OJSC "Pharmstandard"

Unaudited interim condensed consolidated financial statements

For the six months ended 30 June 2013

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Contents

OJSC "Pharmstandard"

Interim condensed consolidated statement of financial position as at 30 June 2013

(in thousands of Russian Roubles)

	Notes	30 June 2013 (unaudited)	31 December 2012 (audited data restated* - Note 5),
Assets			
Non-current assets			
Property, plant and equipment	10	**7,935,704**	7,623,319
Intangible assets	11	**7,839,401**	8,042,938
Share of investments in a joint venture	5	**350,506**	371,854
		16,125,611	16,038,111
Current assets			
Inventories	12	**10,445,328**	8,511,155
Trade and other receivables	13	**15,558,201**	14,974,473
VAT recoverable		**432,298**	333,483
Income tax prepayment		**107,670**	-
Prepayments		**432,497**	276,326
Short-term financial assets	15	**4,141,940**	4,469,872
Cash and short term deposits	14	**5,354,157**	8,657,326
		36,472,091	37,222,635
Non-current assets classified as held for sale		-	5,348
Total assets		**52,597,702**	53,266,094
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	20	**37,793**	37,793
Treasury shares	6	**(4,149)**	(3,190)
Foreign currency translation reserve		**27,558**	(1,922)
Retained earnings		**38,516,246**	37,533,953
		38,577,448	37,566,634
Non-controlling interests		**1,607,379**	1,651,138
Total equity		**40,184,827**	39,217,772
Non-current liabilities			
Deferred tax liability	27	**714,148**	781,516
Other non-current liabilities	19	**116,684**	88,920
		830,832	870,436
Current liabilities			
Trade and other payables and accruals, and advances received	18	**11,041,490**	11,593,753
Short-term borrowings and loans	16	**6,813**	1,300
Income tax payable		-	494,954
Taxes payable other than income tax	17	**533,740**	1,087,879
		11,582,043	13,177,886
Total liabilities		**12,412,875**	14,048,322
Total equity and liabilities		**52,597,702**	53,266,094

Chief Executive Officer I.K. Krylov

Chief Financial Officer E.V. Arkhangelskaya

28 August 2013

OJSC "Pharmstandard"

Interim condensed consolidated statement of comprehensive income

For the six months ended 30 June 2013

(in thousands of Russian Roubles)

	Notes	6 months 2013	6 months 2012 (Restated* - Note 5)
		(unaudited)	
Revenue	21	**16,434,695**	16,167,044
Cost of sales	22	**(9,140,723)**	(9,939,015)
Gross profit		**7,293,972**	6,228,029
Selling and distribution costs	23	**(2,660,106)**	(1,989,384)
General and administrative expenses	24	**(899,541)**	(624,350)
Other income	25	**704,074**	294,668
Other expenses	25	**(247,975)**	(72,745)
Financial income	26	**222,139**	54,934
Financial expense	26	**(1,675)**	(1,021)
Share in loss of a joint venture		**(21,348)**	(6,605)
Profit before income tax		**4,389,540**	3,883,526
Income tax expense	27	**(973,824)**	(808,899)
Profit for the period		**3,415,716**	3,074,627
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**34,020**	11,095
Other comprehensive income to be reclassified to profit or loss in subsequent periods		**34,020**	11,095
Total comprehensive income for the period		**3,449,736**	3,085,722
Profit for the period			
Attributable to:			
Equity holders of the Parent		**3,412,541**	3,059,793
Non-controlling interests		**3,175**	14,834
		3,415,716	3,074,627
Total comprehensive income for the period			
Attributable to:			
Equity holders of the Parent		**3,442,021**	3,069,545
Non-controlling interests		**7,715**	16,177
		3,449,736	3,085,722
Earnings per share (in Russian roubles) - basic and diluted, based on profit for the period attributable to equity holders of the Parent	20	**99.47**	85.07

* Certain amounts shown here do not correspond to the interim condensed consolidated financial statements as at 30 June 2012 and reflect adjustments made as detailed in Note 2.

Chief Executive Officer I.K. Krylov

Chief Financial Officer E.V. Arkhangelskaya

28 August 2013

The accompanying notes on pages 7-29 are an integral part of these interim condensed consolidated financial statements.

OJSC "Pharmstandard"

Interim condensed consolidated cash flow statement

For the six months ended 30 June 2013

(in thousands of Russian Roubles)

	Notes	6 months 2013	6 months 2012
		(unaudited)	
Cash flows from operating activities:			
Profit before income tax		4,389,540	3,883,526
Adjustments for:			
Depreciation and amortisation	10,11	538,188	447,441
Change in allowance for impairment of trade and other receivables	13	41,657	132,343
Write-down of inventories to net realizable value	12	104,999	49,361
Impairment charge and reversal of impairment - property, plant and equipment	10,25	1,098	(7,506)
Impairment charge – intangible assets	11,25	100,000	-
Write-off of cash in Cyprus banks	25	9,269	-
(Gain)/ loss from disposal of property, plant and equipment	25	(8,142)	4,303
Share in net loss of a joint venture	5	21,348	6,605
Foreign exchange gain		(111,493)	(99,848)
Financial income	26	(222,139)	(54,934)
Financial expense	26	1,675	1,021
Operating cash flows before working capital changes		4,866,000	4,362,312
(Increase) decrease in trade and other receivables	13	(612,727)	1,923,601
Increase in inventories	12	(2,003,055)	(1,927,308)
(Increase) decrease in VAT recoverable		(98,572)	43,793
(Increase) decrease in prepayments		(154,842)	367,007
Decrease in trade payables and other payables	18	(683,321)	(1,586,799)
Decrease in taxes payable other than income tax	17	(555,876)	(231,469)
Cash generated from operations		757,607	2,951,137
Income tax paid	27	(1,645,089)	(940,065)
Interest paid		(1,619)	(1,678)
Interest received		199,249	151,498
Net cash (used in)/from operating activities		(689,852)	2,160,892
Cash flows from investing activities:			
Purchase of property, plant and equipment	10	(596,294)	(542,583)
Payments for development expenditures	11	(66,911)	-
Net cash used in acquisition of subsidiaries, net of cash acquired	1, 3	(1,240)	(1,067,079)
Cash in joint-venture where Group obtained control	4	64,781	-
Cash paid for acquisition of non-controlling interests	7	(125,575)	-
Cash received from sale of non-current assets held for sale		-	17,850
Cash received from sale of property, plant and equipment		17,697	13,223
Receipt of government grants	19	26,204	-
Cash received from sale of short-term financial assets	15	2,538,806	2,686,820
Cash paid for short-term financial assets (except for loans to related parties)	15	(2,094,250)	(623,220)
Loans provided	15	(6,000)	-
Loans provided to related parties	9,15	-	(1,465,945)
Net cash used in investing activities		(242,782)	(980,934)
Cash flows from financing activities:			
Proceeds from loans and borrowings	16	5,013	-
Repayment of loans and borrowings		-	(700,000)
Cash paid for treasury shares	6	(2,378,749)	(1,079,415)
Net cash used in financing activities		(2,373,736)	(1,779,415)
Net decrease in cash and cash equivalents		(3,306,370)	(599,457)
Net foreign exchange differences		3,201	(1,327)
Cash and cash equivalents at the beginning of the year	14	8,657,326	5,368,074
Cash and cash equivalents at the end of the period	14	5,354,157	4,767,290

