenue breakdown by product groups comprised the following:

	2011	2010
Pharmaceutical products		
Over the Counter ("OTC")		
Branded	13,270,489	13,338,950
Non-branded	2,226,822	2,242,147
	15,497,311	**15,581,097**
Prescription		
Branded	3,509,433	2,806,909
Non-branded	769,996	487,271
	4,279,429	**3,294,180**
Third parties products (a)	21,725,971	9,893,825
Other – substances and APIs	387,569	287,038
Total pharmaceutical products	**41,890,280**	**29,056,140**
Medical equipment	763,607	630,496
	42,653,887	**29,686,636**

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

23. Cost of sales

The components of cost of sales were as follows:

	2011	2010
Materials and components	6,137,034	6,653,267
Third parties products	18,323,186	8,272,386
Production overheads	1,170,378	813,178
Depreciation and amortisation	792,840	718,937
Direct labour costs	304,981	243,070
	26,728,419	**16,700,838**

24. Selling and distribution costs

Selling and distribution costs were as follows:

	2011	2010
Advertising	1,692,558	1,427,340
Labour costs	1,092,143	826,242
Freight, communication and insurance of goods in transit	207,107	164,331
Trainings and other services	78,100	43,413
Certification expenses	87,620	54,290
Rent	88,034	75,803
Commission and license fee	78,987	57,819
Materials, maintenance and utilities	128,909	96,739
Travel and entertainment	92,295	80,114
Depreciation	59,860	53,659
Other expenses	36,502	36,452
	3,642,115	**2,916,202**

The Group entered into a number of operating lease agreements for warehouses. Rental agreements are revised on an annual basis.

25. General and administrative expenses

General and administrative expenses were as follows:

	2011	2010
Labour costs	769,209	551,189
Services, legal, audit and consulting expense	97,698	75,491
Travel and entertainment	27,584	20,712
Taxes other than income tax	21,300	16,353
Property insurance	18,403	17,275
Freight and communication	28,169	28,811
Depreciation	36,159	19,420
Rent	58,928	34,963
Materials, maintenance and utilities	104,317	91,524
Other	34,382	36,216
	1,196,149	**891,954**

The Group entered into a number of operating lease agreements for office premises. Rental agreements are revised on an annual basis.

26. Other income and other expenses

Other income comprised the following:

	2011	2010
Foreign exchange gain, net	9,370	–
Gain from disposal of property, plant and equipment	22,619	–
Gain from disposal financial assets	–	47,487
Income from non-core operations (a)	166,247	82,820
Cash rebates (b)	63,478	–
Reversal of impairment – property, plant and equipment (Note 11)	7,333	–
Reversal of impairment – intangible assets (Note 12)	–	29,258
Reversal of impairment of receivables (c)	–	28,460
Other income	25,646	–
	294,693	**188,025**

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

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

(c) This amount represents reversal of impairment initially recorded to other expenses. The total reversal amount presented in Note 14 also included reversal of impairment initially recorded to cost of sales.

Other expenses comprised the following:

	2011	2010
Foreign exchange loss, net	–	16,393
Loss from disposal of property, plant and equipment	–	5,311
Expense related to the joint venture – Note 6.1 (a)	53,142	248,298
Charity	30,062	22,425
Bank charges (b)	32,878	32,433
Other taxes and penalties	60,128	50,250
Expenses for personnel reduction incurred in connection with closure of disposables production	–	7,411
Impairment of property, plant and equipment (Note 11)	53,069	76,002
Impairment of short-term financial assets (c)	25,000	–
Loss recognized on non-current assets classified as held for sale (Note 8)	16,537	–
Other	61,780	30,329
	332,596	**488,852**

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

(b) In 1st half 2010, the Group made an additional cash contribution of RR 480,000 to the joint-venture "NTS+". This contribution was provided by the Group to allow the joint venture to commence its research and development activities. The excess of the contribution over Group's interest in the joint venture in the amount of RR 240,000 was considered as non-refundable assistance to the joint venture and, accordingly, recognized as an expense as at 31 December 2010.

