OJSC Pharmsynthez

Consolidated financial statements

For the year ended 31 December 2012

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Contents

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Report of independent auditors

To the Board of Directors and Stockholders of OJSC Pharmsynthez

We have audited the accompanying consolidated financial statements of OJSC Pharmsynthez, which comprise the consolidated balance sheet as of 31 December 2012 and 2011 and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for each of the two years in the period ended 31 December 2012 and the related notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 qualified audit opinion.

ERNST & YOUNG

Basis for qualified opinion

In 2012 OJSC Pharmsynthez recognized an equity contribution in the form of intangible assets transferred from Sympatica Pharmaceuticals Limited. We were unable to obtain sufficient appropriate audit evidence about the reasonableness of the valuation of the contributed intangible assets and the corresponding balances of Common stock and Additional paid-in capital line items of $2,058 thousand, $399 thousand and $1,517 thousand, respectively, or the related effects on foreign currency translation, all of which are presented in the consolidated balance sheet as of 31 December 2012. As a result, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OJSC Pharmsynthez as of 31 December 2012 and 2011, and the consolidated results of its operations and cash flows for each of the two years in the period ended 31 December 2012 in conformity with accounting principles generally accepted in the United States.

Restatement of year 2011 Financial Statements

As detailed in Note 3 to the consolidated financial statements, the year 2011 financial statements have been restated to correct errors in application of accounting principles generally accepted in the United States. Our opinion is not modified with respect to this matter.

Ernst & Young LLC

28 June 2013

OJSC Pharmsynthez

Consolidated statement of comprehensive income
for the year ended 31 December 2012
(in thousands of US Dollars)

	Note	2012	2011*
Revenue	4	**8,521**	6,716
Cost of revenue	5	**(4,511)**	(3,444)
Government co-financing of research and development	6	**4,197**	7,062
Research and development expenses	6	**(4,660)**	(6,488)
Selling and marketing expenses	7	**(1,941)**	(1,562)
General and administrative expenses	8	**(2,897)**	(2,422)
Other operating income	9	**34**	981
Other operating expense	10	**(526)**	(727)
Operating (loss)/income		**(1,783)**	116
Interest income	11	**118**	180
(Loss)/income before income taxes		**(1,665)**	296
Provision for income taxes	25	**130**	(275)
Net (loss)/income		**(1,535)**	21
Other comprehensive income			
Foreign currency translation adjustment		**1,623**	(1,258)
Other comprehensive income/(loss)		**1,623**	(1,258)
Total comprehensive income/(loss)		**88**	(1,237)

* Certain amounts shown here do not correspond to the 2011 consolidated financial statements and reflect adjustments made as detailed in Note 3.

OJSC Pharmsynthez

Consolidated balance sheet as of 31 December 2012

(in thousands of US Dollars)

	Note	2012	2011*
Current assets			
Cash and cash equivalents	12	2,263	9,699
Current financial assets	13	246	1,046
Trade and other receivables, net of bad debt allowance	14	7,460	4,382
Inventories	15	2,124	1,585
Prepaid expenses		37	36
Current prepaid financial expenses	16	138	-
Current deferred tax asset	25	215	178
		12,483	16,926
Non-current assets			
Intangible assets, NBV	17	2,722	657
Property, plant and equipment, NBV	18	9,812	7,609
Long term notes receivable	16	1,923	-
Long term investments	19	886	832
Other non-current assets	20	177	126
Non-current prepaid financial expenses	16	169	-
Non-current deferred tax asset	25	664	444
		16,353	9,668
Total assets		28,836	26,594
Current liabilities			
Trade and other payables	21	4,752	4,432
Income tax payable		-	186
Current loans payable to related parties	28	214	195
Current promissory notes payable	22	1,115	-
Capital lease liabilities, current portion	23	45	58
		6,126	4,871
Non-current liabilities			
Non-current promissory notes payable	22	-	1,052
Capital lease liabilities, non-current portion	23	55	30
Non-current deferred tax liabilities	25	172	162
		227	1,244
Equity			
Common stock	24	11,776	11,377
Additional paid-in capital	24	14,630	13,113
Treasury stock, at cost		(1,627)	(1,627)
Accumulated deficit		(5,507)	(3,972)
Accumulated other comprehensive income		3,211	1,588
		22,483	20,479
Total equity & liabilities		28,836	26,594

* Certain amounts shown here do not correspond to the 2011 consolidated financial statements and reflect adjustments made as detailed in Note 3.

OJSC Pharmsynthez

Consolidated statement of changes in equity

for the year ended 31 December 2012

(in thousands of US Dollars)

	Notes	Common stock		Additional paid-in capital	Treasury stock	Accumulated deficit	Accumulated other comprehensive income	Total equity
		Shares	Amount					
Balance as of 31 December 2010*	24	71,519,265	11,377	13,113	-	(3,989)	2,846	23,347
Net income		-	-	-	-	21	-	21
Other comprehensive loss		-	-	-	-	-	(1,258)	(1,258)
Total comprehensive income/(loss)		-	-	-	-	21	(1,258)	(1,237)
Purchase of treasury shares	24	(2,078,800)	-	-	(1,627)	(4)	-	(1,631)
Balance as of 31 December 2011*		69,440,465	11,377	13,113	(1,627)	(3,972)	1,588	20,479
Net loss		-	-	-	-	(1,535)	-	(1,535)
Other comprehensive income		-	-	-	-	-	1,623	1,623
Total comprehensive income/(loss)		-	-	-	-	(1,535)	1,623	88
Issuance of common stock	24, 17	2,605,067	399	1,517	-	-	-	1,916
Balance as of 31 December 2012		72,045,532	11,776	14,630	(1,627)	(5,507)	3,211	22,483

* Certain amounts shown here do not correspond to the 2011 consolidated financial statements and reflect adjustments made as detailed in Note 3.

