Joint Stock Company “FARMAK”

Consolidated Financial Statements
for the Year Ended 31 December 2014

JSC “FARMAK”

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JSC "FARMAK"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company ("JSC") "Farmak" (the "Company") and its subsidiaries (hereinafter, jointly referred to as the "Group") as of 31 December 2014 and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable management to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with the legislation of Ukraine;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing and fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2014 were approved by management and authorised for issue on 8 April 2015.

On behalf of the management of JSC "Farmak":

F. I. Zhebrovska, General Director	V. G. Smarodina, Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To Shareholders and the Board of Directors of JSC "Farmak":

We have audited the accompanying consolidated financial statements of JSC "Farmak" (the "Company") and its subsidiaries (hereinafter, jointly referred to as the "Group"), which comprise the consolidated statement of financial position as of 31 December 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, 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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 Group'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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2014, and its consolidated financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw your attention to Note 2 to the consolidated financial statements. The impact of the continuing economic crisis and political turmoil in Ukraine and their final resolution are unpredictable and may adversely affect the Ukrainian economy and the operations of the Group. Our opinion is not qualified in respect of this matter.

Deloitte & Touche

8 April 2015

JSC "FARMAK"

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2014
(in Ukrainian Hryvnias and in thousands)

	Notes	2014	2013
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,390,748	1,151,938
Prepayments for property, plant and equipment	6	99,371	66,785
Intangible assets	7	33,589	25,940
Investment property		1,148	2,885
Investments in associate		3,275	2,240
Deferred tax assets	19	54,299	8,494
Other accounts receivable		3,051	2,452
Total non-current assets		**1,585,481**	**1,260,734**
Current assets			
Inventories	8	458,364	337,827
Trade and other accounts receivable	9	484,944	304,670
Prepayments given	10	24,391	35,173
Taxes recoverable and prepaid, other than income tax	11	75,902	9,586
Income tax prepaid		10,839	224
Cash and cash equivalents	12	96,835	21,784
Total current assets		**1,151,275**	**709,264**
Total assets		**2,736,756**	**1,969,998**
EQUITY AND LIABILITIES			
Equity			
Share capital	13	57,650	57,650
Treasury shares	13	-	(6,503)
Foreign currency translation reserve		1,584	468
Retained earnings		1,684,033	1,329,161
Total equity attributable to equity holders of the Company		1,743,267	1,380,776
Non-controlling interests	14	(388)	16,329
Total equity		**1,742,879**	**1,397,105**
Non-current liabilities			
Borrowings	15	252,414	233,899
Finance lease obligations	16	4,108	7,004
Other non-current liabilities	17	19,532	4,444
Total non-current liabilities		**276,054**	**245,347**
Current liabilities			
Borrowings	15	354,675	138,102
Trade and other accounts payable	18	333,823	169,705
Advances received		11,946	893
Finance lease obligations	16	9,475	9,662
Income taxes payable		-	1,714
Taxes payable, other than income tax	20	7,904	7,470
Total current liabilities		**717,823**	**327,546**
Total liabilities		**993,877**	**572,893**
Total equity and liabilities		**2,736,756**	**1,969,998**

On behalf of the management of JSC "Farmak":

F. I. Zhebrovska,
General Director

V. G. Smarodina,
Chief Financial Officer

The notes on pages from 9 to 47 form an integral part of these consolidated financial statements.

JSC "FARMAK"

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014
(in Ukrainian Hryvnias and in thousands)

	Notes	2014	2013
Continuing operations			
Revenue	21	2,503,335	1,947,537
Cost of sales	22	(1,001,044)	(854,382)
Gross profit		**1,502,291**	**1,093,155**
Selling and distribution expenses	23	(537,413)	(382,024)
General and administrative expenses	24	(242,843)	(191,790)
Research and development costs	25	(137,427)	(81,492)
Other operating income		5,685	8,747
Other operating expenses	26	(27,596)	(17,401)
Operating profit		**562,697**	**429,195**
Finance income		537	1,166
Finance costs	27	(22,210)	(22,565)
Net foreign exchange loss		(267,960)	(13,641)
Share in profit of associate		1,755	1,076
Profit before income tax		**274,819**	**395,231**
Income tax expenses	19	(28,989)	(77,378)
Profit for the year from continuing operations		**245,830**	**317,853**
Discontinued operations			
Loss for the year from discontinued operations	28	(4,419)	(15,175)
Profit for the year		**241,411**	**302,678**
Other comprehensive loss			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of defined benefit obligations	17	(2,790)	-
Exchange differences on translating foreign operations		(23,756)	(5,600)
Items that may be reclassified subsequently to profit or loss		-	-
Total comprehensive income for the year		**214,865**	**297,078**
Profit for the year attributable to:			
Equity holders of the Company		237,933	294,104
Non-controlling interests		3,478	8,574
		241,411	**302,678**
Total comprehensive income/(loss) for the year attributable to:			
Equity holders of the Company		236,258	294,110
Non-controlling interests		(21,393)	2,968
		214,865	**297,078**

On behalf of the management of JSC "Farmak":

F. I. Zhebrovska,
General Director

V. G. Smarodina,
Chief Financial Officer

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JSC "FARMAK"

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014
(in Ukrainian Hryvnias and in thousands)

	Notes	2014	2013
OPERATING ACTIVITIES			
Profit before income tax		**270,603**	**381,212**
Adjustments for:			
Depreciation and amortisation		143,172	122,675
Net loss/(gain) on disposal of property, plant and equipment and intangible assets	26	4,492	(365)
Share in profit of associate		(1,755)	(1,076)
Write down of raw materials and finished goods	26	9,850	3,434
Changes in provision for impairment of accounts receivable		1,051	7,655
Finance costs		24,658	36,551
Finance income		(537)	(1,166)
Net foreign exchange loss/(gain)		253,711	(3,855)
Operating profit before movements in working capital		**705,245**	**545,065**
Movements in working capital:			
Increase in inventories		(129,018)	(101,395)
Increase in trade and other accounts receivable		(187,114)	(5,054)
Decrease/(increase) in prepayments given		10,782	(4,019)
Increase in taxes recoverable and prepaid, other than income tax		(70,357)	(4,188)
Increase in trade and other accounts payable		144,191	25,647
Increase in advances received		11,053	330
Decrease in taxes payable, other than income tax		(44)	(1,163)
Cash flows generated by operations		484,738	455,223
Interest paid		(19,405)	(34,823)
Income tax paid		(87,086)	(96,110)
Net cash flows generated by operating activities		**378,247**	**324,290**
INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(415,114)	(263,136)
Proceeds on disposal of property, plant and equipment		1,147	925
Net cash outflow due to the Group's reorganisation	28	(13,944)	-
Dividends received from associate		1,836	707
Interest received		517	830
Net cash flows used in investing activities		**(425,558)**	**(260,674)**
FINANCING ACTIVITIES			
Proceeds on borrowings		227,515	142,168
Repayment of borrowings		(78,968)	(215,478)
Repayment of finance lease obligations		(13,669)	(10,175)
Dividends paid		(11,935)	(10,643)
Net cash flows generated by/(used in) financing activities		**122,943**	**(94,128)**

JSC "FARMAK"

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)
(in Ukrainian Hryvnias and in thousands)

	Notes	2014	2013
Net increase/(decrease) in cash and cash equivalents		**75,632**	**(30,512)**
CASH AND CASH EQUIVALENTS, as of 1 January	**12**	**21,784**	**52,093**
Effect of exchange rate changes on balances of cash and cash equivalents held in foreign currencies		(581)	203
CASH AND CASH EQUIVALENTS, as of 31 December	**12**	**96,835**	**21,784**

On behalf of the management of JSC "Farmak":

F. I. Zhebrovska,
General Director

V. G. Smarodina,
Chief Financial Officer

The notes on pages from 9 to 47 form an integral part of these consolidated financial statements.