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

In 2011, the Group recognized an impairment loss in the amount of RR 25,000 for loan provided by the Company in 2009 (Note 17).

27. Financial Income and expense

Financial income and expense comprised the following:

	2011	2010
Interest income:		
Income from changes in fair value of Interest Rate Swap (a)	11,249	23,502
Interest income from loans and deposits	220,270	289,409
Other	–	2,256
	231,519	**315,167**
Interest expense:		
Loss from Interest Rate Swap (a)	10,453	29,736
Interest expense on borrowings and loans	30,139	17,944
Other	2,643	–
	43,235	**47,680**

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

28. Income tax

	2011	2010
Income tax expense – current	2,484,941	2,145,172
Deferred tax benefit– origination and reversal of temporary differences	(79,993)	(164,666)
Income tax expense	**2,404,948**	**1,980,506**

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

	2011	2010
Profit before income tax	**11,237,585**	**9,144,302**
Theoretical tax charge at Russian statutory rate of 20%	2,247,517	1,828,860
Effect of the difference in tax rates in countries other than the Russia	701	–
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	156,730	151,646
Income tax expense	**2,404,948**	**1,980,506**

Movements in deferred tax balances were as follows:

	31 December 2009	Temporary differences recognition and reversal in profit and loss	Other differences in other comprehen-sive income	31 December 2010	Temporary differences recognition and reversal in profit and loss	Effect of business combination in 2011 (Note 5)	31 December 2011
Tax effects of deductible temporary differences – asset (liability):							
Property, plant and equipment (Note 11)	(307,862)	21,905	–	(285,957)	15,713	(15,241)	(285,485)
Intangible assets (Note 12)	(514,323)	29,826	–	(484,497)	30,540	–	(453,957)
Trade and other receivables	(32,376)	56,347	–	23,971	(29,723)	3,389	(2,363)
Inventories	12,331	79,526	–	91,857	51,060	(11,036)	131,881
Trade and other payables	16,358	(11,462)	–	4,896	13,224	1,992	20,112
Financial instruments	6,950	(4,700)	–	2,250	2,963	45	5,258
Other	11,860	(6,776)	62	5,146	(3,784)	1,402	2,764
Total net deferred tax liability	**(807,062)**	**164,666**	**62**	**(642,334)**	**79,993**	**(19,449)**	**(581,790)**

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

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

The aggregate amount of temporary differences associated with investments in subsidiaries and joint ventures for which deferred tax liabilities have not been recognised was approximately RR 10,534,712 as at 31 December 2011 (2010: RR 8,096,339).

29. Contingencies, commitments and operating risks

Operating environment of the Group

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2011, the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

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

Taxation

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

As at 31 December 2011 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Because of the uncertainties associated with the Russian tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as of 31 December 2011. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Should the Russian tax authorities decide to issue a claim and prove successful in the court, they would be entitled to recover the amount claimed, together with fines amounting to 20% of such amount and interest at the rate of 1/300 of the Central Bank of the Russian Federation rate for each day of delay for late payment of such amount. Management believes that it is not probable that the ultimate outcome of such matters would result in a liability. Therefore, no provision for these contingencies was recorded in these consolidated financial statements.

Insurance policies

The Group holds insurance policies in relation to its property, plant and equipment, which cover majority of property, plant and equipment items. The Group holds no insurance policies in relation to its operations, or in respect of public liability.

Commitment liabilities

In December 2011, the Group provided certain unsecured guaranties in the total amount of RR 137,104 with maturity period of one year for one of the Company's key customers to allow certain distribution activities to be performed by this customer. The management believes that provided guarantees have remote financial risks for the Group. No liability related to guarantees was recognised in the statement of financial position as of 31 December 2011.