OJSC Pharmsynthez

Consolidated statement of cash flows

for the year ended 31 December 2012

(in thousands of US dollars)

	Note	2012	2011*
Cash flows from operating activities			
Net income/(loss)		**(1,535)**	21
Goodwill impairment	10	**-**	333
Depreciation of property, plant and equipment		**827**	556
Amortization of intangible assets	17	**36**	23
Amortization of prepaid financial expenses		**49**	-
Interest income	11	**(118)**	(180)
Loss on initial recognition of loans to employees		**29**	41
Foreign exchange, net	9,10	**315**	(64)
Deferred income taxes	25	**(213)**	39
Loss/(gain) on disposal of property, plant and equipment		**18**	(882)
Bad debt allowance	10,14	**15**	136
Net movement in provisions	21	**124**	23
Inventory obsolescence allowance	10,15	**51**	41
Other non-cash items		**6**	(11)
Changes in operating assets and liabilities, net of acquisition			
Trade and other receivables		**(2,642)**	(1,878)
Inventories		**(156)**	(442)
Trade and other payables		**(92)**	1,826
Utilization of cash in trust		**-**	1,701
Other		**(40)**	3
Net cash (used in)/gained from operating activities		**(3,326)**	1,286
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,346)**	(2,820)
Purchase of intangible assets		**(29)**	(626)
Cash paid for acquisition, net of cash acquired		**-**	(527)
Loans issued		**(388)**	-
Purchase of long-term investments		**(5)**	(4)
Purchase of promissory notes		**(2,355)**	(1,123)
Proceeds from promissory notes		**1,061**	-
Proceeds from repayment of loans issued		**93**	153
Net cash used in investing activities		**(3,969)**	(4,947)

OJSC Pharmsynthez

Consolidated statement of cash flows (continued)

	Note	2012	2011*
Cash flows from financing activities			
Purchase of treasury shares		-	(1,701)
Loans received		-	187
Redemption of finance lease liability		(87)	(113)
Redemption of notes payable		-	(85)
Net cash used in financing activities		(87)	(1,712)
Effect of exchange rate changes on cash and cash equivalents		(54)	(78)
Net decrease in cash and cash equivalents		(7,436)	(5,451)
Cash and cash equivalents at the beginning of the period	12	9,699	15,150
Cash and cash equivalents at the end of the period	12	2,263	9,699
Supplementary cash flow information:			
Interest paid		(20)	(20)
Income taxes paid		(426)	(61)
Material non-cash items:			
Equity contribution by intangible assets	17	1,916	-

* Certain amounts shown here do not correspond to the 2011 consolidated financial statements and reflect adjustments made as detailed in Note 3.

(in thousands of US dollars unless otherwise indicated)

1. ORGANIZATION AND BUSINESS

Pharmsynthez (hereinafter "the Company") was incorporated in the Russian Federation in 2001 as a result of restructuring of a limited liability company into a closed joint-stock company. CJSC Pharmsynthez was a part of a group of companies controlled by CJSC Baltiyskoe Pharmacevticheskoe Obshestvo (BFO) until May 2007 after which EPhaG AS, a holding company incorporated in Estonia, acquired 99.99% of the Company.

In 2010 in the course of its Initial Public Offering CJSC Pharmsynthez was reorganized into open joint-stock company and issued 22 million shares (30.75%) of common stock resulting in the decrease of ownership interest of EPhaG AS from 99.99 % to 69.24% as of 31 December 2010.

In March 2011 the Company acquired 100% interest in Estonian pharmaceutical company Kevelt AS. In the fourth quarter of 2011 Kevelt AS established a wholly-owned subsidiary Kevelt Pharmaceuticals OY, Finland, which had no operations as of 31 December 2012.

The table below represents the list of subsidiaries of the Company included into the consolidated financial statements (hereinafter "the Group") as of December 31:

	Domicile	2012 ownership	2011 ownership
Kevelt AS	Estonia	100%	100%
Kevelt Pharmaceuticals OY	Finland	100%	100%
LifeBio Laboratories LLC	The United States	100%	N/A

As of 31 December 2012 ultimate beneficiaries of the Group were Danske Capital AC, Denmark, and Firebird Management, the United States.

The Group is engaged into the following activities:

- production and sales of pharmaceuticals
- R&D of new pharmaceuticals.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries where no non-controlling interests or group of non-controlling interests exercises substantive participating rights. The Group does not have any significant interests in variable interest entities that require consolidation. All material intercompany transactions and balances have been eliminated in consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations

Business combinations are accounted for using the acquisition method of accounting. Under the acquisition method, assets acquired, including in-process research and development (IPR&D) projects, and liabilities assumed are recorded at their respective fair values as of the acquisition date in the consolidated financial statements. The excess of the fair value of consideration transferred over the fair value of the net assets acquired is recorded as goodwill.

Contingent consideration obligations incurred in connection with a business combination are recorded at their fair values on the acquisition date and remeasured at their fair values each subsequent reporting period until the related contingencies are resolved. The resulting changes in fair values are recorded in earnings.

Equity interests

Investments in companies that the Group does not control, but has the ability to exercise significant influence over their operating and financial policies are accounted for under the equity method. All other investments in equity securities are recorded at cost and adjusted for impairment, if any.

Foreign currency translation

The functional currencies of the components of the Group are as follows:

	Functional currency
OJSC Pharmsynthez	Russian Ruble
Kevelt AS	Euro
Kevelt Pharmaceuticals OY	Euro
LifeBio Laboratories LLC	US Dollar

The presentation currency for the purpose of these consolidated financial statements is the US dollar ("USD").

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined.

As of the reporting date, assets and liabilities in the functional currencies are translated into the presentation currency at the spot rate of exchange ruling at the reporting date, income and expense captions are translated at the exchange rates effective as of the dates of the transactions. Shareholders' equity is translated at the applicable historical rates. The exchange differences arising on the translation are taken directly to other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The official exchange rates were as follows:

	31 December 2012, USD	31 December 2012, Euro	31 December 2011, USD	31 December 2011, Euro
Russian ruble, spot	30.37	40.23	32.20	41.67
Russian ruble, period average	31.09	39.95	29.39	40.88

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and in transit, deposits in banks with original maturity of three months or less.

Trade receivables

Trade receivables are stated net of bad debt allowance. The Group makes judgments as to the recoverability of its receivables based on historical trends and future expectations. If receivables are deemed doubtful, bad debt expense and a corresponding bad debt allowance is recorded. If receivables are deemed uncollectible, the related receivable balance is charged off. Recoveries of receivables previously charged off are recorded when cash received. Receivables that do not bear interest or bear below market interest rates and have an expected term of more than one year are discounted with the discount subsequently amortized to interest income over the term of the receivable. The Group reviews the valuation of accounts receivable on a regular basis.

Inventories

Inventories are stated at the lower of acquisition/manufacturing cost or market value. Cost which includes amounts related to materials, labor and overhead, is determined on a weighted average basis and includes all costs in bringing the inventory to its present location and condition.

Costs of production in process and finished goods include the purchase costs of raw materials and conversion costs such as direct labor and allocation of fixed and variable production overheads. Raw materials are valued at a purchase cost inclusive of freight and other shipping costs.

Operating overheads are charged to expenses in the periods when the production is temporarily paused or abnormally low.