JSC "FARMAK"

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014
(in Ukrainian Hryvnias and in thousands)

	Share capital	Treasury shares	Foreign currency translation reserve	Retained earnings	Total equity attributable to equity holders of the Company	Non-controlling interests	Total equity
As of 1 January 2013	**57,650**	**(6,503)**	**462**	**1,045,771**	**1,097,380**	**13,361**	**1,110,741**
Profit for the year	-	-	-	294,104	294,104	8,574	302,678
Other comprehensive income/(loss) for the year	-	-	6	-	6	(5,606)	(5,600)
Total comprehensive income for the year	-	-	6	294,104	294,110	2,968	297,078
Dividends declared (Note 13)	-	-	-	(10,714)	(10,714)	-	(10,714)
As of 31 December 2013	**57,650**	**(6,503)**	**468**	**1,329,161**	**1,380,776**	**16,329**	**1,397,105**
Profit for the year	-	-	-	237,933	237,933	3,478	241,411
Other comprehensive income/(loss) for the year	-	-	1,116	(2,790)	(1,674)	(24,872)	(26,546)
Total comprehensive income for the year	-	-	1,116	235,143	236,259	(21,394)	214,865
Group restructuring (Notes 13 and 28)	-	6,503	-	132,675	139,178	4,677	143,855
Dividends declared (Note 13)	-	-	-	(12,946)	(12,946)	-	(12,946)
As of 31 December 2014	**57,650**	**-**	**1,584**	**1,684,033**	**1,743,267**	**(388)**	**1,742,879**

On behalf of the management of JSC "Farmak":

F. I. Zhebrovska,
General Director

V. G. Smarodina,
Chief Financial Officer

The notes on pages from 9 to 47 form an integral part of these consolidated financial statements.

(in Ukrainian Hryvnias and in thousands)

1. GENERAL INFORMATION

JSC "Farmak" (the "Company") is a public joint stock company incorporated in Ukraine. The principal operating office of the Company is located at: 63 Frunze Str., Kyiv, 04080, Ukraine. The principal activities of the Company and its subsidiaries (hereinafter, jointly referred to as the "Group") are production and distribution of generic pharmaceutical drugs. The products manufactured by the Company are sold mainly in Ukraine and exported to more than 20 countries, mostly to the CIS (Commonwealth of Independent States) countries.

Subsidiaries, consolidated structured entities and associate of the Company at the end of the respective reporting periods were as follows:

Entity's name	Principal activity	Place of the entity's incorporation and operation	The Company's effective ownership interest as of 31 December	
			2014	**2013**
Subsidiaries:				
SE "Baza Vidpochynku "Smuhlianka"	Recreation centre	Ukraine, Odesa	100%	100%
LLC "Farmakhim"	Property leasehold	Ukraine, Kharkiv	100%	100%
Consolidated structured entities*:				
Farmak International Holding GmbH	Intellectual property management	Austria, Vienna	N/a	Nil
LLC "Simpozium"	Business travel, conference service	Ukraine, Kyiv	Nil	Nil
Vital Pharma GmbH with its subsidiary	Purchases of Active Pharmaceutical Ingredients ("API")	Germany, Bad Homburg	N/a	Nil
Associate:				
LLC "Farmak SP"	Distribution of drugs	Poland, Warsaw	26%	26%

* As described in Notes 3 and 5, management concluded that the Company has a practical ability to direct the relevant activities of structured entities unilaterally and, hence, the Company has control over those entities. As such, the entities have been consolidated in these consolidated financial statements for the period from 1 January 2013 to completion of the Group's internal corporate restructuring in March 2014.

As of 31 December 2013, parent and ultimate holding company of JSC "Farmak" was F.I. & P. Holdings Limited. In March 2014, as a result of the Group's internal corporate restructuring, JSC "Farmak" (and, correspondingly, its subsidiaries), Farmak International Holding GmbH and Vital Pharma GmbH became subsidiaries of the Netherlands-based public limited liability company "Farmak Group N.V." (Note 13). Thus, as a result of internal corporate restructuring, consolidated structured entities Farmak International Holding GmbH and Vital Pharma GmbH were withdrawn from the Group.

The Group's ultimate controlling party is Ms. Filya Zhebrovska.

(in Ukrainian Hryvnias and in thousands)

2. OPERATING ENVIRONMENT, RISKS, AND ECONOMIC CONDITIONS

Political crisis – In 2014, Ukraine has been in a political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. Ukraine had also suffered from the separatist movements and the collapse of law enforcement in Luhansk and Donetsk regions.

The Ukrainian Hryvnia ("UAH") has devalued against major foreign currencies. The National Bank of Ukraine introduced a range of stabilisation measures aimed at limiting outflow of customer deposits from the banking system, improving liquidity of banks and stabilisation of the exchange rate of UAH against major foreign currencies.

Significant external financing is required to support the economy. Stabilisation of the economic and political situation depends, to a large extent, upon success of the Ukrainian government's efforts, yet further economic and political developments are currently difficult to predict.

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

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

New and revised IFRS – In the current year, the Group has applied a range of new and revised IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Standards Interpretations Committee ("IFRS IC") that are mandatorily effective for accounting periods beginning on or after 1 January 2014.

Standards/Interpretations	**Effective for annual accounting periods beginning on or after**
Amendments to IAS 32 "Financial instruments: Presentation" – Offsetting of financial assets and financial liabilities	1 January 2014
Amendments to IAS 36 "Impairment of Assets" – Recoverable amounts disclosures for non-financial assets	1 January 2014
Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of derivatives and continuation of hedge accounting	1 January 2014
Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities", and IAS 27 "Separate Financial Statements" – Investment entities	1 January 2014
IFRIC 21 "Levies"	1 January 2014

The adoption of these new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and the amounts reported for the current or prior years.

(in Ukrainian Hryvnias and in thousands)

New and revised IFRS in issue but not yet effective – At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations, as well as amendments to the Standards, were in issue but not yet effective:

Standards/Interpretations	**Effective for annual accounting periods beginning on or after**
IFRS 14 "Regulatory Deferral Accounts"	1 January 2016
IFRS 15 "Revenue from Contracts with Customers"	1 January 2017
IFRS 9 "Financial Instruments" (2014)	1 January 2018
Amendments to IAS 19 "Employee Benefits" – Defined benefit plans: Employee contributions	1 July 2014
Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure initiative	1 January 2016
Amendment to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities", and IAS 28 "Investments in Associates and Joint Ventures" (2011) – Investment Entities: Applying the consolidation exception	1 January 2016
Amendment to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
Amendments to IFRS 11 "Joint Arrangements" – Accounting for acquisitions of interests in joint ventures	1 January 2016
Amendments to IAS 16 "Property, plant and equipment" and IAS 38 "Intangible Assets" – Classification of acceptable methods of depreciation and amortisation	1 January 2016
Amendments to IAS 16 "Property, plant and equipment" and IAS 41 "Agriculture" – Agriculture: Bearer plants	1 January 2016
Amendments to IAS 27 "Separate Financial Statements" – Equity method in separate financial statements	1 January 2016
Annual Improvements to IFRSs 2010–2012 Cycle	1 July 2014
Annual Improvements to IFRSs 2011–2013 Cycle	1 July 2014
Annual Improvements to IFRSs 2012–2014 Cycle	1 July 2016

Management is currently evaluating the impact of the adoption of these amendments and Standards on future consolidated financial statements of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance – The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of preparation of consolidated financial statements – The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services or fair value at the date of transition to IFRS for property, plant and equipment.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability as if market participants have taken those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 “Share-based Payment”, leasing transactions that are within the scope of IAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 “Inventories” or value in use in IAS 36 “Impairment of Assets”.

In addition, for financial reporting purposes, fair value measurements are categorised into Levels 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Functional and presentation currency – Based on the economic substance of the underlying events and circumstances relevant to each company of the Group, the functional currency of the companies domiciled in Ukraine has been determined to be the Ukrainian Hryvnia (“UAH”), for the Austrian and German companies – the Euro (“EUR”). The Group’s associate is based in Poland and its functional currency is the Polish Zloty (“PLN”). The accompanying consolidated financial statements of the Group are presented in UAH, which is the presentation currency of the Group.

These consolidated financial statements are presented in Ukrainian Hryvnias (“UAH”), and all values are rounded to the nearest thousand, unless otherwise indicated.

Basis of consolidation – These consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee;
- Is exposed to risks, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power over the investee to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee, when has practical ability to control significant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company’s voting rights in an investee are sufficient to give it power, including:

- The size of the Company’s holding of voting rights relative to the size and dispersion of holdings of the other voting rights;
- Potential voting rights held by the Company, other holders, or other parties;
- Rights arising from other contractual arrangements; and

- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to control significant activities at the time that decisions need to be made, including voting patterns at previous shareholders’ meetings.