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

(in thousands of Russian Roubles)

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

Interim condensed consolidated statement of changes in equity for the six months ended 30 June 2013

(in thousands of Russian Roubles)

	Equity attributable to equity holders of the parent						
	Share capital	**Treasury shares**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2013 (audited)	**37,793**	**(3,190)**	**(1,922)**	**37,533,953**	**37,566,634**	**1,651,138**	**39,217,772**
Profit for the period	-	-	-	3,412,541	3,412,541	3,175	3,415,716
Other comprehensive income for the period	-	-	29,480	-	29,480	4,540	34,020
Total comprehensive income for the period	-	-	**29,480**	**3,412,541**	**3,442,021**	**7,715**	**3,449,736**
Effect of acquisition of non-controlling interests (Note 7)	-	-	-	(52,458)	(52,458)	(73,117)	(125,575)
Effect of obtaining control over joint-venture (Note 4)	-	-	-	-	-	21,643	21,643
Acquisition of treasury shares (Note 6)	-	(959)	-	(2,377,790)	(2,378,749)	-	(2,378,749)
Balance at 30 June 2013 (unaudited)	**37,793**	**(4,149)**	**27,558**	**38,516,246**	**38,577,448**	**1,607,379**	**40,184,827**

The accompanying notes on pages 7-29 are an integral part of these interim condensed consolidated financial statements.

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

1. Corporate information

OJSC "Pharmstandard" ("the Company") and its subsidiaries ("the Group") principal activities are production and wholesale distribution of pharmaceutical products and medical equipment. The Company is incorporated in the Russian Federation. Since May 2007, the Company's shares are publicly traded (Note 20). The Group's corporate office is in Dolgoprudny, Likhachevsky proezd, 5B, Moscow region, Russian Federation and its manufacturing facilities are based in Moscow region, Vladimir region, Kursk, Tomsk, Ufa, Tyumen (all Russian Federation) and Kharkov (Ukraine). The Company holds the shares in joint ventures and controlled the following major subsidiaries consolidated within the Group as at 30 June 2013 and 31 December 2012:

Entity	Country of incorporation	Activity	2013 % share	2012 % share
Subsidiaries:				
1. "Pharmstandard" LLC	Russian Federation	Central procurement	**100**	100
2. "Pharmstandard-Leksredstva" OJSC	Russian Federation	Manufacturing of pharmaceutical products	**100**	100
3. "Pharmstandard-Tomskhimpharm" OJSC	Russian Federation	Manufacturing of pharmaceutical products	**91**	91
4. "Pharmstandard-Ufavita" OJSC	Russian Federation	Manufacturing of pharmaceutical products	**100**	100
5. "Pharmstandard-Biolik" PJSC	Ukraine	Manufacturing of pharmaceutical products	**96.93**	55
6. "TZMOI" OJSC	Russian Federation	Manufacturing of medical equipment	**100**	100
7. Donelle Company Limited	Cyprus	Finance and holding Company	**89**	89
8. Aphopharm CJSC	Russian Federation	Assets holder	**89**	89
9. MDR Pharmaceuticals	Cyprus	Assets holder	**50.05**	50.05
10. Vindexpharm CJSC	Russian Federation	Assets holder	**100**	100
11. Bigpearl Trading Limited*	Cyprus	Assets holder	**50.005**	50.005
12. "Pharmapark" LLC*	Russian Federation	Manufacturing of pharmaceutical products	**50.005**	50.005
13. "Biomed named after I.I.Mechnikov" OJSC*	Russian Federation	Manufacturing of pharmaceutical products	**49.845**	49.795
14. "Pharmatsevticheskiye innovatsii"*	Russian Federation	Assets holder	**50.005**	50.005
15."PKB named after I.I.Mechnikov" CJSC*	Russian Federation	Assets holder	**49.845**	49.795
16."EKK" OJSC	Russian Federation	Auxiliary company	**35.29**	35.255
17. "Lekko" CJSC	Russian Federation	Manufacturing of pharmaceutical products	**100**	100
18. Moldildo Trading Limited **	Cyprus	Intermediary holding company	**75**	-
19. "Pharmstandard-Medtechnika" LLC **	Russian Federation	Distributing of medical equipment	**75**	-
20. Pharmstandard International S.A.***	Luxembourg	Assets holder	**100**	-
Joint ventures:				
21. "NauchTechStroy Plus" LLC	Russian Federation	Research and development Company	**37.5**	37.5
22. Moldildo Trading Limited **	Cyprus	Intermediary holding company	-	75
23. "Pharmstandard-Medtechnika" LLC **	Russian Federation	Distributing of medical equipment	-	75

* These subsidiaries were incorporated in "Bioprocess" group of companies acquired by the Company in July 2012. The Group exercises control over these entities through its controlling interest in Bigpearl Trading Limited. (see Note 3.1).

** These subsidiaries were recognised as joint venture as at 31 December 2012. Since 1 January 2013 the Group obtained majority control over these entities (see Note 4).

*** In April 2013 this subsidiary was acquired for a total consideration of RR 1,240 with the purpose of future conducting international transactions in the Company's interests (Note 29).

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors of OJSC "Pharmstandard" on 28 August 2013.

2. Basis of preparation of the financial statements

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standard 34 "Interim Financial Reporting". Accordingly, they do not include all of the information required by International Financial Reporting Standards ("IFRS") for complete financial statements.

These interim condensed consolidated financial statements should be read in conjunction with the complete consolidated financial statements as of 31 December 2012 and for the year then ended, considering the effect of adoption of new IFRS and revision of existing IAS, which is described below.

The interim condensed consolidated financial statements are presented in the national currency of the Russian Federation, Russian Rouble (RR), which is the functional currency of the Company and its Russian subsidiaries.