Market value is the estimated price, at which inventories can be sold in the normal course of business after allowing for the cost of completion and sale. The Group determines market value of inventories for a group of items of inventories with similar characteristics. The term "market" means current replacement cost not to exceed net realizable value (selling price less reasonable estimable costs of completion and disposal) or be less than net realizable value adjusted for a normal profit margin. Market value for each group is compared with an acquisition/manufacturing cost, and the lower of these values is used to determining the amount of the write-down of inventories, which is recorded within the cost of sales in the consolidated statement of comprehensive income. When inventories are written down below cost at the close of a fiscal year, such reduced amount is considered the cost basis for subsequent accounting purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill and other intangible assets

Goodwill represents the excess of the consideration transferred plus the fair value of any non-controlling interests in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. The excess of the fair value of net assets acquired over the fair value of the consideration transferred plus the fair value of any non-controlling interests is recognized as a gain in the consolidated statement of comprehensive income on the acquisition date.

Impairment test of goodwill is performed annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill recognized as a result of the acquisition of Kevelt AS in 2011 in the amount of 333 was fully impaired as of 31 December 2011.

For investees accounted for under the equity method, the excess of cost to acquire a share in those companies over the Group's share of fair value of their net assets as of the acquisition date is treated as goodwill embedded in the investment account. Goodwill arising from equity method investments is not amortized, but tested for impairment on an annual basis. In 2011 and 2012 the Group did not have such goodwill.

Finite-lived intangible assets are recorded at cost, net of accumulated amortization and, if applicable, impairment loss. Amortization of finite-lived intangible assets is provided on a straight-line basis over their estimated useful lives set as follows:

Category of asset	Useful economic lives estimates, years
Trade marks	10
Patents	10-20

Finite-lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Indefinite-lived intangibles are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such evaluation assumes determination of fair value of intangible assets based on a valuation model that incorporates expected future cash flows and profitability projections. As of 31 December 2011 and 2012 the Group did not have indefinite-lived intangible assets.

The estimated fair values of IPR&D projects acquired in a business combination which have not reached technological feasibility are capitalized and accounted for as indefinite-lived intangible assets until completion or abandonment of the related R&D efforts. Upon successful completion of the project, the capitalized amount is amortized over its estimated useful life. If a project is abandoned, all remaining capitalized amounts are written-off immediately. There are often major risks and uncertainties associated with IPR&D projects as the Group is required to obtain regulatory approvals in order to be able to market these products. Such approvals require completing clinical trials that demonstrate a product candidate is safe and effective. Consequently, the eventual realized value of the acquired IPR&D project may vary from its estimated fair value at the date of acquisition, and IPR&D impairment charges may occur in future periods.

Capitalized IPR&D projects are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group considers various factors for potential impairment including the current legal and regulatory environment and the competitive landscape. Adverse clinical trial results, significant delays in obtaining market approval and the inability to bring a product to market could result in the related intangible assets to be partially or fully impaired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill and other intangible assets (continued)

As of 31 December 2012 the Group believes that there were no specific impairment indicators in respect of intangible assets.

Research and development (R&D) costs

R&D costs are expensed as incurred and include primarily contract services and other outside costs; payroll, benefits and other staff-related costs; facilities and overhead costs.

In-process research and development projects acquired as asset acquisitions which have not reached technological feasibility and which have no alternative future use are expensed.

R&D activities and multiple-deliverable revenue arrangements (MDRA)

R&D income and expenses are presented separately from pharmaceuticals' sales revenue and respective cost of sales. All R&D expenses, including those performed under government financed contracts and for own use, are presented combined within R&D expenses line item of the statement of comprehensive income and are separately disclosed by type of expense in the Notes.

The Group from time to time enters into arrangements for the R&D with the government organizations. These arrangements may require the Group to deliver various rights, services and/or goods across the entire life cycle of a product or product candidate. The underlying terms of these arrangements generally provide for consideration to the Group in the form of R&D milestone payments. Under all MDRAs, consideration associated with at-risk substantive performance milestones is recognized as revenue upon the achievement of the related milestone, as defined in the respective contracts.

Property, plant and equipment

Property, plant and equipment is recorded at historical cost, net of accumulated depreciation and, if applicable, impairment losses.

Construction-in-process and equipment held for installation are not depreciated until the constructed or installed asset is substantially ready for its intended use.

Interest expense incurred during the qualifying assets' acquisition period that theoretically could have been avoided if expenditures for these assets have not been made is capitalized.

The costs of planned major maintenance activities are recorded as the costs are actually incurred and are not accrued in advance of the planned maintenance. Costs for activities that lead to the prolongation of useful life or to expanded future use capabilities of an asset are capitalized. Repair and maintenance costs carried out internally are expensed as incurred.

Property, plant and equipment are depreciated using the straight-line basis over the following useful lives:

Category of asset	Useful economic lives estimates, years
Buildings	20-50
Operating machinery and equipment	3-20
Other	3-10

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Upon sale or retirement, the acquisition or production cost and related accumulated depreciation are removed from the consolidated balance sheet and gain or loss is included into the consolidated statement of comprehensive income.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As of 31 December 2012 no impairment loss was recognized.

Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or lease terms.

Capital leases

The cost of property, plant and equipment acquired under capital leases is measured at initial recognition at the lower of its fair value and the present value of the minimum lease payments. Subsequent measurement is made net of accumulated depreciation and, if applicable, impairment losses.

Capital lease liabilities are divided into long-term and current portions based on the agreed payment schedule and discounted using the lessor's implicit interest rate.

Income taxes

Income taxes are provided based on pretax income, applicable tax rates and tax planning opportunities available in the various jurisdictions in which the Group operates.

The tax benefit from an uncertain tax position is recognized only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities based on the technical merits of the position. The tax benefit recognized in the financial statements for a particular tax position is based on the largest benefit that is more likely than not to be realized. The amount of unrecognized tax benefits (UTBs) is adjusted as appropriate for changes in facts and circumstances, such as significant amendments to existing tax law, new regulations or interpretations by the taxing authorities, new information obtained during a tax examination, or resolution of an examination. Accrued interest and penalties, where appropriate, related to UTBs are recognized within income tax expense.

Deferred income taxes reflect the future tax consequences of temporary differences between the tax and financial statement bases of assets and liabilities and are measured using enacted tax rates applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided when it is more likely than not that some or all of the deferred tax assets will not be realized in the future.

Contingencies

In the ordinary course of business, the Group is involved in various legal proceedings and other matters which are complex in nature and have outcomes that are difficult to predict. The Group records accruals for loss contingencies to the extent that we conclude that it is probable that a liability has been incurred and the amount of the related loss can be reasonably estimated. The management considers all relevant factors when making assessments regarding these contingencies. While it is not possible to accurately predict or determine the eventual outcomes of these items, an adverse determination in one or more of these items currently pending could have a material adverse effect on our consolidated results of operations, financial position or cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingencies (continued)

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities or other uncertainties of an unusual nature which, in the judgment of management after consultation with its legal or tax counsel, may be of interest to shareholders or others.