30. Financial instruments and financial risk management objectives and policies

Fair values

Management believes that fair value of cash and cash equivalents, loans receivable, promissory notes, short-term deposits, other receivable or payables and securities approximate their carrying amounts due to their short maturity.

Fair values of short-term borrowings and loans are approximately equal to their carrying value. Fair value of derivative financial instruments has been calculated by discounting the expected future cash flows at prevailing interest rates. The Group has no long-term borrowings and loans and derivative financial instruments as of 31 December 2011.

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.

The table below shows the assets measured at fair value as at 31 December 2011:

	Total	Level 1	Level 2	Level 3
ASSETS MEASURED AT FAIR VALUE				
Financial assets				
Securities (Note 17)	9,340	8,380	–	960

31 December 2010:

	Total	Level 1	Level 2	Level 3
ASSETS MEASURED AT FAIR VALUE				
Financial assets				
Securities (Note 17)	11,866	11,029	–	837
Liabilities measured at fair value				
Interest rate swap	11,249	–	11,249	–

Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans, short-term bank deposits and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations and investment activities. The Group has various other financial assets and liabilities such as promissory notes, trade receivables, trade and other payables, which relate directly to its operations. During the year the Group did not undertake active trading in financial instruments. To reduce the risk of interest fluctuations related to long term LIBOR borrowings, the Group may enter into an interest rate swap agreement (more details see below).

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

In December 2011 the terms of the Group's interest swap agreement expired and the Group fully repaid Citibank loan (Note 18). Therefore, management believes that the Group does not have significant interest rate risk as of 31 December 2011. In 2010 the Group was exposed to interest rate risk through interest cash flow and market value fluctuations as the interest rate on Citibank loan was floating and based on LIBOR.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax for one year assuming the parallel shifts in the yield curves:

	Increase/decrease in basis points	Effect on profit or loss (interest expense)	Effect on profit or loss (due to fair value change)
As at 31 December 2011	–	–	–
	–	–	–
As at 31 December 2010	100	(2,440)	1,552
	(30)	**732**	**(469)**

Foreign exchange risk

The Group has certain US dollar denominated cash and cash equivalents, short-term bank deposits, trade payables, issued promissory notes and other payables (Note 18), trade receivables (Note 14) and other liabilities. Therefore, the Group is exposed to foreign exchange risk.

The Group monitors the foreign exchange risk by following changes in exchange rates in the currencies in which its cash, payables and borrowings are denominated. However, the Group does not have formal arrangements to mitigate this foreign exchange risk.

The tables below shows the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax:

	Increase/decrease in US$ rate	Effect on profit before tax
As at 31 December 2011		
US$/Roubles exchange rate	+10%	(51,621)
US$/Roubles exchange rate	-10%	51,621
As at 31 December 2010		
US$/Roubles exchange rate	+10%	(111,185)
US$/Roubles exchange rate	-10%	111,185

	Increase/decrease in US$ rate	Effect on profit before tax
As at 31 December 2011		
US$/Ukrainian Hryvnia exchange rate	+2%	(6,371)
US$/Ukrainian Hryvnia exchange rate	-2%	6,371

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its operating and financial commitments. The Group performs continuous monitoring of cash deficit risks and continuous monitoring of repayment of its financial liabilities on time. The Group performs daily planning and control cash flow procedures.

The table below summarises the maturity profile of the Group's non-derivative financial liabilities based on contractual undiscounted payments including interest except for trade and other payables which normally have average maturity periods shorter than 4 months.

As at 31 December 2011	Total	Less than 3 months	3 to 6 months	6 to 12 months
Guarantee payment for Biolik acquisition (Note 5)	10,625	10,625	–	–
Borrowings and loans (Note 10 and 18)	735,828	702,278	–	33,550
Other current liabilities	26,669	26,669	–	–
Total	**773,122**	**739,572**	–	**33,550**

As at 31 December 2010	Total	Less than 3 months	3 to 6 months	6 to 12 months
Borrowings and loans (Note 18)	400,499	100,975	100,399	199,125
Other current liabilities	38,434	–	–	38,434
Total	**438,933**	**100,975**	**100,399**	**237,559**

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 effective internal control procedures.