Seasonality of operations

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

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

Given the seasonality of operations, the Group's operating results for the six-month period ended 30 June 2013 are not necessarily indicative of the results that may be expected for the year ending 31 December 2013.

Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012, except for the adoption of new standards and interpretations as of 1 January 2013, noted below.

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

- IFRS 10 *Consolidated Financial Statements (amended in June 2012)* - replaces the consolidation guidance in IAS 27 *Consolidated and Separate Financial Statements* – Establishes a single control model that applies to all entities including special purpose entities.
- IFRS 11 *Joint Arrangements (amended in June 2012)* – replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. The application of this new standard impacted the financial position of the Group by replacing proportionate consolidation of the joint venture "NauchTechStroy Plus" LLC (see Note 5) with the equity method of accounting. IFRS 11 is effective for annual periods beginning on or after 1 January 2013.
- IFRS 12 *Disclosure of Interests in Other Entities (amended in June 2012)* – IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period requires that they are provided. Accordingly, the Group has not made such disclosures.

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

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

Changes in accounting policies (continued)

- IFRS 13 *Fair Value Measurement* – Definition, guidance and disclosure requirements about fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.
- 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.
- IAS 28 *Investments in Associates and Joint Ventures* – Amendments for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.
- IAS 1 *Presentation of Financial Statements* – Amendments to revise the way other comprehensive income is presented.
- IAS 19 *Employee Benefits* – Amended standard resulting from the Post-Employment Benefits and Termination Benefit projects.
- Amendment to IFRS 1 *First time adoption of IFRS – Government loans.* The amendment was issued in March 2012 to provide relief from the retrospective application of IFRSs in relation to government loans.
- Amendment to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities.*
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine.
- In May 2012, the final 2009-2011 annual improvements of IFRSs were issued. The table below shows the list of IFRSs where these narrow amendments have been made:

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

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

Changes in accounting policies (continued)

There were no significant effects of these changes in accounting policies on the financial position or performance of the Group except for IFRS 11 *Joint Arrangements* issued in May 2011. The effect of IFRS 11 is described in more detail in Note 5, which includes quantification of the effect on the financial statements.

IFRSs and IFRIC interpretations not yet effective

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

- IFRS 9 *Financial Instruments – Classification and Measurement* (effective for annual periods beginning on or after 1 January 2015) – Reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39.
- Amendment IAS 32 *Financial Instruments: Presentation* – Amendment for offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014).
- Amendment to IAS 36 *Impairment of Assets (amended in May 2013* - Under the amendment, recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed (effective for annual periods beginning on or after 1 January 2014).
- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment entities (amended in October 2012)* - provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities (effective for annual periods beginning on or after 1 January 2014).
- IFRIC 21 *Levies (issued in May 2013)* – provides guidance on accounting for levies in accordance with the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (effective for annual periods beginning on or after 1 January 2014).

Adoption of new and revised International Financial Reporting Standards

The Group has not early adopted any other standards, interpretations or amendments that has been issued but is not yet effective. The management believes that the adoption of these pronouncements listed above will have no significant impact on the Group's total financial result and financial positions in the period of initial application.

3. Business combinations

3.1. Acquisition of Bioprocess

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

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

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

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

3. Business combinations (continued)

3.1. Acquisition of Bioprocess (continued)

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

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

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

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

3.2. "Lekko" CJSC acquisition

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

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

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

3. Business combinations (continued)

3.2. "Lekko" CJSC acquisition (continued)

The Company obtained control over Lekko on 21 November 2012.

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

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

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

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

4. Obtaining control over a joint venture "Pharmstandard-Medtechnika" LLC

On 1 January 2013, the Company and the other participant, "DGM Trading Limited" signed an amendment to a shareholders' agreement whereupon the Company obtained a control over "Pharmstandard-Medtechnika" LLC ("Pharmstandard-Medtechnika"). In accordance with the terms of this new agreement operational decisions are taken by simple majority. In particular, the Group received a pre-emptive right to approve key management personnel of "Pharmstandard-Medtechnika" and to control operating activity of this entity as the Company is the majority shareholder of "Pharmstandard-Medtechnika" (Note 1). Consequently, since 1 January 2013 the Group recognised "Pharmstandard-Medtechnika" as a subsidiary of the Company and accounted for it in accordance with the requirements of IFRS 10. As a result, the Group recognised RR 21,643 as non-controlling interests in this subsidiary. The 2012 comparative figures of Pharmstandard-Medtechnika are included in these interim condensed consolidated financial statements using the proportionate consolidation method. Management believes that the using of this method is more applicable for presentation of comparative figures of "Pharmstandard-Medtechnika" reflected in these interim condensed consolidated financial statements than the using of the equity method.

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

5. Investments in a joint venture "NauchTechStroy Plus" (transition to IFRS 11)

The Group has a 37.5% interest in "NauchTechStroy Plus" LLC ("NTS+"), that is involved in research and development.

Under IAS 31 *Investment in Joint Ventures* (prior to the transition to IFRS 11), "NTS+" was classified as a jointly controlled entity and the Group's share of the assets, liabilities, revenue, income and expenses were proportionately consolidated. Upon adoption of IFRS 11, the Group has determined "NTS+" as a joint venture to be accounted for using the equity method. Retrospective application of IFRS 11 had no effects on the Group equity. The effect on the individual items in the consolidated statements of comprehensive income and of financial position is detailed in the following:

Impact in the consolidated statements of comprehensive income	**For the six months ended 30 June 2012**
Decrease in general and administrative expenses	14,992
Decrease in other income	(9,414)
Decrease in other expenses	5,165
Decrease in share of profits on joint venture	(6,605)
Increase in profit before income tax	**4,138**
Increase in income tax expense	(4,138)
Net impact on profit after tax	-

Impact of the statement of financial position	**As at 31 December 2012**
Increase in net investment in joint venture	371,854
Decrease in property, plant and equipment	(411,167)
Decrease in inventories	(18,808)
Decrease in trade and other receivables, VAT recoverable and prepayments	(9,546)
Decrease in cash and short-term deposits	(6,657)
Decrease in non-current assets classified as held for sale	(7,251)
Decrease in long-term loans	48,750
Increase in deferred tax liability	(6,533)
Decrease in trade and other payables and accruals and advances received	3,540
Decrease in short-term borrowings and loans	32,250
Decrease in income tax payable and other taxes payable	3,568
Net impact on equity	-

There is no material impact on interim condensed consolidated statement of cash flow or the basic and diluted earnings per share.