Consolidation of an investee begins when the Company obtains control over the investee and ceases when the Company loses control of the investee. Specifically, income and expenses of an investee acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the investee.

Profit or loss and each component of other comprehensive income are attributed to equity holders of the Company and to non-controlling interests. Total comprehensive income of investees is attributed to equity holders of the Company and to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of investees to bring their accounting policies into line with the Group’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses, and cash flows relating to transactions between companies of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in investees – Changes in the Group's ownership interests in investees that do not result in the Group losing control over the investees are accounted for as equity transactions. The carrying amounts of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the investees. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to equity holders of the Company.

When the Group loses control of an investee, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the investee and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that investee are accounted for as if the Group had directly disposed of the related assets or liabilities of the investee.

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

The results and assets and liabilities of associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group’s share of the profit or loss and other comprehensive income of the associate.

When an entity of the Group transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group’s consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition – Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, discounts, rebates, value added tax and other sale taxes and duties.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Value added tax – Revenue, expenses and assets are recognised net of the amount of value added tax (“VAT”), except:

- Where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognised as a part of the cost of acquisition of the asset or as a part of the expense item, as applicable; and
- When accounts receivable and accounts payable are stated including the amount of VAT.

The net amount of VAT recoverable from the taxation authority is reported in Note 11 to the consolidated statement of financial position.

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

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as lessee – Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised directly in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

(in Ukrainian Hryvnias and in thousands)

Group as lessor – Leases where the Group retains substantially all the risks and the benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Rental income is recognised as other operating income in the period in which it is earned.

Foreign currencies – Transactions in currencies other than the respective functional currency are treated as transactions in foreign currencies. Transactions in foreign currencies are initially recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not recalculated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

Relevant exchange rates used for preparing these consolidated financial statements were as follows:

Currency	**As of 31 December 2014**	**Average exchange rate for 2014**	**As of 31 December 2013**	**Average exchange rate for 2013**
UAH/USD	15.7686	11.9095	7.9930	7.9930
UAH/EUR	19.2329	15.7410	11.0415	10.6116

For the purposes of presenting these consolidated financial statements, assets and liabilities of the Group’s foreign operations are translated into UAH using the exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences (“foreign currency translation reserve”) arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On a disposal of a foreign operation (i.e. a disposal of the Group’s entire interest in a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to equity holders of the Company are reclassified to profit or loss.

Borrowing costs – Borrowing costs comprise interest expense, finance costs on finance leases, other non-current interest-bearing payables and debt service costs.

Borrowing costs directly attributable to the acquisition, construction, or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

The Company did not capitalise borrowing costs to the cost of qualifying assets before 1 January 2014 since those costs were immaterial.

Research and development costs – Research and development costs include expenditures related to research and development of generic drugs and predominantly relate to preclinical and clinical trials, staff costs, expenses to raw materials and supplies relating to development of such generic drugs and registration of new drugs. Expenditure on research activities is recognised as an expense in the reporting period in which it is incurred. Expenditure on the research and development of an individual generic drug is recognised as an intangible asset if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible assets;
- The ability of the intangible asset to generate probable future economic benefits;
- The availability of adequate resources to complete the development; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Post-employment and other non-current benefit obligations

Defined benefit pension obligations – The Company is obliged to compensate the State Pension Fund of Ukraine for pensions that are paid by the state to employees of the Company who worked in hazardous environment and, therefore, are eligible for early retirement and pensions until the normal retirement age as defined by the statutory regulations and pays the defined benefits to certain employees upon their retirement. These obligations represent non-current benefits to employees and are not funded.

These defined benefit plans (the "Plans") are not funded and have no related assets.

The Group's net obligation in respect of the Plans is calculated separately for each Plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is then discounted to determine the present value of the obligation, which is recorded in the consolidated statement of financial position. A discount rate is estimated using the effective yield of high-class corporate or government securities with the same maturity as the respective retirement obligation and traded in the world stock markets and is adjusted on average expected inflation rate.

Defined benefit costs are categorised as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- Net interest income/(expense); and
- Re-measurement.

The Group presents the first two components of defined benefit costs in profit or loss in the line item of "Staff Costs". Curtailment gains and losses are accounted for as past service costs.

State defined contribution pension plan – The employees of the Group receive pension benefits from the government in accordance with the laws and regulations of Ukraine. The Group pays to the State Pension Fund of Ukraine an amount based on each employee's wages. The Group's costs for these contributions are included in the caption of "Staff Costs and Related Charges". These amounts are expensed when incurred.

Taxation – Income tax expense represents the sum of current income and deferred taxes.

Current income tax – Current income tax is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax – Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associate, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current income and deferred taxes for the year – Current income and deferred taxes are recognised in consolidated profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred taxes are also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Property, plant and equipment – Property, plant and equipment are carried at historical cost, less any accumulated depreciation and accumulated impairment losses. The historical cost of an item of property, plant and equipment comprises:

- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- Any costs directly attributable to bringing the item to the location and condition necessary for it to be capable of operating in the manner intended by management of the Group.

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate portion of production overheads.

Capitalised costs include major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalisation are charged to consolidated profit or loss as incurred.

Depreciable amount is the cost of the item of property, plant and equipment, less its residual value. The residual value is the estimated amount that an entity would currently obtain from disposal of the item of property, plant and equipment, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Depreciation of property, plant and equipment is designed to write off the depreciable amount over the useful life of the asset and is calculated using a straight line method. Land is not depreciated. Useful lives of the groups of property, plant and equipment are as follows:

Buildings and constructions	10–80 years
Machinery and equipment	4–30 years
Vehicles	4–10 years
Office equipment	2–8 years
Other depreciable assets	3–8 years

The residual value, the useful life and depreciation method are reviewed at each financial year-end. The effect of any changes from previous estimates is accounted for as a change in an estimate and accounted prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of profit or loss and other comprehensive income in the year the item is derecognised.

Construction in progress comprises costs directly related to construction of property, plant and equipment. Construction in progress is not depreciated until the assets are available for use, i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management.

Investment property – Investment property is measured at cost, less accumulated depreciation and impairment losses.

Intangible assets – Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Useful lives of the groups of intangible assets are as follows:

Software and licenses	2–10 years
Other intangible assets	2–10 years

An intangible asset is derecognised on disposal or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in consolidated profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets – At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value of asset or cash-generating unit, less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

Inventories – Inventories of the Group comprise raw and packaging materials, work in progress, finished products and other inventories.

Initial cost of inventories includes purchase costs, less any indirect taxes, and, where applicable, those overheads that have been incurred in bringing the inventories to their present location and condition. When inventories are released to production, sale or otherwise disposed, cost of inventories is determined for using weighted average method.

Inventories are valued at the lower of cost and net realisable value. Net realisable value represents the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs to be incurred in selling and distribution.

Contingent assets and liabilities – Contingent assets are not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the consolidated financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation, and it can be reasonably estimated. They are disclosed in the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Financial instruments – Financial assets and financial liabilities are recognised in the Group’s consolidated financial statements when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially recognised at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss plus. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

The effect of initial recognition of financial assets and liabilities obtained/incurred at terms below market is recognised net of tax effect as income or expense, except for financial assets and liabilities with shareholders’ or common control entities, whereby the effect is recognised through equity.

Financial assets and financial liabilities are only offset and the net amounts are reported in the consolidated statement of financial position when the Group has a legally enforceable right to set-off the recognised amounts and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Effective interest method – The effective interest method is a method of calculating the amortised cost of a financial asset (liability) and of allocating interest income (expense) over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (payments) – including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs, and other premiums or discounts – through the expected life of the financial asset (liability), or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets – Financial assets of the Group are classified into the “loans and accounts receivable” category and include trade and other accounts receivable, and other financial assets that have fixed or determinable payments that are not quoted in an active market. Loans and accounts receivable are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term accounts receivable (loans granted) when the recognition of interest would be immaterial.

Cash and cash equivalents – Cash and cash equivalents in the consolidated statement of financial position comprise cash with banks and on hand and short-term deposits with an original maturity within three months.

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

Impairment of financial assets – Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been negatively impacted.

The objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or

- It is becoming possible that the borrower will enter bankruptcy or financial re-organisation; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade accounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Group’s past experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with default on accounts receivable.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of accounts receivable and loans, where the carrying amount is reduced through the use of an allowance account. When a receivable or a loan is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in consolidated profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through consolidated profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

De-recognition of financial assets – The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group doesn’t transfer but retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities – Financial liabilities of the Group include borrowings, finance lease obligations, and trade and other accounts payable that are classified as “other financial liabilities” category. Financial liabilities are initially measured at fair value, net of transaction costs, and subsequently are measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective interest rate basis.

De-recognition of financial liabilities – The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled, or they expire. Upon de-recognition of a financial liability in its entirety, the difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in consolidated profit or loss.

Share capital – The Company’s share capital is recognised at the value of consideration received by the Parent. All subsequent capital increases are recognised at the fair value of the considerations received.

Treasury shares – Own equity instruments repurchased by the Company or its subsidiaries are recognised at cost and deducted from equity. No gains or losses on the purchase, sale, issue, or cancellation of the Group’s own equity instruments are recognised in the consolidated statement of profit or loss and other comprehensive income. Any difference between the carrying amount and the consideration is recognised in equity.

Reclassification of the comparative financial information presented – Certain reclassifications were made by the Group to bring the information presented in the consolidated financial statements for the year ended 31 December 2013 in conformity with the way of presentation of the consolidated financial statements for the year ended 31 December 2014.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the management of the Company is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the result of revision affects on current and future periods.

Critical judgments in applying accounting policies – The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Group’s accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Control over LLC “Simpozium” – Note 1 describes that LLC “Simpozium” is a subsidiary of the Group even though the Group has no ownership or voting rights in it. Management of the Group has concluded that the Group has control over this company due to the fact that the Group: (1) receives substantially all of the returns related to its operations and net assets (the entity performs its relevant activities exclusively for the Group); (2) has the current ability to direct the entity’s activities that most significantly affects these returns. As of 31 December 2014 and 2013, 100% of net assets of the entity are presented as non-controlling interest in the consolidated statement of financial position.

Recognition of research and development costs – Costs incurred on research and development projects are recognised as intangible assets only when they meet the recognition criteria described in the Group’s accounting policies, as described herein. No research and development costs have met these recognition criteria to date. Accordingly, all of the Group’s research and development costs to date have been expensed when incurred.

Segment information – Management considers that the Group is operating as a single operating segment. In making this judgment, management has analysed definition of operating segment under IFRS 8 and concluded that there are no business activities within the Group whose operating results are reviewed and analysed separately.

Key sources of estimation uncertainty – The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Provision for impairment of accounts receivable – The provision for impairment of accounts receivable is based on the Group’s assessment of the collectability of outstanding amounts. The determination of such estimates requires significant judgment, and takes into consideration the history of losses, the age of the receivable, customer specific facts and circumstances, experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with default on accounts receivable. Such estimates are regularly revised by the Group and, if required, respectively adjusted in the consolidated statement of profit or loss in the period when they become known.

Impairment of property, plant and equipment – IFRS require that an entity assesses at the end of each reporting period whether there is any indication that assets may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. Evaluation of whether the indications of impairment are present as at the reporting date, including analysis of both internal and external factors, requires that management apply judgment. No impairment has been recognised by the Group in relation to property, plant and equipment, in any of the reporting periods included herein.

Useful lives of property, plant and equipment – The estimation of the useful lives of items of property, plant and equipment requires from management use of professional judgements based upon experience with similar assets. In determining the useful lives of assets, management considers the expected usage, estimated technical obsolescence, physical wear and tear, and the physical environment in which the asset will be used. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates which are accounted prospectively.

Net realisable value of inventories – In accordance with IAS 2 “Inventories”, inventories are carried at the lower of cost and net realisable value. In assessing net realisable value of inventories, the Group applies different judgments in the determination of:

- Estimated selling prices of inventories in the normal course of business less estimated costs of sales completion;
- Present market prices; and
- Degree of the subsequent use of inventories.

At each reporting date, the Group assesses the inventories carrying amounts and, if required, writes down the inventories to their net realisable value.

Recoverability of deferred tax assets – Deferred tax assets are recognised to the extent that it is probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management’s estimates of future cash flows, which are in turn dependent on management’s estimates of future production and sales volumes, goods prices, and operating costs. Judgments are also required in respect of the application of income tax legislation. These judgments and estimates are subject to risks and uncertainties, hence, there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised at the reporting date. In such circumstances, the carrying amounts of some or all of recognised deferred tax assets and liabilities may require adjustments, resulting in the corresponding credit or charge to the consolidated statement of profit or loss and other comprehensive income.

(in Ukrainian Hryvnias and in thousands)

6. PROPERTY, PLANT AND EQUIPMENT

As of 31 December 2014 and 2013, movements in property, plant and equipment were as follows:

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Office equipment	Other depreciable assets	Capital construction in progress and uninstalled equipment	Total
Cost								
As of 31 December 2012	**890**	**480,675**	**762,690**	**57,683**	**20,427**	**2,072**	**84,304**	**1,408,741**
Additions	72	15,193	72,098	24,949	5,802	796	104,756	223,666
Internal transfers	-	19,128	45,506	-	15	-	(64,649)	-
Disposals	-	(442)	(862)	(1,796)	(1,254)	(336)	-	(4,690)
As of 31 December 2013	**962**	**514,554**	**879,432**	**80,836**	**24,990**	**2,532**	**124,411**	**1,627,717**
Additions		15,043	79,182	15,951	8,399	702	255,761	375,038
Internal transfers	-	11,424	8,495	5,186	2,779	-	(27,884)	-
Transfers to investment property	-	-	-	(59)	-	-	-	(59)
De-recognition due to Group restructuring (Note 28)	-	-	(42)	(54)	(253)	(240)	-	(589)
Disposals	-	(6,034)	(1,668)	(2,119)	(735)	(160)		(10,716)
As of 31 December 2014	**962**	**534,987**	**965,399**	**99,741**	**35,180**	**2,834**	**352,288**	**1,991,391**

(in Ukrainian Hryvnias and in thousands)

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Office equipment	Other depreciable assets	Capital construction in progress and uninstalled equipment	Total
Accumulated depreciation and impairment								
As of 31 December 2012	**-**	**(69,375)**	**(264,240)**	**(20,380)**	**(9,408)**	**(901)**	**-**	**(364,304)**
Depreciation charges	-	(15,055)	(86,282)	(8,575)	(5,303)	(398)	-	(115,613)
Disposals	-	303	800	1,491	1,208	336	-	4,138
As of 31 December 2013	**-**	**(84,127)**	**(349,722)**	**(27,464)**	**(13,503)**	**(963)**	**-**	**(475,779)**
Depreciation charges	-	(16,372)	(96,359)	(11,344)	(5,588)	(515)	-	(130,178)
Transfers to investment property	-	-	-	59	-	-	-	59
De-recognition due to Group restructuring (Note 28)		-	32	-	-	-	-	32
Disposals	-	2,216	1,492	651	703	161	-	5,223
As of 31 December 2014	**-**	**(98,283)**	**(444,557)**	**(38,098)**	**(18,388)**	**(1,317)**	**-**	**(600,643)**
Net book value								
As of 31 December 2013	**962**	**430,427**	**529,710**	**53,372**	**11,487**	**1,569**	**124,411**	**1,151,938**
As of 31 December 2014	**962**	**436,704**	**520,842**	**61,643**	**16,792**	**1,517**	**352,288**	**1,390,748**

(in Ukrainian Hryvnias and in thousands)

As of 31 December 2014, construction in progress and uninstalled equipment was mainly represented by equipment for laboratory facilities, as well as equipment and construction works in respect of new plant for production of active pharmaceutical ingredients in Shostka, Ukraine.

Pledged assets – As of 31 December 2014 and 2013, the carrying amounts of the Group's property, plant and equipment used as a collateral for borrowings (Note 15) were as follows:

	2014	**2013**
Machinery and equipment	313,219	229,312
Buildings and constructions	276,489	217,011
Vehicles	87	-
Total	**589,795**	**446,323**

Fully depreciated assets – Items of machinery and equipment and other fixed assets included in property, plant and equipment of the Group and recorded as of 31 December 2014 at cost in the amount of UAH 101,321 thousand (2013: UAH 72,739 thousand) were fully depreciated but remained in use.