Product sales

Sales of pharmaceuticals are recognized when they are shipped and title and risk of loss have passed. Product sales are recorded net of accruals for estimated rebates, wholesaler chargebacks, discounts and other deductions (collectively "sales deductions") and returns. Indirect taxes collected from customers and remitted to government authorities related to the sales of the Group's products are excluded from revenues.

Other revenue

Interest income for financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, is recorded using the effective interest rate (EIR) determined as the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Dividends are recognized when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

Selling, general and administrative expenses

Selling, general and administrative expenses (SG&A) are comprised primarily of salaries and other staff-related costs associated with sales and marketing, finance, legal and other administrative personnel; facilities and overhead costs; outside marketing, advertising and legal expenses; and other general and administrative costs.

Advertising costs are expensed as incurred. Advertising materials, such as brochures and catalogues, are accounted for as prepaid supplies until they no longer are owned or expected to be used. The cost of advertizing materials within inventories as of 31 December 2012 amounted to 2 (2011: 1).

Equity

Contributions of shareholders in accordance with the Company's charter documents are classified as share capital. Additional contributions are classified as additional paid-in capital.

Other comprehensive income/loss represents foreign currency adjustment as a result of the translation of the financial statements from the functional currencies of the components to the Group presentation currency.

The effect of application of hyperinflation accounting for the period when Russia was considered to be hyperinflation economy (until 1 January 2003) was reflected in accumulated other comprehensive income (Note 3).

Dividends are recognized in the period they are declared.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

US GAAP standards establish a three-level fair value hierarchy, which prioritizes the inputs used in measuring fair value. These levels include:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are non-active; inputs other than quoted prices that are observable and derived from or corroborated by observable market data.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The Group, using available market information, appropriate valuation methodologies and management's estimates determines the approximate fair values of financial instruments.

New accounting pronouncements

Standards issued up to the date of issuance of the Group's consolidated financial statements but not yet effective (or not early adopted by the Group) are listed below. The Group intends to adopt those standards when they become effective.

Standard	Nature	Effective date	Effect on the Group's financial statements
ASU 2011-10	*Property, Plant, and Equipment* (Topic 360), *Derecognition of in Substance Real Estate – a Scope Clarification*	Effective for fiscal years ending after 15 December 2013, and interim and annual periods thereafter.	The standard is not likely to have material impact on the financial statements of the Group.
ASU2011-11	*Balance Sheet* (Topic 210), *Disclosures about Offsetting Assets and Liabilities*	Effective for annual reporting periods beginning on or after 1 January 2013, and interim periods within those annual periods.	The standard is not likely to have material impact on the financial statements of the Group.
ASU 2012-01	*Health Care Entities* (Topic 954), *Continuing Care Retirement Communities – Refundable Advance Fees*	Public entities: effective for fiscal periods beginning after 15 December 2012.	The Group assesses that new standard will have no impact on its financial statements.
ASU 2012-02	*Intangibles – Goodwill and Other* (Topic 350), *Testing Indefinite-Lived Intangible Assets for Impairment*	Effective for annual and interim impairment tests performed for fiscal years beginning after 15 September 2012.	The Group is currently considering the effect from the adoption of this standard.
ASU 2012-04	*Technical Corrections and Improvements*	Effective upon issuance (1 October 2012) for amendments that do not have transition guidance.Amendments that are subject to transition guidance:Public entities: effective for fiscal periods beginning after 15 December 2012.	The Group is currently considering the effect from the adoption of these improvements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New accounting pronouncements (continued)

Standard	Nature	Effective date	Effect on the Group's financial Statements
ASU 2012-06	*Business Combinations* (Topic 805), *Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution*	Effective for fiscal years, and interim periods within those years, beginning on or after 15 December 2012.	The Group is currently considering the effect from the adoption of this standard.
ASU 2012-07	*Entertainment – Films* (Topic 926), *Accounting for Fair Value Information That Arises after the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs*	Effective for impairment assessments performed on or after 15 December 2013. The amendments should be applied prospectively. In addition, earlier application is permitted, including for impairment assessments performed as of a date before 24 October 2012, if, the entity's financial statements for the most recent annual or interim period have not yet been made available for issuance.	The standard is not likely to have impact on the financial statements of the Group.
ASU 2013-01	*Balance Sheet* (Topic 210): *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*	Effective for fiscal years beginning on or after 1 January 2013, and interim periods within those annual periods.	The standard is not likely to have impact on the financial statements of the Group.
ASU 2013-02	*Comprehensive Income* (Topic 220): *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*	The standard should be applied after 15 December 2013. Early adoption is permitted.	At present the Group estimates that the new standard is not likely to have an impact on its financial statements.
ASU 2013-03	*Financial Instruments* (Topic 825): *Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities*	Effective upon issuance	The standard is not likely to have impact on the financial statements of the Group.

3. RESTATEMENT OF COMPARATIVE INFORMATION AND RECLASSIFICATIONS

In connection with the preparation of 2012 consolidated financial statements the Group has reconsidered its approach to account for the promissory note issued in 2007 to BFO being its ultimate shareholder as of the date of initial recognition of the respective financial instrument and applied exemption per ASC 835-30-15-3 from initial recognition at fair value for financial instruments exchanged between the parent and its subsidiary.

Also the Group has reclassified from accumulated deficit to accumulated other comprehensive income line item the effect of application of the inflationary accounting in accordance with ASC-830-10 for the period until 1 January 2003 when Russia ceased to be hyperinflationary economy.

The Group has reconsidered its position for accounting of interest expense and capitalized interest cost incurred during the qualifying assets' acquisition periods that theoretically could have been avoided if expenditures for these assets had not been made.

The Group recorded own shares acquired by its agent on the Group`s behalf as treasury shares as of 31 December 2011 and 2012 and made respective adjustments in equity.

The Group identified certain other errors that were adjusted for 2011 comparative financial information presented in these consolidated financial statements. These adjustments primarily relate to classification of deferred taxes, classification of expenses related to initial recognition of loans given to employees, classification of transportation expenses related to purchase of inventory.

Additionally, in 2012 the Group decided to change its presentation of R&D income and expense to state them separately from sales and cost of sales of pharmaceuticals and to combine R&D expense performed for own use and co-financed via government contracts.

Certain other presentation changes were made to 2011 comparative information to match current year presentation of the financial statement captions.