6. Treasury shares purchase

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

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

6. Treasury shares purchase (continued)

On 15 February 2013, the management of the Group announced a plan to purchase the Company's ordinary shares at Russian stock exchanges and/or at London stock exchange in the form of Global Depositary Receipts by the Company's subsidiary OJSC "Pharmstandard-Leksredstva". The total amount of funds allocated for the treasury shares purchase was limited to RR 8,000,000. In 2[nd] Quarter 2013, "Pharmstandard-Leksredstva" OJSC purchased 819,076 ordinary shares of the Company in the form of Global Depositary Receipts (one ordinary share is equal of four GDR) and 140,000 ordinary shares of the Company total representing about 2.54% of the Company's authorized share capital for a total cash consideration of RR 2,378,749.

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

After these transactions, "Pharmstandard-Leksredstva" helds 10.98% of issued shares of the Company as treasury shares. For more details see Note 20 and 29.

7. Acquisition of non-controlling interests

In the 1[st] quarter 2013, the Company's management approved a plan to acquire non-controlling interests in "Pharmstandard-Biolik" PJSC. In May 2013, the Company acquired 41.93% interest in "Pharmstandard-Biolik" PJSC resulting in an increase in the Company's interests to 96.93%. Total consideration paid in cash for the acquired non-controlling interests was RR 125,253. The difference of RR 53,047 between the total consideration and the carrying amount of the non-controlling interests acquired of RR 72,206 was debited directly to equity. In addition, in January 2013, the Group acquired 0.1% of non-controlling interests in "Biomed named after I.I.Mechnikov" OJSC for total cash consideration RR 322. The difference of RR 589 between the total consideration and the carrying amount of the non-controlling interests acquired of RR 911 was credited directly to equity.

8. Segment information

For the management purposes, the Group is organised into two reportable operating segments: (1) production and wholesale of pharmaceutical products and (2) production and wholesale of medical equipment. The medical equipment segment is primarily represented by "TZMOI" OJSC, as production subsidiary, and by "Pharmstandard-Medtechnika" representing managing, distributing and logistics company for the purpose of distribution of TZMOI and DGM products . Since 1 January 2013, the Company has majority control over "Pharmstandard-Medtechnika"(see Note 4 for details).

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

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

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

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, financial assets, receivables and operating cash. There were no assets unallocated to segments as of 30 June 2013 and 31 December 2012.

There were no significant intercompany transactions between these operating segments.

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

8. Segment information (continued)

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

Six months period ended 30 June 2013 (unaudited)	**Production and wholesale of pharmaceutical products**	**Production and wholesale of medical equipment**	**Group**
Sales to external customers	15,970,516	464,179	16,434,695
Total revenue	**15,970,516**	**464,179**	**16,434,695**
Gross profit	7,166,547	127,425	7,293,972
Segment result	**4,225,101**	**(34,677)**	**4,190,424**
Financial income, net			220,464
Share of loss of a joint venture			(21,348)
Profit before income tax			**4,389,540**
Income tax expense			(973,824)
Profit for the period			**3,415,716**
Acquisition of property, plant and equipment	625,948	23,333	649,281
Depreciation and amortisation	519,414	18,774	538,188

Six months period ended 30 June 2012, restated – Note 5 (unaudited)	**Production and wholesale of pharmaceutical products**	**Production and wholesale of medical equipment**	**Group**
Sales to external customers	15,786,471	380,573	16,167,044
Total revenue	**15,786,471**	**380,573**	**16,167,044**
Gross profit	6,078,990	149,039	6,228,029
Segment result	**3,779,433**	**56,785**	**3,836,218**
Financial income, net			53,913
Share of loss of a joint venture			(6,605)
Profit before income tax			**3,883,526**
Income tax expense			(808,899)
Profit for the period			**3,074,627**
Acquisition of property, plant and equipment	507,577	17,176	524,753
Depreciation and amortisation	431,527	15,914	447,441

The following table presents segment assets of the Group's operating segments as at 30 June 2013 and 31 December 2012:

	Production and wholesale of pharmaceutical products	**Production and wholesale of medical equipment**	**Group**
Segment assets			
At 30 June 2013 (unaudited)	**51,390,761**	**1,206,941**	**52,597,702**
At 31 December 2012, restated – Note 5 (unaudited)	51,991,322	1,274,772	53,266,094

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

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

8. Segment information (continued)

The table below shows the revenue from these customers:

Customer	6 months 2013 (unaudited)	6 months 2012 (unaudited)
The Ministry of health of Russian Federation and its local entities (state open auctions)	**1,311,918**	2,097,207
Customer 1	**2,677,719**	1,822,040
Customer 2	**2,422,173**	1,878,514
Customer 3	**1,477,924**	1,206,052

The Group's sales to the Ministry of health of Russian Federation and its local entities represent about 8% of the Group's total revenue for 6 months 2013 (6 months 2012: 13%).

9. Balances and transactions with related parties

The nature of the related party relationships for those related parties with whom the Group entered into transactions or had balances outstanding at 30 June 2013 and 31 December 2012 are detailed below.

Balances with related parties

30 June 2013 (unaudited)	Short-term financial assets (a) Note 15	Cash and cash equivalents– (a) Note 14	Short-term loans and borrowings	Trade and other receivables – (a) Note 13	Prepayments (b)	Trade payables, other payables and accruals – (c) Note 18
Other related parties[1]	1,825,678	4,997,209	650	55,394	17,443	448,999
Total	**1,825,678**	**4,997,209**	**650**	**55,394**	**17,443**	**448,999**

31 December 2012 (audited)	Short-term financial assets (a) Note 15	Cash and cash equivalents – (a) Note 14	Short-term loans and borrowings	Trade and other receivables – (a) Note 13	Prepayments (b)	Trade payables, other payables and accruals – (c) Note 18
Other related parties	3,063,711	5,151,573	650	87,017	-	683,839
Total	**3,063,711**	**5,151,573**	**650**	**87,017**	**-**	**683,839**

(a) These balances primarily represented (i) cash, short-term bank deposits, issued promissory notes and interest receivable at a bank controlled by a related party (Notes 13, 14 and 15), (ii) short-term loans provided to a majority shareholder (refer to sub-section "Loans provided to majority shareholder" below and Note 15), (iii) short-term loan provided to other related party (refer to sub-section "Loan provided to other related party" below and Note 15) and (iv) trade receivables for agency fee from sales of certain products of the related party.

(b) This balance represented prepayment for the rent.

(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 30 June 2013 and 31 December 2012 include cash deposits in the related bank and carry 8% interest p.a. for deposits denominated in Russian Roubles (31 December 2012: 3.5% interest p.a. for deposits denominated in US$). For more details see Notes 14 and 15.