Finance leases – The carrying amount of vehicles held under finance leases as of 31 December 2014 amounted to UAH 17,249 thousand (2013: UAH 29,793 thousand).

Prepayments for property, plant and equipment – As of 31 December 2014 and 2013, prepayments for property, plant and equipment were presented by prepaid construction works and equipment for the workshop for production of substances in Shostka, prepayments for the creation of laboratory facilities and modernisation of equipment of main production plants.

7. INTANGIBLE ASSETS

As of 31 December 2014 and 2013, movements in intangible assets were as follows:

	Software and licenses	**Other intangible assets**	**Intangible assets in progress**	**Total**
Cost				
As of 31 December 2012	**22,533**	**7,352**	**30**	**29,915**
Additions	5,847	7,624	757	14,228
Disposals	(187)	(158)	-	(345)
As of 31 December 2013	**28,193**	**14,818**	**787**	**43,798**
Additions	8,436	8,983	4,541	21,960
Internal transfers	723	28	(751)	-
De-recognition due to Group restructuring (Note 28)	-	(805)	-	(805)
Disposals	(14)	(973)	-	(987)
As of 31 December 2014	**37,338**	**22,051**	**4,577**	**63,966**

(in Ukrainian Hryvnias and in thousands)

	Software and licenses	Other intangible assets	Intangible assets in progress	Total
Accumulated amortisation and impairment				
As of 31 December 2012	**(5,979)**	**(2,604)**	**-**	**(8,583)**
Amortisation charges	(5,721)	(3,891)	-	(9,612)
Disposals	187	150	-	337
As of 31 December 2013	**(11,513)**	**(6,345)**	**-**	**(17,858)**
Amortisation charges	(7,085)	(6,794)	-	(13,879)
De-recognition due to Group restructuring (Note 28)	-	516	-	516
Disposals	14	830	-	844
As of 31 December 2014	**(18,584)**	**(11,793)**	**-**	**(30,377)**
Net book value				
As of 31 December 2013	**16,680**	**8,473**	**787**	**25,940**
As of 31 December 2014	**18,754**	**10,258**	**4,577**	**33,589**

Intangible assets in progress comprise costs directly related to acquisition and development of items of intangible assets. Intangible assets in progress are not amortised and transferred to software and licenses or other intangible assets until they are ready for intended use.

Fully depreciated assets – Items of intangible assets recorded as of 31 December 2014 at cost in the amount of UAH 11,681 thousand (2013: UAH 4,518 thousand) were fully depreciated but remained in use.

8. INVENTORIES

As of 31 December 2014 and 2013, inventories were as follows:

	2014	2013
Finished goods	182,101	146,098
Raw materials	148,879	100,163
Packaging materials	85,369	56,577
Work in progress	33,108	28,820
Other inventories	8,907	6,169
Total	**458,364**	**337,827**

Cost of inventories recognised as expense and included in "cost of sales" (Note 22) for the year ended 31 December 2014 amounted to UAH 589,191 thousand (2013: UAH 510,561 thousand).

(in Ukrainian Hryvnias and in thousands)

The amount of inventory write-downs recognised in other operating expenses (Note 26) for the year ended 31 December 2014 were UAH 9,850 thousand (2013: UAH 3,434 thousand). Such write-downs relate to raw materials and finished goods and were recognised based on stock counts and quality inspections performed by the Group.

9. TRADE AND OTHER ACCOUNTS RECEIVABLE

As of 31 December 2014 and 2013, trade and other accounts receivable were as follows:

	2014	**2013**
Trade accounts receivable	492,921	317,580
Other accounts receivable	13,045	3,905
	505,966	**321,485**
Provision for impairment of accounts receivable	(21,022)	(16,815)
Total trade and other accounts receivable	**484,944**	**304,670**

As of 31 December 2014, trade and other accounts receivable included balances with related parties in the amount of UAH 17,692 thousand (2013: UAH 8,528 thousand) (Note 29).

No interest is charged on trade accounts receivable. The credit period on sales of goods was generally 30–90 days in 2014 (2013: 30–90 days).

As of 31 December 2014 and 2013, the ageing analysis of past due but not impaired trade accounts receivable was as follows:

				Past due but not impaired			
	Total	**Impaired trade accounts receivable**	**Neither past due nor impaired**	**Up to 3 months**	**3–6 months**	**6–12 months**	**Over 12 months**
2014	**492,921**	20,506	445,842	22,861	3,679	25	8
2013	**317,580**	16,815	231,302	66,161	1,485	1,231	586

Trade accounts receivable which are past due but not impaired represent the amounts at the end of the reporting period for which the Group has not recognised a provision for impairment because there has not been a significant change in credit quality, and the amounts are still considered recoverable.

As of 31 December 2014 and 2013, the ageing analysis of impaired accounts receivable was as follows:

	2014	**2013**
6–12 months	1,298	19
Over 12 months	19,724	16,796
Total	**21,022**	**16,815**

(in Ukrainian Hryvnias and in thousands)

Movements in the provision for impairment of accounts receivable for the years ended 31 December 2014 and 2013 were as follows:

	2014	2013
As of 1 January	**16,815**	**9,160**
Impairment losses recognised in respect of accounts receivable	1,809	7,655
Write-off of irrecoverable amounts	(163)	-
Losses on translation differences	3,156	-
Accounts receivable recovered	(595)	-
As of 31 December	**21,022**	**16,815**

10. PREPAYMENTS GIVEN

As of 31 December 2014 and 2013, prepayments given were as follows:

	2014	2013
Prepayments to suppliers for raw materials	10,452	9,957
Prepayments to suppliers for services	13,939	25,216
Total	**24,391**	**35,173**

As of 31 December 2014, included in prepayments given were balances with related parties in the amount of UAH 17,798 thousand (2013: UAH 4,220 thousand) (Note 29).

11. TAXES RECOVERABLE AND PREPAID, OTHER THAN INCOME TAX

As of 31 December 2014 and 2013, taxes recoverable and prepaid, other than income tax were as follows:

	2014	2013
VAT recoverable	75,833	8,755
Other taxes	69	831
Total	**75,902**	**9,586**

12. CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits with original maturity within three months.

As of 31 December 2014 and 2013, cash and cash equivalents were as follows:

	2014	2013
Short-term bank deposits	51,345	-
Cash on hand and with banks	31,445	21,784
Cash in transit	14,045	-
Total	**96,835**	**21,784**

(in Ukrainian Hryvnias and in thousands)

On cash balances with banks interest income at floating rates is earned based on daily bank deposit rates. As of 31 December 2014, short-term bank deposits were represented by a deposit on demand and overnight.

13. SHARE CAPITAL AND TREASURY SHARES

As of 31 December 2014 and 2013, authorised, registered and fully paid share capital comprised 7,273,200 ordinary shares at a par value of UAH 5 per share. All shares have equal voting rights. The holders of ordinary shares are entitled to receive dividends as declared and to one vote per share at Annual General Shareholders' Meetings.

As of 31 December 2014 and 2013, the carrying amount of the Group's share capital amounted to UAH 57,650 thousand, being the original share capital amount adjusted for the effect of historical hyperinflation under IAS 29 in the amount of UAH 21,284 thousand.