As a result of the above revisions, the comparative financial information for the year ended 31 December 2011 in these consolidated financial statements has been recast to reflect the revised accounting treatment and presentation, as follows:

3. RESTATEMENT OF COMPARATIVE INFORMATION AND RECLASSIFICATIONS (CONTINUED)

Balance sheet:

	31 December 2011 (as restated)	Restatement	31 December 2011 (as reported)
Current assets			
Cash and Cash equivalents	9,699	-	9,699
Current financial assets	1,046	(1,553)	2,599
Trade and other receivables, net of bad debt allowance	4,382	(37)	4,419
Inventories	1,585	-	1,585
Prepaid expenses	36	-	36
Current deferred tax asset	178	(95)	273
	16,926	(1,685)	18,611
Non-current assets			
Intangible assets, NBV	657	-	657
Property, plant and equipment, NBV	7,609	94	7,515
Long-term investments	832	-	832
Other non-current assets	126	-	126
Non-current deferred tax asset	444	299	145
	9,668	393	9,275
Total assets	26,594	(1,292)	27,886
Current liabilities			
Trade and other payables	4,432	219	4,213
Payables to related parties	-	(569)	569
Income tax payable	186	186	-
Current loans payable to related parties	195	195	-
Capital lease liabilities, current portion	58	-	58
	4,871	31	4,840
Non-current liabilities			
Non-current promissory notes payable	1,052	239	813
Capital lease liabilities, non-current portion	30	-	30
Non-current deferred tax liabilities	162	162	-
	1,244	401	843
Equity			
Common stock	11,377	-	11,377
Additional paid-in capital	13,113	-	13,113
Treasury stock, at cost	(1,627)	(1,627)	-
Accumulated deficit	(3,972)	(2,440)	(1,532)
Accumulated other comprehensive income/(loss)	1,588	2,343	(755)
	20,479	(1,724)	22,203
Total equity & liabilities	26,594	(1,292)	27,886

3. RESTATEMENT OF COMPARATIVE INFORMATION AND RECLASSIFICATIONS (CONTINUED)

Statement of comprehensive income:

	2011 (as restated)	Restatement	Change of presentation	2011 (as reported)
Revenue	6,716	-	(7,062)	13,778
Cost of revenue	(3,444)	(113)	5,990	(9,321)
Government co-financing of research and development	7,062	-	7,062	-
Research and development expenses	(6,488)	(44)	(5,990)	(454)
Selling and marketing expenses	(1,562)	102	-	(1,664)
General and administrative expenses	(2,422)	16	-	(2,438)
Other operating income	981	54	-	927
Other operating expense	(727)	(53)	-	(674)
Operating income	**116**	**(38)**	**-**	**154**
Interest income	180	5	-	175
Interest expense	-	168	-	(168)
Income before tax	**296**	**135**	**-**	**161**
Income tax	(275)	(27)	-	(248)
Net income/(loss)	**21**	**108**	**-**	**(87)**
Other comprehensive income				
Foreign currency translation adjustment	(1,258)	85	-	(1,343)
Total comprehensive income	**(1,237)**	**193**	**-**	**(1,430)**

The aforementioned revisions also resulted in adjustment to net cash provided or used by/in operating, and financing activities for the year ended 31 December 2011.

4. REVENUE

	2012	2011
Revenue from sales of produced pharmaceuticals	8,020	6,024
Revenue from resale of pharmaceuticals	501	692
	8,521	6,716

Revenue breakdown by geographical segments is represented in the table below:

	2012	2011
Russian Federation	6,148	5,768
Ukraine	1,658	512
Estonia	565	305
Kazakhstan	69	15
Azerbaidzhan	81	116
	8,521	6,716

4. REVENUE (CONTINUED)

Revenue breakdown by major customers (exceeding 5% of revenue):

	2012	2011
Geolik Pharm Marketing Group LLC	1,658	498
CJSC Pentkroft Pharma	1,597	1,443
CJSC SIA International LTD	1,336	1,340
CJSC Protek CV	1,189	1,123
CJSC Katren NPK	456	97
CJSC R-Pharm	426	259
Other	1,859	1,956
	8,521	6,716

5. COST OF REVENUE

	2012	2011
Materials	1,453	1,164
Production third party services	1,314	984
Payroll	927	591
Depreciation	704	456
Production overheads	101	211
Amortization of patents (Note 17)	7	7
Royalties	5	31
	4,511	3,444

6. RESEARCH AND DEVELOPMENT EXPENSES

	2012	2011
Third party services	3,157	4,086
Materials	914	1,876
Payroll	498	517
Amortization of prepaid financial expenses (Note 16)	77	-
Production overheads	14	9
	4,660	6,488

In 2011 and 2012 the Group entered into a number of agreements for performing research and development, which is partly financed by the Ministry of Industry and Trade of Russian Federation. Research and development works were performed in respect of the following medicines: Gepatit vaccine, Sopolimer, Dornaza, Peptid, Peptoidy, Eksenatid. Total amount of government financing for 2012 was 4,197 (2011: 7,062).

7. SELLING AND MARKETING EXPENSES

	2012	2011
Payroll	1,168	900
Advertizing	143	160
Transportation expenses	142	103
Rent	127	130
Business trips	82	63
Registration fees	75	49
Trainings and conferences	68	32
Amortization of trademarks (Note 17)	29	16
Insurance	26	18
Depreciation	6	2
Market research	-	8
Other	75	81
	1,941	1,562

8. GENERAL AND ADMINISTRATIVE EXPENSES

	2012	2011
Payroll	1,491	1,223
Consulting and legal expenses	341	315
Transportation expenses	204	130
Rent	202	183
Communication expenses	120	75
Office expenses	118	25
Depreciation	117	98
Business trips	82	101
Organization of annual shareholders' meeting	45	40
Bank fees	29	32
Informational and technical support	8	49
Other	140	151
	2,897	2,422

9. OTHER OPERATING INCOME

	2012	2011
Insurance premium received	19	-
Income from disposal of property, plant and equipment	-	890
Foreign exchange gain	-	64
Other	15	27
	34	981

10. OTHER OPERATING EXPENSE

	2012	2011
Foreign exchange loss	315	-
Property tax	143	133
Inventory obsolescence allowance (Note 15)	51	41
Bad debt allowance (Note 14)	15	136
Impairment of goodwill related to purchase of Kevelt AS	-	333
Other	2	84
	526	727

11. INTEREST INCOME

	2012	2011
Interest income on promissory notes received	45	23
Interest income on loans to employees	19	5
Interest income on deposits and current bank accounts	50	105
Gain on initial recognition of loans issued	4	-
Interest income on loans issued	-	47
	118	180

12. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
Russian Ruble cash accounts	13	26
USD cash accounts	37	35
Euro cash accounts	304	36
USD bank deposits	-	4,996
Russian Ruble bank deposits	1,909	4,606
	2,263	9,699

Short-term bank deposits with original maturity of three months or less in 2012 had interest rate ranging from 0.2% to 4.0% (2011: from 0.2% to 4.2%). Interest income on these bank deposits and current bank accounts for 2012 amounted to 50 (2011: 105) - Note 11.