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

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

9. Balances and transactions with related parties (continued)

Significant transactions with related parties

Statement of comprehensive income caption	Relationship	6 months 2013 (unaudited)	6 months 2012 (unaudited)
Revenue	Other related parties	-	29,692
Interest income from deposits placed in a related bank (included in financial income)	Other related parties	**9,011**	1,117
Interest income from loan provided to other related party (included in financial income)	Other related parties	**4,284**	-
Interest income from loan provided to majority shareholder (included in financial income)	Majority shareholder	**19,306**	8,300
License fee (included in distribution costs) (A)	Other related parties	**(859)**	(9,367)
Warehouse rental expenses (included in distribution costs) (B)	Other related parties	**(52,629)**	(45,347)
Office rental expenses (included in general and administrative expenses) (B)	Other related parties	**(31,843)**	(28,369)
Cost of sales (C)	Other related parties	**(691,085)**	(151,884)
Agency fee income (included in other income) (D)	Other related parties	**24,767**	107,315
Other income from non-core operations	Other related parties	**8,053**	-

(A) License fee

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

(B) Rental expenses

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

(C) Cost of sales

The Group holds a purchase contracts for supply of certain third-party products such as Koagil VII and Infibeta manufactured by a related party. The presented amount includes the cost of this product in the amount of RR 640,985 (6 months 2012: RR 76,379) sold by the Group primarily through open state auctions. As of 30 June 2013 the Group had RR 17,876 of unsold inventory balances of these products. The remaining amount of RR 50,100 (6 months 2012: RR 75,505) included in the cost of sales line primarily represents the cost of raw materials purchased from a related party.

(D) Agency fee income

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

Loans provided to majority shareholder

In April 2012, the Company's majority shareholder "Augment Investments Limited" ("Augment"), a company registered under the laws of Cyprus (see Note 20), applied to the Company with request to provide short-term interest loan for the purpose of financing the current business activity of Augment not related to the Group. The Group provided unsecured US$ denominated short-term loans to Augment with maturity date of 28 February 2013 and fixed interest rate of 3.5% p.a. by two tranches:

- in April 2012, of US$ 27,500 thousand (RR 899,498 at the exchange rate as of 30 June 2013); and
- in June 2012, of US$ 20,000 thousand (RR 654,180 at the exchange rate as of 30 June 2013).

In February 2013 the Group revised maturity dates for both loans to 31 August 2013 (see Note 29).

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

9. Balances and transactions with related parties (continued)

Loan provided to other related party

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

Compensation to key management personnel

Total compensation to key management personnel, amounted to RR 14,203 for the 6 months period ended 30 June 2013 (6 months 2012: RR 14,243). Such compensation represents the payroll and bonuses included in general and administrative expenses.

10. Property, plant and equipment

During the six months period ended 30 June 2013 the Group acquired property, plant and equipment with a cost of RR 649,281 (6 months 2012: RR 524,753). Property, plant and equipment with net book value of RR 9,555 were disposed of by the Group during the six months period ended 30 June 2013 (6 months 2012: RR 12,695), resulting in gain on disposal of RR 8,142 (6 months 2012: loss on disposal of RR 4,303). Total depreciation of the property, plant and equipment for the six months period ended 30 June 2013 was RR 343,808 (6 months 2012: RR 272,703). During the six months period ended 30 June 2013 the Group recognized an impairment loss of property, plant and equipment in the amount of RR 1,294 (6 months 2012: RR 1,506) and reversal of impairment in the amount of RR 196 (6 months 2012: RR 9,012; see Note 25).

In 2013 and 2012, the Group did not borrow money for capital construction and there were no new qualifying assets, therefore no interest expense was capitalized.

11. Intangible assets

There were no acquisitions and disposals of the intangible assets for the six months period ended 30 June 2013 and 2012.

Total amount paid for development expenditures recognised as increase of carrying value of intangible assets classified as development costs was RR 66,911 for the six months period ended 30 June 2013. These development expenditures are related to certain development projects recognised as intangible assets as at 31 December 2012.

Total amortization of the intangible assets for the six months period ended 30 June 2013 was RR 194,380 (6 months 2012: RR 174,738). This amount is included in the cost of sales line item (Note 22).

At 30 June 2013 the Group recognised an impairment of trade mark "Afobazol" amount of RR 100,000 as its fair value calculated by using cash flow projections method is less than carrying value of this trade mark. This amount is included in the other expenses line item (Note 25).

12. Inventories

Inventories consist of the following:

	30 June 2013 (unaudited)	**31 December 2012 (audited)**
Raw materials - at cost	**5,139,206**	3,139,802
Work in progress - at cost	**527,773**	347,898
Finished goods - at net realisable value	**4,778,349**	5,023,455
	10,445,328	8,511,155

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

13. Trade and other receivables

	30 June 2013 (unaudited)	31 December 2012 (audited)
Trade receivables (net of allowance for impairment of receivables of RR 149,206 (31 December 2012: RR 107,118))	**15,383,738**	14,902,805
Interest receivable – third parties	**73,873**	56,178
Interest receivable – related parties (Note 9)	**22,531**	15,490
Other receivables (a)	**78,059**	-
	15,558,201	14,974,473

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

At 30 June 2013 RR 89,937 of trade receivables were denominated in currencies other than Russian Roubles, primarily in US$ (RR: 79,897) and Ukrainian Hryvnia (RR: 9,173). At 31 December 2012 RR 193,979 of trade receivables were denominated in currencies other than Russian Roubles, primarily in US$ (RR: 114,632) and Ukrainian Hryvnia (RR: 79,146).

14. Cash and short-term deposits

Cash and short-term deposits consist of the following:

	30 June 2013 (unaudited)	31 December 2012 (audited)
Cash in bank – Russian Roubles	**2,984,690**	2,834,490
Cash in bank – Ukrainian Hryvnia	**11,386**	13,944
Cash in bank – US$ and Euro	**2,113,108**	2,360,240
Short-term bank deposits with original maturity less than 90 days – Russian Roubles (a)	**150,000**	3,262,000
Short-term bank deposits with original maturity less than 90 days – Ukrainian Hryvnia (a)	**12,738**	82,698
Short-term bank deposits with original maturity less than 90 days placed in related bank – Russian Roubles	-	28,327
Cash deposits on state open auctions – Russian Roubles (b)	**82,235**	75,627
	5,354,157	8,657,326

(a) Short-term bank deposits bear an interest rate of 6.3-7.3% p.a. for deposits denominated in Russian Roubles and 17% p.a. for deposits denominated in Ukrainian Hryvnia (31 December 2012: 5.59%-7.55% p.a. for deposits denominated in Russian Roubles and 20.3%-24.0% p.a. for deposits denominated in Ukrainian Hryvnia).