As of 31 December 2014 and 2013, the ownership structure of the Group's share capital was as follows:

	2014		2013	
	Number of shares	**Ownership interest, %**	**Number of shares**	**Ownership interest, %**
Immediate shareholders:				
FARMAK GROUP N.V.	4,910,153	67.51%	-	-
Individuals (< 2% individually)	856,770	11.78%	923,416	12.70%
Farmak International Holding GmbH	820,390	11.28%	820,390	11.28%
Foyil Capital Limited	508,552	6.99%	508,552	6.99%
Legal entities (< 2% individually)	113,501	1.56%	115,154	1.58%
F.I. & P. Holdings Limited	32,484	0.45%	4,792,320	65.89%
Members of management and the Supervisory Board	31,350	0.43%	113,368	1.56%
Total	**7,273,200**	**100.0%**	**7,273,200**	**100.0%**

Group restructuring – As discussed in Note 1, as of 31 December 2013, parent and ultimate holding company of JSC "Farmak" was F.I. & P. Holdings Limited. In March 2014, as a result of the Group's internal corporate restructuring, JSC "Farmak" and its subsidiaries, as well as structured entities Farmak International Holding GmbH and Vital Pharma GmbH became subsidiaries of the Netherlands-based public limited liability company "Farmak Group N.V.". Thus, as a result of internal corporate restructuring, consolidated structured entities Farmak International Holding GmbH and Vital Pharma GmbH were withdrawn from the Group resulting to disposal of repurchased of the Group's shareholding in November 2012 in the number of 820,390 shares (11.28%) in the amount of UAH 140,464 thousand. In addition, the Group reversed the excess of the amount paid for treasury shares over their nominal value (as adjusted for the effect of hyperinflation) included in equity (retained earnings) when repurchasing the shares in the amount of UAH 133,961 thousand, net of the dividends approved in March 2013 by the General Shareholders' Meeting in the amount of UAH 1,286 thousand in favour of Farmak International Holding GmbH. Net effect of such disposal of treasury shares amounted to UAH 6,503 thousand.

Dividends – In March 2014, the General Shareholders' Meeting approved distribution of dividends for the year 2013 of UAH 1.78 per share for the total amount of UAH 12,946 thousand.

(in Ukrainian Hryvnias and in thousands)

In March 2013, the General Shareholders' Meeting approved distribution of dividends for the year 2012 of UAH 1.65 per share for the total amount of UAH 10,714 thousand, net of consolidation effect in respect of dividends paid to Farmak International Holding GmbH.

14. NON-CONTROLLING INTERESTS

As of 31 December 2014 and 2013, non-controlling interests were represented by net assets of the following consolidated structured entities of the Group:

Name of consolidated structured entity	Proportion of ownership interests and voting rights held by non-controlling interests		Accumulated non-controlling interests	
	2014	2013	2014	2013
LLC "Simpozium"	100%	100%	(388)	(482)
Farmak International Holding GmbH	-	100%	-	2,393
Vital Pharma GmbH and its subsidiary	-	100%	-	14,418
Total			**(388)**	**16,329**

As disclosed in Notes 1 and 13, as a result of internal corporate restructuring, consolidated structured entities Farmak International Holding GmbH and Vital Pharma GmbH were withdrawn from the Group.

15. BORROWINGS

As of 31 December 2014 and 2013, outstanding borrowings were as follows:

Secured borrowings:	Currency	Weighted average interest rate	2014	Weighted average interest rate	2013
Borrowings from EBRD[1)]	EUR	5.08%	336,027	5.22%	127,618
Credit line facilities from Ukrainian banks	USD	7.14%	271,062	7.10%	100,289
Borrowing from a foreign bank[2)]	USD		-	9.50%	139,567
Borrowing from a related party	EUR		-	6.50%	4,527
Total borrowings			**607,089**		**372,001**
Less: Short-term borrowings and current portion of long-term borrowings			(354,675)		(138,102)
Long-term borrowings			**252,414**		**233,899**

1) During 2014, the Group received a tranche under the loan agreement with the European Bank for Reconstruction and Development ("EBRD") in the amount of EUR 8,500 thousand, as a result of which total debt under the loan agreement with EBRD as at 31 December 2014 amounted to EUR 17,500 thousand.

(in Ukrainian Hryvnias and in thousands)

In addition, in December 2014, the Group entered in a loan agreement with EBRD for the amount of EUR 8,500 thousand to replenish its working capital and refinance borrowings from local banks. No tranches under this agreement were received in 2014.

Loan agreements with EBRD have established limitations on disposal of assets and distribution of dividends, and other restrictions on the Group's activities. In addition, these agreements establish requirements to certain financial covenants. As of 31 December 2014, the Group complied with such requirements set.

2) In March 2013, consolidated structured entity of the Group obtained a long-term borrowing from a foreign bank at the rate of 9.5% p.a. in the amount of USD 17,000 thousand. In 2014, as a result of internal corporate reorganisation, this entity was withdrown from the Group.

The following table summarises the Group's borrowings at fixed and floating interest rates as of 31 December 2014 and 2013:

	2014	2013
Floating interest rates	607,089	187,896
Fixed interest rates	-	184,105
Total	**607,089**	**372,001**

As of 31 December, borrowings were secured by the following types of assets pledged:

	2014	2013
Property, plant and equipment (Note 6)	589,795	446,323
Investment property	80	1,148
Inventories (at collateral value)	-	74,741
Total	**589,875**	**522,212**

In addition, as of 31 December 2014, future cash proceeds on sales used as a collateral under loan agreements for the total amount of UAH 35,000 thousand (2013: UAH 24,000 thousand).

Undrawn credit line facilities available to the Group as well as contractual maturity profile of the Group's borrowings are disclosed in Note 31.

16. FINANCE LEASE OBLIGATIONS

The Group leases vehicles under a range of finance lease agreements. The finance lease obligations are settled in UAH based on the borrower's commercial UAH/USD exchange rate at the date of payment. The average lease term is three years.

Future minimum lease payments under finance lease agreements and the present value of net minimum lease payments were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2014	2013	2014	2013
Within one year	11,976	12,615	9,475	9,662
Second to fifth years inclusive	4,869	8,690	4,108	7,004
	16,845	**21,305**	**13,583**	**16,666**
Less: Future finance charges	(3,262)	(4,639)	-	-
Finance lease obligations	**13,583**	**16,666**	**13,583**	**16,666**

(in Ukrainian Hryvnias and in thousands)

17. OTHER NON-CURRENT LIABILITIES

As of 31 December 2014 and 2013, other non-current liabilities were as follows:

	2014	2013
Retirement and other non-current benefit obligations	15,890	3,614
Other non-current liabilities	3,642	830
Total	**19,532**	**4,444**

Balances of present value of retirement and other non-current benefit obligations for the year ended 31 December 2014 and 2013 can be reconciled as follows:

	2014	2013
Balance as of the beginning of the year	**4,545**	**3,566**
Current service cost	9,425	1,329
Interest expense	2,072	535
Past service cost	-	-
Actuarial gains recognised in other comprehensive income	2,790	-
Benefits paid during the year	(1,423)	(885)
Balance as of the end of the year	**17,409**	**4,545**

Amounts recognised in consolidated profit or loss in respect of defined benefit obligations were as follows:

	2014	2013
Interest expense	2,072	535
Current service cost	9,425	1,329
Past service cost	-	-
Total	**11,497**	**1,864**

During 2014, the Group included actuarial gains in other comprehensive income in the amount of UAH 2,790 thousand (2013: nil).

Main assumptions used for actuarial valuation as of 31 December 2014 and 2013 were as follows:

	31 December 2014	31 December 2013
Discount rate	15%	15%
Estimated salary growth rate	10%	10%

To determine a discount rate, management uses market yields on highly liquid corporate bonds as adjusted for the estimated effect of differences by maturities. Salary growth rates are based on management’s expectations regarding growth of salaries in the future.

(in Ukrainian Hryvnias and in thousands)

18. TRADE AND OTHER ACCOUNTS PAYABLE

As of 31 December 2014 and 2013, trade and other accounts payable were as follows:

	2014	2013
Trade accounts payable for:		
Raw materials	166,429	84,215
Services	32,429	14,364
Property, plant and equipment and intangible assets	26,138	7,357
	224,996	**105,936**
Other accounts payable:		
Payables to employees	67,947	34,189
Accrued liabilities	32,853	26,472
Current portion of retirement and other non-current benefit obligations	1,519	931
Other accounts payable	6,508	2,177
	108,827	**63,769**
Total	**333,823**	**169,705**

Trade accounts payable are non-interest bearing and are normally settled within a 30-day period.

As of 31 December 2014, included in the Group's trade accounts payable of the Group for raw materials and services were balances with related parties in the amount of UAH 50,796 thousand (2013: UAH 5,618 thousand) (Note 29).

As of 31 December 2014, included in the Group's payables to employees were balances with the Group's key management personnel in the amount of UAH 887 thousand (2013: UAH 1,231 thousand) (Note 29).

As of 31 December 2014, included in accrued liabilities amounts of royalties owed to related parties (key management personnel) amounted to UAH 2,727 thousand (2013: UAH 2,415 thousand) (Note 29).