13. CURRENT FINANCIAL ASSETS

	31 December 2012	31 December 2011
Loans issued	246	-
Bank promissory notes received	-	1,046
	246	1,046

Short-term promissory note issued by CJSC Commerzbank (Eurasija) purchased by the Group in 2011 was fully repaid at maturity date on February 20, 2012 and bore the interest of 3.8%. Interest income of 5 was recognized in 2012 within interest income (2011: 23).

On 29 December 2012 the Group issued a loan to SciGen IL, Israel, with the effective interest rate of 3.71% and has maturity date of 1 June 2013 .

14. TRADE AND OTHER RECEIVABLES

	31 December 2012	31 December 2011
Trade receivables, net of bad debt allowance of 177 (2011: 171)	**3,873**	2,756
Advances issued	**2,446**	1,085
Taxes receivable	**928**	521
Other receivables	**213**	20
	7,460	4,382

The following summarizes the changes in bad debt allowance:

Balance as of 31 December 2010	(50)
Accrual (Note 10)	(136)
Currency translation adjustment	15
Balance as of 31 December 2011	(171)
Accrual (Note 10)	(15)
Utilization	19
Currency translation adjustment	(10)
Balance as of 31 December 2012	**(177)**

The ageing analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired	
			<90 days	>90 days
31 December 2011	2,756	2,583	173	-
31 December 2012	**3,873**	**3,833**	**40**	**-**

The Group analyses the ability of debtors to fulfill their payment obligations and performs reconciliations on a regular basis. There is no information as of the reporting date indicating that past due but not impaired trade receivables are doubtful.

15. INVENTORIES

	31 December 2012	31 December 2011
Semi-finished goods (at cost)	**767**	457
Raw materials (net of inventory obsolescence allowance as of 31 December 2012 of 74; 2011: 49)	**596**	394
Finished goods (at lower of cost or market)	**564**	686
Goods for resale (net of inventory obsolescence allowance as of 31 December 2012 of 215; 2011: 183)	**135**	46
Work in progress (at cost)	**62**	2
	2,124	1,585

In 2012 goods for resale obsolescence allowance of 29 (2011: 9) and raw materials obsolescence allowance of 22 (2011: 32) was accrued within other operating expense (Note 10).

16. LONG TERM NOTES RECEIVABLE AND PREPAID FINANCIAL EXPENSES

In 2012 the Group purchased four promissory notes of OJSC Alor Bank (previously named OJSC SKT Bank) with total nominal value of 2,274. Three of these promissory notes maturing on February 24, 2015 and February 4, 2016 were pledged as additional collateral for bank guarantees in respect of fulfillment of obligations on government research and development contracts (Note 6).

Effect of initial recognition of promissory notes which are pledged in respect of government contracts is deferred within prepaid financial expenses, of other promissory notes – recognized as interest expense.

Prepaid financial expenses of 2012 also include guarantee expenses related to government R&D contracts maturing between 1 and 2 years.

	Prepaid financial expenses as at 31 December 2012		
	Current	Non-current	Total
Deferred effect of initial recognition of promissory notes subject for pledge	102	163	265
Deferred expenses on bank guarantees	36	6	42
	138	169	307

Amortization of prepaid financial expenses of 77 was recognized within R&D expenses (2011: 0) - Note 6.

17. INTANGIBLE ASSETS

	Trademarks	Patents	Intangible assets in process of development	Total
Gross book value				
1 January 2011	38	53	-	**91**
Additions	492	5	198	**695**
Translation difference	(36)	(4)	(14)	**(54)**
31 December 2011	494	54	184	**732**
Additions	-	-	2,040	**2,040**
Translation difference	9	3	52	**64**
31 December 2012	503	57	2,276	**2,836**
Accumulated amortization				
1 January 2011	26	29	-	**55**
Amortization	16	7	-	**23**
Translation difference	(2)	(1)	-	**(3)**
31 December 2011	40	35	-	**75**
Amortization	29	7	-	**36**
Translation difference	1	2	-	**3**
31 December 2012	70	44	-	**114**
Net book value				
1 January 2011	**12**	**24**	**-**	**36**
31 December 2011	**454**	**19**	**184**	**657**
31 December 2012	**433**	**13**	**2,276**	**2,722**

17. INTANGIBLE ASSETS (CONTINUED)

In 2012 the Group purchased applications for international patents on production and sale of Myeloxen and Hivirin (measured as 1,916 at historic exchange rate) via the acquisition of 100% of LifeBio Laboratories Limited in exchange of own issued shares transferred to Sympatica Pharmaceuticals Limited. This transaction was treated as assets contribution to equity since as of the date of acquisition LifeBio Laboratories Limited had no operating activities and was only a holder of the above assets (Note 24).

	Trademarks	Patents	Total
Weighted average amortization period, years	10	13	N/A
Expected amortization charge prediction:			
Year 2013	47	5	52
Year 2014	47	3	50
Year 2015	44	1	45
Year 2016	44	1	45
Year 2017	44	1	45
Thereafter	207	2	209

As of 31 December 2012 the management could not estimate the date of putting of intangible assets in process of development into use and their respective useful lives, therefore expected amortization charge is not disclosed for them.

18. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Equipment	Other	Construction in process	Total
Gross book value					
1 January 2011	687	9,111	393	370	**10,561**
Additions	-	56	145	3,017	**3,218**
Transfer between categories	559	686	144	(1,389)	**-**
Disposals	-	(15)	(12)	-	**(27)**
Translation difference	(88)	(586)	(48)	(163)	**(885)**
31 December 2011	1,158	9,252	622	1,835	**12,867**
Additions	-	-	103	2,529	**2,632**
Transfer between categories	275	1,159	112	(1,546)	**-**
Disposals	-	(19)	(34)	-	**(53)**
Translation difference	76	615	50	132	**873**
31 December 2012	1,509	11,007	853	2,950	**16,319**
Accumulated depreciation					
1 January 2011	111	4,604	142	-	**4,857**
Depreciation	13	652	102	-	**767**
Disposals	-	(15)	(4)	-	**(19)**
Translation difference	(8)	(322)	(17)	-	**(347)**
31 December 2011	116	4,919	223	-	**5,258**
Depreciation	22	778	145	-	**945**
Disposals	-	(12)	(23)	-	**(35)**
Translation difference	8	314	17	-	**339**
31 December 2012	146	5,999	362	-	**6,507**
Net book value					
1 January 2011	**576**	**4,507**	**251**	**370**	**5,704**
31 December 2011	**1,042**	**4,333**	**399**	**1,835**	**7,609**
31 December 2012	**1,363**	**5,008**	**491**	**2,950**	**9,812**

18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Construction in process includes advances related to construction and modernization of production premises in Leningrad district, Russia, of 797 as of 31 December 2012 (2011: 535) and capitalized interest cost of 85 (2011: 24).