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

15. Short-term financial assets

	30 June 2013 (unaudited)	31 December 2012 (audited)
Accounted for as loans and receivables:		
Promissory notes – Russian Roubles	**894,250**	990,790
Promissory notes issued by a related bank – US$ – Note 9	-	607,454
Short-term bank deposits – Russian Roubles	**1,400,000**	400,000
Short-term bank deposits placed in related bank – Russian Roubles – Note 9	**200,000**	–
Short-term bank deposits placed in related bank – US$ – Note 9	-	941,554
Short-term loans	**6,000**	–
Short-term loan provided to other related party – Russian Roubles – Note 9	**72,000**	72,000
Short-term loans provided to majority shareholder – US$ – Note 9	**1,553,678**	1,442,703
Accounted for as available for sale:		
Securities	**14,572**	13,513
Other	**1,440**	1,858
	4,141,940	4,469,872

The short-term bank deposits denominated in Russian Roubles as of 30 June 2013 earn interest at a rate of 8.5-9.25% p.a. (31 December 2012: 8.5% p.a.).The short-term bank deposits placed in related bank and denominated in Russian Roubles as of 30 June 2013 earn interest at a rate of 8% p.a.

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

16. Short-term borrowings and loans

	30 June 2013 (unaudited)	31 December 2012 (audited)
Short-term loans – Ukrainian Hryvnia	**5,013**	-
Other loans – Russian Roubles (Note 9)	**1,800**	1,300
	6,813	1,300

17. Taxes payable other than income tax

	30 June 2013 (unaudited)	31 December 2012 (audited)
Value-added tax	**430,072**	971,432
Social taxes	**63,497**	60,510
Property tax	**10,752**	15,336
Other taxes	**29,419**	40,601
	533,740	1,087,879

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

	30 June 2013 (unaudited)	31 December 2012 (audited)
Trade payables	**1,719,412**	1,911,472
Payables for products procurement – third parties (a)	**5,503,905**	7,751,941
Payables for products procurement and other payables – related parties (Note 9, a)	**448,999**	683,839
Advances received	**83,652**	143,579
Issued promissory notes – US$ and Euro (b)	**252,315**	240,514
Payables to employees	**474,683**	448,861
Other payables and accruals (c)	**2,558,524**	413,547
	11,041,490	11,593,753

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

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

(c) These balances primarily represent payables to third parties for certain products distributed by the Company under the terms of agency contracts with these third-parties for distribution and sales of those products owned by third-parties (Note 25).

At 30 June 2013 RR 2,002,637 of total payables were denominated in currencies other than Russian Rouble, primarily in US$ (31 December 2012: RR 2,052,699).

19. Other non-current liabilities

	30 June 2013 (unaudited)	31 December 2012 (audited)
Deferred income (a)	**101,204**	75,000
Other	**15,480**	13,920
	116,684	88,920

(a) The newly acquired subsidiaries of the Group "Pharmapark" LLC and "Biomed named after I.I. Mechnikov" OJSC (Note 3.1) receive government grants to finance certain development costs. This amount represents cash proceeds from government grants and it will be credited to profit or loss over useful life of the intangible asset recognised upon completion of the development stage.

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

20. Share capital

In accordance with its charter documents the share capital of the Company is RR 37,793. The authorised number of ordinary shares is 37,792,603 with par value of 1 (one) Russian Rouble. All authorised shares are issued and fully paid. There were no other transactions with own shares during six months ended 30 June 2013 and 2012 except for the acquisition of Company's treasury shares by "Pharmstandard-Leksredstva" as described in Notes 6.

As of 30 June 2013 and 31 December 2012 about 54.32% of voting shares of OJSC "Pharmstandard" were held by Augment controlled by Victor Kharitonin, a Russian citizen.

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

In 2008 and 2009, 969,815 ordinary shares representing 2.56% of share capital of the Company were sold by Augment and were offered at LSE. Also, in 2009 Augment reacquired 55,000 ordinary shares. Until 30 June 2013, approximately 10.98% of the Company's shares were acquired by the Company's subsidiary "Pharmstandard-Leksredstva" OJSC and were recognized as treasury share (for more details see Notes 6). Augment held 54.32% of share capital and 34.7% of share capital is publicly listed of which 25.39% is on the LSE.

After these transactions, "Pharmstandard-Leksredstva" OJSC holds 10.98% of issued shares as treasury shares. Further, "Pharmstandard-Leksredstva" OJSC continued to purchase the Company's shares subsequent to 30 June 2013 as detailed in Note 29.

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

Earnings per share

Earnings per share are as follows:

	6 months 2013	**6 months 2012**
	----------(unaudited)	**----------**
Weighted average number of ordinary shares outstanding (Note 6)	**34,306,494**	35,967,853
Profit for the period attributable to the shareholders	**3,412,541**	3,059,793
Basic and diluted earnings per share, Russian Roubles	**99.47**	85.07

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

21. Revenue

Revenue breakdown by product groups comprised the following:

	6 months 2013	6 months 2012
	----------(unaudited)----------	
Pharmaceutical products		
Over the Counter ("OTC")		
Branded	**5,365,622**	4,496,397
Non-branded	**1,269,610**	1,014,592
	6,635,232	5,510,989
Prescription		
Branded	**2,523,642**	1,866,272
Non-branded	**398,735**	393,352
	2,922,377	2,259,624
Third parties products (a)	**5,901,628**	7,763,638
Other – substances and APIs	**511,279**	252,220
Total pharmaceutical products	**15,970,516**	15,786,471
Medical equipment (Note 4)	**464,179**	380,573
	16,434,695	16,167,044

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

22. Cost of sales

The components of cost of sales were as follows:

	6 months 2013	6 months 2012
	----------(unaudited)----------	
Materials and components	**2,693,985**	2,326,150
Third parties products	**4,938,531**	6,454,711
Production overheads	**842,949**	614,883
Depreciation and amortisation	**458,825**	382,811
Direct labour costs	**206,433**	160,460
	9,140,723	9,939,015

23. Selling and distribution costs

Selling and distribution costs were as follows:

	6 months 2013	6 months 2012
	----------(unaudited)----------	
Advertising	**1,439,937**	998,701
Labour costs	**764,214**	617,784
Freight, communication and insurance of goods in transit	**101,508**	80,917
Trainings and other services	**27,567**	16,424
Certification expenses	**40,656**	29,706
Rent	**56,104**	45,653
Commission and license fee	**46,823**	38,340
Materials, maintenance and utilities	**54,847**	49,806
Travel and entertainment	**69,278**	54,353
Depreciation	**41,082**	40,249
Other expenses	**18,090**	17,451
	2,660,106	1,989,384

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

24. General and administrative expenses

General and administrative expenses were as follows:

	6 months 2013	6 months 2012
	(unaudited)	
Labour costs	604,947	416,554
Services, legal, audit and consulting expense	35,646	25,981
Travel and entertainment	17,828	14,453
Taxes other than income tax	9,881	10,191
Property insurance	10,134	9,625
Freight and communication	13,680	12,873
Depreciation	38,281	24,381
Rent	59,681	38,129
Materials, maintenance and utilities	77,835	55,311
Other	31,628	16,852
	899,541	624,350

25. Other income and other expenses

Other income comprised the following:

	6 months 2013	6 months 2012
	(unaudited)	
Foreign exchange gain, net	213,958	150,133
Gain from disposal of property, plant and equipment	8,142	-
Agency fee (a)	414,792	124,906
Income from non-core operations (b)	66,422	8,813
Reversal of impairment – property, plant and equipment (Note 10)	196	9,012
Other	564	1,804
	704,074	294,668

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

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

Other expenses comprised the following:

	6 months 2013	6 months 2012
	(unaudited)	
Loss from disposal of property, plant and equipment	-	4,303
Charity	657	1,044
Bank charges (a)	16,745	11,554
Other taxes and penalties	44,227	37,487
Impairment of property, plant and equipment (Note 10)	1,294	1,506
Impairment of intangible assets (Note 11)	100,000	-
Write-off of cash in Cyprus banks (b)	9,269	-
Other	75,783	16,851
	247,975	72,745

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

(b) The Group wrote-off cash placed in certain Cyprus banks due to financial crisis in Cyprus intensified in 1st Quarter 2013.

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

26. Financial income and expense

Financial income and expense comprised the following:

	6 months 2013	6 months 2012
	----------(unaudited)----------	
Financial income:		
Interest income from loans and deposits	222,072	54,258
Other	67	676
	222,139	54,934
Financial expense:		
Interest expense on borrowings and loans	1,675	1,021
	1,675	1,021

27. Income tax

	6 months 2013	6 months 2012
	----------(unaudited)----------	
Income tax expense – current	1,040,811	859,622
Deferred tax benefit– origination and reversal of temporary differences	(66,987)	(50,723)
Income tax expense	973,824	808,899

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

	6 months 2013	6 months 2012
	----------(unaudited)----------	
Profit before income tax	4,389,540	3,883,526
Theoretical tax charge at Russian statutory rate of 20%	877,908	776,705
Effect of the difference in tax rates in countries other than the Russia	-	229
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	95,916	31,965
Income tax expense	973,824	808,899

Movements in deferred tax balances were as follows:

	31 December 2012 (audited)	Effect from obtaining control over a joint-venture (Note 4)	Temporary differences recognition and reversal in profit and loss	30 June 2013 (unaudited)
Tax effects of deductible temporary differences – asset (liability):				
Property, plant and equipment (Note 10)	(571,662)	(61)	628	(571,095)
Intangible assets (Note 11)	(515,845)	15	28,693	(487,137)
Trade and other receivables	32,232	-	(29,151)	3,081
Inventories	205,138	25	49,927	255,090
Trade and other payables	37,371	402	4,317	42,090
Financial instruments	2,442	-	12,361	14,803
Other	28,808	-	212	29,020
Total net deferred tax liability	(781,516)	381	66,987	(714,148)

27. Income tax (continued)

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.

28. Contingencies, commitments and operating risks

Operating environment of the Group

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2012 and 2013, the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

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

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

Taxation

Russian and Ukrainian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 30 June 2013 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

28. Contingencies, commitments and operating risks (continued)

Taxation (continued)

Because of the uncertainties associated with the Russian and Ukrainian tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as of 30 June 2013. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Should the tax authorities decide to issue a claim and prove successful in the court, they would be entitled to recover the amount claimed, together with fines (in Russia amounting to 20% of such amount and interest at the rate of 1/300 of the Central Bank of the Russian Federation rate for each day of delay for late payment of such amount). Management believes that it is not probable that the ultimate outcome of such matters would result in a liability. Therefore, no provision for these contingencies was recorded in these consolidated financial statements.

Russian transfer pricing legislation

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

The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place after 1 January 2012 but also to the prior transactions with related parties if related income and expenses were recognized after 1 January 2012. Special transfer pricing rules apply to transactions with securities and derivatives.

In 2012 and 2013 the Group determined its tax liabilities arising from "controlled" transactions using actual transaction prices.

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

Insurance policies

The Group holds insurance policies in relation to its property, plant and equipment, which cover majority of property, plant and equipment items. The Group holds no insurance policies in relation to its operations, or in respect of public liability.

Operating lease agreements

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

28. Contingencies, commitments and operating risks (continued)

Commitment liabilities

In 2012, the Group provided certain unsecured guaranties in the total amount of RR 111,645 with maturity period from two years to three years for related parties to provide some state contracts signed by these related parties. The management believes that provided guarantees have remote financial risks for the Group. No liability related to guarantees was recognised in the statement of financial position as of 30 June 2013 and 31 December 2012.

Statutory inspection of "Biolik"

In December 2012, the Ukrainian authorities performed an extraordinary inspection of "Biolik" compliance with the applicable production quality standards. The inspection revealed certain formal deficiencies in the controls over production quality resulting in suspension in "Biolik" production process until resolution of those deficiencies. Those deficiencies are primarily due to the reconstruction of production and maintenance work to improve the quality of "Biolik"'s products.

In April 2013, the «Biolik» received permission to contract manufacturing. This fact allowed to start packaging and sales of certain third party products, i.e. oncology drugs. In addition, in 2013 «Biolik» distributes products of third-party Russians manufactures as importer using its pharmaceutical licenses. For the six months period ended 30 June 2013 the total Biolik's revenue was RR 98,881 (6 months 2012: RR 292,123)

Management believes that the other deficiencies will be resolved mostly in 3rd Quarter 2013 and "Biolik" production process renewed in the near future. In addition, management believes that the discussed circumstances will not have material adverse effects on the Group and were appropriately reflected in these interim condensed consolidated financial statements.