19. INCOME TAX EXPENSES

Components of income tax expense for the years ended 31 December 2014 and 2013 comprised the following:

	2014	2013
Current income tax		
Current income tax expenses	74,794	78,121
	74,794	**78,121**
Deferred income tax		
Deferred income tax benefit	(45,805)	(1,177)
Adjustment of deferred taxes due to changes in tax rates	-	434
	(45,805)	**(743)**
Total income tax expense	**28,989**	**77,378**

(in Ukrainian Hryvnias and in thousands)

The Group's profit was subject to taxation mainly in Ukraine. Profits and income tax expenses in other countries were insignificant and disregarded for disclosure purposes. The Group was subject to corporate income tax at the rate of 18% during 2014 (2013: 19%).
Profit before income tax multiplied by the statutory tax rate and actual income tax expense for the years ended 31 December can be reconciled as follows:

	2014	2013
Profit before income tax	**274,820**	**395,230**
Income tax expense at the statutory tax rates of 18% for 2014 and 19% for 2013	49,468	75,094
Effect of non-deductible expenses, net	6,334	1,850
Effect of changes in tax rates	-	434
Effect of indexation of property, plant and equipment for tax purposes	(26,813)	-
Total income tax expense	**28,989**	**77,378**

As of 31 December 2014 and 2013, deferred tax assets and liabilities related to the following:

	Consolidated statement of financial position		Consolidated statement of profit or loss and other comprehensive income	
	2014	2013	2014	2013
Trade and other accounts receivable	2,886	2,667	(219)	(1,084)
Trade and other accounts payable	15,304	6,585	(8,719)	(1,202)
Inventories	2,279	777	(1,502)	181
Property, plant and equipment[1)]	34,543	(400)	(34,943)	227
Prepayments given	(713)	(1,135)	(422)	1,135
Deferred income tax benefits			**(45,805)**	**(743)**
Net deferred tax assets	**54,299**	**8,494**		

[1)] In accordance with the tax legislation of Ukraine, property, plant and equipment for tax purposes are subject to indexation by the inflation rate if it exceeds 10% for the year. During 2014, the inflation rate in Ukraine was 24.9%. As of 31 December 2014, the Group's property, plant and equipment were indexed for tax purposes without revising their cost for financial accounting purposes.

As of 31 December 2014 and 2013, the Group did not recognise deferred tax in respect of temporary differences associated with investments in subsidiaries and associate, since the Group is able to control the timing of the reversal of those temporary differences and the Group does not intend to realise them in the foreseeable future.

(in Ukrainian Hryvnias and in thousands)

20. TAXES PAYABLE, OTHER THAN INCOME TAX

As of 31 December 2014 and 2013, taxes payable, other than income tax, were as follows:

	2014	2013
Payroll related taxes	7,672	6,855
Other taxes	232	615
Total	**7,904**	**7,470**

21. REVENUE

Revenue for the years ended 31 December 2014 and 2013 was as follows:

	2014	2013
Revenue from sales of finished goods	2,488,817	1,922,690
Revenue from sales of merchandise for resale	9,781	17,544
Other revenue	4,737	7,303
Total	**2,503,335**	**1,947,537**

For the year ended 31 December 2014, included in revenue from sales of finished goods were sales to related parties in the amount of UAH 17,265 thousand (2013: UAH 10,611 thousand) (Note 29).

22. COST OF SALES

Cost of sales for the years ended 31 December 2014 and 2013 was as follows:

	2014	2013
Raw materials and supplies	589,191	510,561
Staff costs	148,754	122,745
Depreciation and amortisation	91,149	85,650
Repairs and maintenance of property, plant and equipment	60,113	56,850
Energy, water and other utilities	54,008	49,147
Royalty	42,752	19,560
Other expenses	15,077	9,869
Total	**1,001,044**	**854,382**

Royalty – There are two types of royalties accrued by the Group: amounts relating to trademarks and items of intellectual property transferred to the Group by individuals. In the latter instance, such individuals include both current and former employees of the Company as well as third parties. Monthly and quarterly royalty expenses represent a contractually agreed percentage of a corresponding product turnover.

For the year ended 31 December 2014, royalties to the Group’s key management personnel amounted to UAH 20,508 thousand (2013: UAH 14,644 thousand) (Note 29).

(in Ukrainian Hryvnias and in thousands)

23. SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses for the years ended 31 December 2014 and 2013 were as follows:

	2014	2013
Marketing and advertising expenses	212,882	131,782
Staff costs	148,683	144,018
Representative office costs	81,462	37,051
Transportation costs	45,104	24,077
Registration fees	23,249	13,288
Depreciation and amortisation	16,681	12,165
Maintenance of property, plant and equipment	5,293	7,723
Changes in provision for impairment of accounts receivable	718	7,655
Other expenses	3,341	4,265
Total	**537,413**	**382,024**

Representative office costs for the year ended 31 December 2014 included staff costs related to employees of such representative offices in the amount of UAH 61,704 thousand (2013: UAH 24,406 thousand).

Marketing and advertising expenses for the year ended 31 December 2014 included mainly advertising costs in the amount of UAH 103,509 thousand (2013: 92,853 thousand).

24. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December 2014 and 2013 were as follows:

	2014	2013
Staff costs	148,628	113,985
Consulting and other professional services	25,796	15,788
Depreciation and amortisation	22,133	17,951
Maintenance of property, plant and equipment	18,163	20,573
Taxes, other than income tax	6,881	4,322
Bank charges	5,686	4,869
Communication	1,908	1,758
Other expenses	13,648	12,544
Total	**242,843**	**191,790**

Staff costs for the year ended 31 December 2014 included remuneration to the Group's key management personnel in the amount of UAH 26,391 thousand (2013: UAH 25,174 thousand) (Note 29).

25. RESEARCH AND DEVELOPMENT COSTS

Research and development costs of the Group for the years ended 31 December 2014 and 2013 were represented by registration fees for the new generic drugs; preclinical and clinical trials related to generic drugs; and preclinical and clinical trials in respect of a self-developed drug.

(in Ukrainian Hryvnias and in thousands)

26. OTHER OPERATING EXPENSES

Other operating expenses for the years ended 31 December 2014 and 2013 were as follows:

	2014	2013
Charity and donations	12,157	12,394
Write down of raw materials and finished goods (Note 8)	9,850	3,434
Net loss/(gain) on disposal of property, plant and equipment and intangible assets	4,492	(365)
Fines and penalties	500	499
Other expenses	597	1,439
Total	**27,596**	**17,401**

27. FINANCE COSTS

Finance costs for the years ended 31 December 2014 and 2013 were as follows:

	2014	2013
Interest expense on borrowings	28,488	18,368
Finance lease costs	4,164	4,062
Other expenses	3,126	135
Less: Amounts included in initial cost of qualifying assets	(13,568)	-
Total	**22,210**	**22,565**

28. DISCONTINUED OPERATIONS

As discussed in Notes 1 and 13, as a result of the Group’s internal corporate restructuring, structured entities Farmak International Holding GmbH and Vital Pharma GmbH together with its subsidiary Lativ Pharma GmbH were withdrawn from the Group in March 2014. Aggregated results of discontinued operations included in the consolidated statement of profit or loss and other comprehensive income are presented below. Comparative data on profit or loss and cash movements of discontinued operations were restated with reference to classification of such operations as discontinued in the current year.

	2014	2013
Revenue	3	-
Foreign exchange (loss)/gain	(625)	8,346
Finance costs	(2,448)	(13,986)
Expenses	(1,146)	(8,379)
Loss before income tax	**(4,216)**	**(14,019)**
Income tax expense	(203)	(1,156)
Loss for the year from discontinued operations	**(4,419)**	**(15,175)**
Exchange differences as a result of translation foreign operations to presentation currency	(24,872)	(5,606)

(in Ukrainian Hryvnias and in thousands)

On the disposal of foreign operations all of the exchange differences accumulated in equity in respect of those operations attributable to non-controlling interests are disposed of but do not change their classification to profit or loss.