Assets under capital lease represent vehicles and are summarized below:

	Gross book value	Accumulated depreciation	Net book value
1 January 2011	**229**	**75**	**154**
Additions/Depreciation	133	61	72
Disposals/Write-off	(27)	(18)	(9)
Translation difference	(14)	(8)	(6)
31 December 2011	**321**	**110**	**211**
Additions/Depreciation	94	71	23
Translation difference	12	8	4
31 December 2012	**427**	**189**	**238**

Additions of property, plant and equipment received on capital lea se agreements of 94 (2011: 133) were excluded from payments for purchase of property, plant and equipment in consolidated statement of cash flows.

Net book value of property, plant and equipment pledged as collateral for bank guarantees regarding fulfillment of obligations for government R&D contracts as of 31 December 2012 amounted to 1,729 (2011: 0).

As of 31 December 2011 and 2012 the carrying amount of property, plant and equipment was recoverable and no impairment was recognized in the consolidated financial statements.

19. LONG-TERM INVESTMENTS

As of 31 December 2012 long-term investments are represented by non-controlling equity interests held by the Group in the following companies (neither company within the Group exercise significant influence over the investees):

	31 December 2012	31 December 2011
	%	%
IceGen LLC, Russia	**3.3**	3.3
SynBio LLC, Russia	**1.9**	1.9
Biolaborid OÜ, Estonia	**10**	10
Vähiuuringute Tehnoloogia Arenduskeskus AS	**12.5**	12.5
Rakuravi MTÜ, Estonia	**6**	-

	31 December 2012	31 December 2011
IceGen LLC	**0.3**	0.3
SynBio LLC	**876**	827
Biolaborid OÜ	**1**	1
Vähiuuringute Tehnoloogia Arenduskeskus AS	**4**	4
Rakuravi MTÜ	**5**	-
	886	832

19. LONG-TERM INVESTMENTS (CONTINUED)

The market value for the above investments is not determinable, therefore, they are carried at cost less impairment, if any. As of and during the periods of twelve months ended 31 December 2012 and 2011 the Group did not identify impairment indicators in respect of the above investments.

20. OTHER NON-CURRENT ASSETS

Other non-current assets are represented by long-term interest-free loans given to employees repayable in 2014-2017.

21. TRADE AND OTHER PAYABLES

	31 December 2012	31 December 2011
Trade payables	**4,097**	3,959
Taxes payable	**217**	120
Payables to employees	**173**	208
Provisions	**243**	110
Other payables	**22**	35
	4,752	4,432

Movements in provisions were as follows:

	Unused vacation provision	Provision for other losses	Provision for payments to Board members	Total
1 January 2011	**50**	**46**	**-**	**96**
Accrued	74	-	-	74
Utilized	(51)	-	-	(51)
Released	-	-	-	
Translation difference	(6)	(3)	-	(9)
31 December 2011	**67**	**43**	**-**	**110**
Accrued	97	38	59	194
Utilized	(70)	-	-	(70)
Released	-	-	-	
Translation difference	5	3	1	9
31 December 2012	**99**	**84**	**60**	**243**

The provision for unused vacation is determined as a number of unused vacation days as of December 31 for each employee multiplied by the daily average salary including social insurance contributions. Management believes that the actual amount of vacation compensation expenses will not exceed the amount of the unused vacation provision as of 31 December 2012.

22. PROMISSORY NOTES PAYABLE

In 2007 the Company issued a non-interest bearing long-term promissory note denominated in Russian Rubles to its controlling shareholder BFO maturing on 10 April 2013. See also Note 3.

23. CAPITAL LEASE LIABILITIES

	Within 1 year	From 2 to 5 years	More than 5 years	Total
31 December 2012				
Future minimum lease payments	65	67	-	**132**
Less: future interest expense	(20)	(12)	-	**(32)**
Present value of future minimum lease payments	45	55	-	**100**
31 December 2011				
Future minimum lease payments	72	35	-	**107**
Less: future interest expense	(14)	(5)	-	**(19)**
Present value of future minimum lease payments	**58**	**30**	**-**	**88**

Interest expense on capital lease capitalized within construction in process amounted to 20 in 2012 (2011: 20).

24. EQUITY

Common stock

	31 December 2012	31 December 2011
Number of ordinary shares authorized	2,049,519,265	2,049,519,265
Number of ordinary shares issued and fully paid	74,124,332	71,519,265
Number of preference shares issued and fully paid	-	-
Number of treasury shares	2,078,800	2,078,800
Total number of shares outstanding	72,045,532	69,440,465
Par value (in Russian Rubles)	5	5
Common stock before treasury shares, at par	**11,776**	**11,377**

In 2012 OJSC Pharmsynthez issued 2,605,067 ordinary shares with a par value of 5 Russian Rubles per share (0.16 at exchange rate as of 31 December 2012). 2,605,000 shares were exchanged with Sympatica Pharmaceuticals Limited for 100% ownership in LifeBio Laboratories Limited (Note 17). 67 shares were purchased by other parties.

24. EQUITY (CONTINUED)

Additional paid-in-capital

1 January 2011	13,113
31 December 2011	13,113
Issue of shares	1,517
31 December 2012	**14,630**

Dividends

In 2011 and 2012 no dividends were declared. As of 31 December 2012 and 2011 there were no limitations on the distribution of earnings to shareholders.

25. INCOME TAX

Income before income tax attributable to different jurisdictions was as follows:

	2012	2011
Income tax expense comprised:		
Current income tax charge	(108)	(236)
Correction of prior period income tax	25	-
Deferred tax relating to origination and reversal of temporary differences	213	(39)
Income tax benefit/(expense)	130	(275)

Current income tax charge represents tax accrual based on statutory taxable profit. OJSC Pharmsynthez is the tax resident of the Russian Federation and is subject to a tax rate of 20% on taxable profit. Kevelt AS is the tax resident of Estonia and is subject to income tax rate of 0% on taxable profit.