The carrying amount of accounts receivable, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk. Although collection of receivables could be affected by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

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 (a)
31 December 2011	14,247,421	12,055,149	1,948,540	165,888	23,543	7,964	46,337
31 December 2010	12,376,059	11,078,443	1,125,873	161,614	8,504	1,482	143

(a) Trade receivables were fully paid in January 2012.

Sales concentration to a small group of customers

The Group works with seven distributors that together represent more than 50% of the Group's revenue[1] for 2011 (five distributors in 2010). It is common practice of the Russian pharmaceutical market to work with the limited number of large distributors.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio not more than 60%. The Group includes within net debt borrowings and loans, trade and other payables less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent.

1 Excluding sales to the Ministry of health and social department under state open auctions.

	2011	2010
Borrowings and loans	733,550	395,823
Trade and other payables	11,131,629	9,410,165
Less: cash and short-term deposits	(5,383,072)	(4,156,258)
Net debt	6,482,107	5,649,730
Equity	29,778,979	26,447,541
Capital and net debt	36,261,086	32,097,271
Gearing ratio	18%	18%

31. Events after the reporting period

Sale of non-current assets classified as held for sale

Non-current assets classified as held for sale reflected in the consolidated statement of financial position as of 31 December 2011 of RR 18,030 were sold in March 2012 for a cash consideration of RR 17,850 (for more details see Note 8).

Loan provided to majority shareholder

In April 2012, the Company's majority shareholder "Augment Investments Limited" ("Augment"), a company registered under the laws of Cyprus (see Note 21), applied to the Company with request to provide short-term interest loan for the purpose of financing the current business activity of Augment not related to the Group. The Company provided a short-term loan to Augment with maturity date not later than 4 October 2012 in the amount of US$ 27,500 thousand (RR 810,167) with fixed interest rate of 3.5% per annum.


WIG

Investor Relations

OUR COMPANY REGARDS OPENNESS AND BUSINESS TRANSPARENCY AS IMPORTANT COMPETITIVE ADVANTAGES. WITH THESE PRINCIPLES IN MIND, PHARMSTANDARD HAS DEVELOPED INVESTMENT MANAGEMENT PHILOSOPHY AIMED AT FACILITATING STABLE GROWTH IN SHARE CAPITAL AND GOOD RETURNS ON INVESTMENT.

Investor Relations

Our company regards openness and business transparency as important competitive advantages. With these principles in mind, Pharmstandard has developed investment management philosophy aimed at facilitating stable growth in share capital and good returns on investment.

In dealing with investors, Pharmstandard is guided by following principles:

- Ensuring organizational structure transparency;
- Providing complete, accurate information to shareholders and potential investors
- Working towards reduction of short-term and long-term investment risks;
- Providing investors with tools to monitor reliability and efficiency of their investments.

Company Management and Investor Relations Department are open to dialogue and always ready to help you with understanding of the Company's processes, plans, developments and financials.

Investor Relations department is always glad to answer your questions. Any feedback is highly appreciated.

IR department contacts

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Covering Analysts

A number of investment banks and companies provide analytical coverage of Pharmstandard's activities. In the following table you will find information about analysts who issue regular reports on Pharmstandard's operations and status. Please contact them for additional information about the Company.

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Abbreviations

OTC	Non prescription products
Rx	Prescription products
TPP	Third parties products
VEP list	List of Vital and Essential Products
FRP	Federal Reimbursement Programme
ONLC	Provision of Essential Pharmaceuticals Programme)
GMP	Good Manufacturing Practice
INN	International Nonproprietary Name
CMR	Market Research Centre Pharmexpert
P&L	Profit and Losses
SKU	Stock Keeping Unit
ARVI	Acute respiratory viral infection
API	Active Pharmaceutical Ingredients

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