Significant litigations

The Company is involved in on-going litigation by Federal Anti-monopoly Service of Russia regarding breach by the Company of anti-monopoly legislation at the state open tender in 2009.
While there is uncertainty as to ultimate outcome of this litigation, the Group has reasonable grounds to conclude that the associated risks of imposing the applicable administrative fines up to RR 201,000 are not probable. Therefore, no provision for this contingent liability was recorded in the consolidated financial statements. Management estimates that the litigation will be finalized in 2013.

There are no other significant legal matters/risks related to the Group, which require disclosure and/or accrual in the consolidated financial statements.

29. Events after the reporting period

Plan of spin-off of OTC-branded business line

On 8 July 2013, the Group announced that the management of the Company decided to initiate necessary steps for spin-off of the Company's branded OTC business line into a separate legal entity which will be named "OTCpharm" OJSC ("OTCpharm") and whose shares will be proportionally distributed among the shareholders of the Company.

Prior to this announcement, on 5 July 2013, the Company's Board of Directors convened to discuss the matter and therefore agreed to announce an extraordinary shareholder meeting on 27 September 2013 in accordance with legislation of Russian Federation and with the Company's charter documents.

29. Events after the reporting period (continued)

Plan of spin-off of OTC-branded business line (continued)

It is assumed that OTCpharm will be holder of certain intangible assets, such as trade marks, patents and other related to Branded OTC products, (including Arbidol, Afobazol, Amixin, Flucostat, Complivit, Pentalgin and other). Consequently OTCpharm will receive controlling interest in Donelle Company Limited, Aphopharm CJSC, Vindexpharm CJSC and Bever - see Note 1 and section "*Acquisition of Bever shares*" below).

The management's plan of spin-off of OTC business line based on the belief of management's strategic need to allocate OTC- business line into a separate company, as the only possibility to shareholders to obtain more market value of the shares of this business.

Treasury shares purchase

As described in Note 6, on 15 February 2013, the management of the Group announced a plan to purchase the Company's ordinary shares at Russian stock exchanges and/or at London stock exchange in the form of Global Depositary Receipts by the Company's subsidiary OJSC "Pharmstandard-Leksredstva".

In July 2013, "Pharmstandard-Leksredstva" OJSC additionally purchased 2,933,214 ordinary shares of the Company in the form of Global Depositary Receipts (one ordinary share is equal of four GDR) representing about 7.76% of the Company's authorized share capital for a total cash consideration of RR 5,565,285.

After these transactions, at the date of issue this interim condensed consolidated financial statements "Pharmstandard-Leksredstva" holds 18.74% of issued shares of the Company as treasury shares.

For more important information about treasury shares see section "*Acquisition of Bever shares*" below.

Acquisition of Bever shares

On 8 July 2013, the Group announced the decision of the Board of Directors of the Company in relation to a potential acquisition of a subsidiary and on 17 August 2013, an extraordinary General Meeting of shareholders of the Company approved a deal to purchase of "Bever Pharmaceutical Pte" Ltd ("Bever"), a company registered in Singapore with the purpose of acquiring of 100% of the outstanding Bever shares.

This acquisition was significantly related to the plan of spin-off of Branded OTC business line as described above in section "*Plan of spin-off of OTC-branded business line*".

On 19 August 2013, the Group signed contracts to acquire Bever's outstanding shares. The ultimate controlling party of the Bever before acquisition was Alexander Shuster, a Russian citizen and one of the Company's Directors. . Bever is a holder of exclusive contracts being its only assets for supply of active pharmaceutical ingredients ("APIs") for manufacturing two major Group's products Afobazol and Arbidol. Therefore acquisition of Bever will be accounted for as an acquisition of intangible assets and will be recognized at cost of acquisition.

Total consideration for the acquisition of Bever is US$ 590 million and includes two parts:

- US$ 48 million should be paid in cash by 31 December 2013; and
- US$ 542 million should be paid by Pharmstandard's ordinary shares and ordinary shares in form of GDR held by the Company's subsidiary "Pharmstandard-Leksredstva" OJSC as treasury shares. These shares should be transferred to the Seller to 31 December 2013 and the total number of transferred shares will be 7,082,041 total representing about of 18.74% of share capital of the Company of which 9.93% in form of GDR.

29. Events after the reporting period (continued)

Acquisition of Bever shares (continued)

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

The Company's strategic rationale for this acquisition includes securing a long-term fixed-cost supply of critical API's for two flagship OTC brands Arbidol and Afobazol as well as significantly increasing the profitability of these brands.

If spin-off of OTC-business line will be approved on 27 September 2013 by the extraordinary General Meeting of shareholders of the Company, Bever will be transferred to OTCpharm (see section "*Plan of spin-off of OTC-branded business line*" above).

Acquisition of Donelle non-controlling interests

In August 2013, the Company acquired about of 11% of non-controlling interests in Donelle Company Limited ("Donelle") of which 5.465% of ordinary shares were held by Alexander Shuster, a Russian citizen and one of the Company's Directors. Donelle is the sole shareholder of CJSC Aphopharm ("Aphopharm") and Aphopharm is a holder of the Afobazol trade mark. Total consideration paid in cash for the acquired non-controlling interests was RR 235,112. After this acquisition the Group holds 100% of outstanding shares of Donelle.

Venture investments

In August 2013, the Company's subsidiary "Pharmstandard International S.A." (Note 1) invested US$ 12 million to purchase of preferred shares and warrants of Argos Therapeutics, Inc. ("Argos") located in the USA, Delaware. Argos is a biopharmaceutical company focused on the development and commercialization of fully personalized immunotherapies for the treatment of cancer and infectious diseases based on its Arcelis™ technology platform. The above transfer represented the first tranche from the total contract amount of US$ 30 million and other tranches will be provided in 2014 under achieving certain conditions of the purchase contract.

Also, Pharmstandard International S.A. invested US$ 2 million to purchase of preferred shares of Protagonist Therapeutics, Inc. ("Protagonist") located in the USA, Delaware. Protagonist is a peptide and peptidomimetic therapeutics company pursuing technology platform driven discovery and development of disulfide rich peptides (DRPs). The above transfer represented the first tranche from the total contract amount of US$ 4 million and other tranches will be provided in 2014 under achieving certain conditions of the purchase contract.

These investments were considered by the Group as venture financing of those entities.

Repayment of majority shareholder's loan

On 18 July 2013, the US$ denominated loan provided to majority shareholder of the Company in the amount of US$ 47,500 was fully repaid by Augment (Note 9).

Receiving of short-term loan

In August 2013, the Company received an interest bearing unsecured short-term loan in the amount of RR 700,000 from third-party bank. The loan bears interest rate of 11% p.a. and should be repaid by the Company by 21 February 2014.