The reconciliation of the theoretical income tax expense to the income tax expense reported in the consolidated financial statements as at 31 December is as follows:

	2012	2011
(Loss)/Profit before tax (Russia)	(1,445)	1,460
Theoretical tax benefit/(expense) at statutory income tax rate of 20%	289	(292)
Loss before tax (Estonia)	(220)	(1,164)
Theoretical tax benefit at statutory income tax rate of 0%	-	-
Total theoretical tax benefit/(loss)	289	(292)
Non-deductible expenses/other permanent differences	(159)	17
Income tax reported in consolidated statement of comprehensive income	130	(275)

25. INCOME TAX (CONTINUED)

The components of the Group's net deferred income tax position as of 31 December is as follows:

	31 December 2011	Recognized in profit or loss	Translation difference	31 December 2012
Current deferred tax asset				
Trade and other receivables	101	(9)	7	99
Inventories	12	31	1	44
Trade and other payables	40	17	3	60
Capital lease liabilities, current portion	25	(13)	-	12
	178	**26**	**11**	**215**
Non-current deferred tax asset				
Research and development	347	195	26	568
Property, plant and equipment	88	(44)	4	48
Capital lease liabilities, non-current portion	6	15	1	22
Other	3	21	2	26
	444	**187**	**33**	**664**
Non-current deferred tax liabilities				
Long-term investments	**(162)**	**-**	**(10)**	**(172)**

	31 December 2010	Recognized in profit or loss	Translation difference	31 December 2011
Current deferred tax asset, net				
Trade and other receivables	58	51	(8)	101
Inventories	18	(5)	(1)	12
Trade and other payables	24	19	(3)	40
Capital lease liabilities, current portion	20	6	(1)	25
	120	**71**	**(13)**	**178**
Non-current deferred tax asset, net				
Research and development	280	91	(24)	347
Property, plant and equipment	119	(27)	(4)	88
Capital lease liabilities, non-current portion	3	3	-	6
Other	6	-	(3)	3
	408	**67**	**(31)**	**444**
Non-current deferred tax liabilities				
Long-term investments	**-**	**(177)**	**15**	**(162)**

26. COMMITMENTS AND CONTINGENCIES

Commitments

As of 31 December 2012 total Group's contract commitments to third parties to acquire property, plant and equipment amounted to 1,104 (2011: 252).

Contingencies

(a) Taxation and other

The existing tax, currency and customs legislation allows for various interpretations and is prone to frequent changes. Interpretation by the management of the legislation in place when applicable to the Group's transactions and activities may be challenged by the appropriate regional or federal authorities. Recent events that occurred in the Russian Federation are indicative of the fact that tax authorities may assume a tougher stance with regard to interpretation of legislation and review of tax returns. Consequently, tax authorities may challenge transactions and accounting methods that they had never challenged before. As a result, additional taxes, penalties and fines may be accrued. Tax audits in Russia may cover a period of three calendar years immediately preceding the reporting one. Under certain circumstances, tax authorities may review earlier accounting periods. It is not possible to determine amounts of constructive claims or evaluate probability of their negative outcome.

As of 31 December 2012 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Taking into consideration the circumstances existing as of 31 December 2012, the management assesses that losses from legal proceedings will not exceed 300.

(b) Operating environment

Russia and Estonia continue economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of these economies is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the governments.

Legislation acts are subject to frequent changes and different interpretation and might contradict each other. The environmental and fire safety laws requirements are complex and sometimes impracticable to fulfill.

While the 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 results and financial position in a manner not currently determinable.

27. FAIR VALUE MEASUREMENTS

Set out below is a comparison by category of carrying amount and fair value of the Group's financial instruments that are carried in the consolidated financial statements:

	31 December 2012		31 December 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Long term investments	886	N/A	832	N/A
Long term notes receivable	1,923	1,953	-	-
Loans to employees	177	170	126	124
Current financial assets	246	248	1,046	1,035
	3,232	2,371	2,004	1,159
Financial liabilities				
Capital lease liabilities	100	114	88	91
Notes payable	1,115	1,080	1,052	904
Fixed rate current loans	214	216	195	201
	1,429	1,410	1,335	1,196

Fair value of cash and cash equivalents, short-term bank deposits, trade and other receivables, trade payables and other current liabilities approximate their carrying amounts due to the short-term maturities.

The fair value of financial instruments represented in the table above is estimated based on cash flows discounted using the market rates (level 3).

28. RELATED PARTIES

Operations with key management personnel

Compensation paid to key management personnel consists of payroll and bonuses and amounted to 376 (2011: 352). Included to other administrative expenses is the remuneration of Board members for the year 2012 amounting to 59 (2011: 0).

Operations with other related parties

	2012	2011
Revenue		
Vähiuuringute Tehnoloogia Arenduskeskus AS	32	-
LLC SinBio	28	-
	60	-
Interest income		
OJSC Alor Bank	40	-
LLC SinBio	-	44
CJSC Krioniks	-	3
	40	47

28. RELATED PARTIES (CONTINUED)

	2012	2011
Cost of pharmaceuticals sold		
Ephag	-	31
General and administrative expenses		
CJSC Farmavit	123	114
CJSC Krioniks	64	39
CJSC Alor-Invest	34	7
	221	160
Research and development expenses		
Vähiuuringute Tehnoloogia Arenduskeskus AS	45	-

	31 December 2012	31 December 2011
Trade and other receivables		
Vähiuuringute Tehnoloogia Arenduskeskus AS	64	37
Advances issued		
Vähiuuringute Tehnoloogia Arenduskeskus AS	211	-
CJSC Alor-Invest	29	-
	240	-
Trade and other payables		
Ephag	273	418
Vähiuuringute Tehnoloogia Arenduskeskus AS	36	-
CJSC Krioniks	27	5
CJSC Farmavit	11	9
	347	432
Current loan receivable from related parties		
SciGen IL (effective interest rate = 3.71%)	246	-
Current loan payable to related parties		
Ephag* (effective interest rate = 4%)	214	195

	31 December 2012	31 December 2011
Long-term notes receivable		
OJSC Alor Bank	1,923	-

*The loan is denominated in Euro, loan maturity date (after prolongation) is 31 May 2013.

29. SUBSEQUENT EVENTS

The Group evaluated subsequent events up to 28 June 2013, the date the Group's consolidated financial statements were available for issuance.

In January 2013 the Group exchanged current promissory note payable to BFO for promissory notes payable to LLC Selena in the total nominal amount equal to the nominal amount of the promissory note payable to BFO. Promissory notes payable to LLC Selena are due on demand but not until April 2013 – January 2014. In April 2013 several promissory notes were repaid in the total amount of 44.

In April 2013 the Company completed the placement of 50,725,149 ordinary shares. 37,137,994 shares were purchased by OJSC Rosnano (Russia), 13,587,071 – by OPKO Health (US), 84 shares were purchased by other parties.

In April 2013 the Company purchased 100% shares of Guardum Pharmaceuticals LLC (USA) for either cash consideration of 265 million Rubles (8,725 at exchange rate as of 31 December 2012), or 12,001,811 ordinary shares of the Company to be issued subsequently.

In April 2013 the Company issued promissory note payable to OPKO Health in the amount of 265 million Rubles (8,725 at exchange rate as of 31 December 2012) with maturity date not earlier than 31 December 2013 as a guarantee of payment for purchased shares of Guardum Pharmaceuticals LLC.