Cash flows from discontinued operations

Net cash flows used in operating activities	(10,675)	(77,203)
Net cash flows used in operating activities	-	-
Net cash flows (used in)/generated by financing activities	(569)	4,351
Net cash outflow	**(11,244)**	**(72,852)**

Assets and liabilities of entities withdrawn from the Group as the date of loss of control were as follows:

	Farmak International Holding GmbH	Vital Pharma GmbH	Lativ Pharma GmbH	Total
Property, plant and equipment	15	541	-	556
Intangible assets	289	-	-	289
Investments in entity	140,463	-	-	140,463
Trade and other accounts receivable	7,282	5,005	3,628	15,915
Inventories	-	1,295	-	1,295
Prepayment to suppliers	88	47	-	135
Taxes recoverable and prepaid, other than income tax	1,024	255	3,591	4,870
Income tax prepaid	-	435	-	435
Cash and cash equivalents	951	7,123	5,870	13,944
Borrowings	(177,295)	-	-	(177,295)
Trade and other accounts payable	(1,286)	(2,596)	(334)	(4,216)
Income tax payable	-	-	(1,024)	(1,024)
Taxes payable, other than income tax	-	(44)	-	(44)
Total	**(28,469)**	**12,061**	**11,731**	**(4,677)**

Net cash outflow from disposal as a result of the Group's reorganisation was as follows:

Cash proceeds	-
Less: Cash and cash equivalents disposed of	(13,944)
	(13,944)

(in Ukrainian Hryvnias and in thousands)

29. RELATED PARTY DISCLOSURES

The Group's transactions with its related parties for the years ended 31 December 2014 and 2013 were as follows:

	Revenue from sales of finished goods	Rental income	Purchase of raw materials and supplies	Purchase of services
2014				
Entities under common control	-	1,118	(149,073)	(30,829)
Associate	12,876	-	-	-
Other related parties (family members of ultimate controlling party)	4,389	488	(11,844)	(14,751)
Total	**17,265**	**1,606**	**(160,917)**	**(45,580)**
2013				
Entities under common control	-	650	39,107	1,302
Associate	7,165	-	-	-
Other related parties (family members of ultimate controlling party)	3,446	535	11,628	12,854
Total	**10,611**	**1,185**	**50,735**	**14,156**

Revenue from sales of finished goods to entities under common control and associate comprised revenue from sales of pharmaceuticals produced by the Group. Sales to related parties were at arm's length terms.

Purchases of raw materials from entities under common control mainly comprised purchases of raw and packaging materials. Purchases of services from entities under common control comprised mainly royalties, purchases of repair and construction services.

Charity and donations made to other related parties for the year ended 31 December 2014 comprised UAH 9,459 thousand (2013: 9,672 thousand).

As of 31 December 2014 and 2013, the Group's outstanding balances with its related parties were as follows:

	Trade and other accounts receivable	Prepayments given	Trade and other accounts payable
2014			
Entities under common control	164	11,508	48,312
Associate	9,305	-	-
Other related parties (family members of ultimate controlling party)	8,223	6,290	2,484
Total	**17,692**	**17,798**	**50,796**

(in Ukrainian Hryvnias and in thousands)

	Trade and other accounts receivable	Prepayments given	Trade and other accounts payable
2013			
Entities under common control	1,013	3,919	4,726
Associate	2,389	-	-
Other related parties (family members of ultimate controlling party)	5,126	301	892
Total	**8,528**	**4,220**	**5,618**

Balances and transactions with the Group's key management personnel – Key management personnel of the Group consists of the Company's General Director and members of the Board of Directors. Key management personnel totalled to 11 persons as of 31 December 2014 and 2013.

The Group's transactions with its key management personnel for the years ended 31 December 2014 and 2013 were as follows:

	2014	2013
Short-term benefits including:		
Remuneration and related taxes	26,391	25,174
Royalty	20,508	14,644
Total	**46,899**	**39,818**

As of 31 December 2014 and 2013, the Group's outstanding balances with its key management personnel were as follows:

	2014	2013
Royalty accrued	2,727	2,415
Payables for remuneration and related taxes	887	1,231
Loans granted	(76)	(91)
Total	**3,538**	**3,555**

As of 31 December 2014, some members of key management personnel were entitled to post-employment defined benefit plans according to their employment contracts. The amounts of such benefits as of 31 December 2014 in the amount of UAH 10,737 thousand were included in other non-current liabilities (2013: nil).

30. CONTINGENCIES AND CONTRACTUAL COMMITMENTS

Taxation – As discussed in Note 1, the Group's principal operating activities are primarily within Ukraine. Ukrainian tax authorities are increasingly directing their attention to the business community as a result of the overall Ukrainian economic environment. In respect of this, the local and national tax environment in Ukraine is constantly changing and subject to inconsistent application, interpretation, and enforcement. Non-compliance with Ukrainian laws and regulations can lead to the imposition of severe penalties and interest.

According to the Group’s management, future tax examinations could raise issues or assessments, which are contrary to the Group’s tax filings and could lead to additional taxes, penalties, and interest. Management of the Group believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations and paid or accrued all taxes and withholdings that are applicable. At the same time, in the event of the contrary treatment of such transactions by tax authorities, the Group’s management assesses the amount of potential contingent tax liabilities in respect of tax accounting of deductible expenses as of 31 December 2014 and 2013 to be immaterial for the purposes of these consolidated financial statements. Most tax returns of the Group for the period ended 31 December 2009 were examined by tax authorities without significant disagreements or imposition of additional tax liabilities.

In accordance with the effective legislation, tax returns are subject to examination within three years after their submission. The risk of additional tax assessments as a result of recurring tax audits significantly decreases with the passage of time.

Legal issues – In the ordinary course of business, the Group is subject to legal actions and complaints. Management of the Group believes that the ultimate liability, if any, arising from such legal actions or complaints, will not have a material effect on the consolidated financial position or results of future operations of the Group.

Capital expenditure commitments – As of 31 December 2014, the Group had outstanding commitments in respect of purchases of property, plant and equipment for the total amount of UAH 180,971 thousand (2013: UAH 63,018 thousand).

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group’s principal financial instruments comprise borrowings, cash and cash equivalents, as well as trade and other accounts receivable and payable.

The Group has not entered into any derivative transactions. The Group’s overall risk management program focuses on the unpredictability and inefficiency of the Ukrainian financial markets and seeks to minimize potential adverse effects on the consolidated financial position of the Group.

The main risks arising from the Group’s financial instruments are market risk, liquidity risk, and credit risk. Management reviews and agrees policies for managing each of these risks, which are summarized below.

Market risk – The Group’s activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Market risk exposures are measured using sensitivity analysis which evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year.

Foreign currency risk – Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The Group’s exposure to foreign currency risk is mainly attributed to the exchange rate fluctuations of UAH against USD, EUR, and RUB experienced by Ukraine-based entities of the Group. Entities of the Group domiciled outside Ukraine have little or no transactions in foreign currencies, therefore, their exposure to the foreign currency risk is insignificant.

(in Ukrainian Hryvnias and in thousands)

The official exchange rates of UAH against mentioned currencies, as established by the National Bank of Ukraine as of the respective dates, were as follows:

	EUR	USD	RUB
As of 31 December 2014	19.2329	15.7686	0.3030
As of 31 December 2013	11.0415	7.9930	0.2450

As of the reporting dates, the carrying amounts of the foreign currency denominated monetary assets and liabilities of Ukraine-based entities of the Group were as follows:

	USD		RUB		EUR	
	2014	2013	2014	2013	2014	2013
Financial assets						
Cash and cash equivalents	602	1,634	5,239	814	21,936	7,462
Trade and other accounts receivable	101,958	44,684	26,129	15,948	20,139	2,785
Total financial assets	**102,560**	**46,318**	**31,368**	**16,762**	**42,075**	**10,247**
Financial liabilities						
Borrowings	271,062	95,388	-	-	336,027	132,519
Finance lease obligations	13,583	16,666	-	-	-	-
Trade and other accounts payable	83,108	25,463	11,012	7,224	71,309	26,307
Total financial liabilities	**367,753**	**137,517**	**11,012**	**7,224**	**407,336**	**158,826**
Total net position	**(265,193)**	**(91,199)**	**20,356**	**9,538**	**(365,261)**	**(148,579)**

Foreign currency denominated short-term and long-term borrowings, cash and cash equivalents, trade and other accounts receivable and payable, and finance lease obligations give rise to the Group’s foreign exchange exposures. The Group has not entered into transactions designed to hedge these foreign currency risk exposures.

The following table details the Group’s sensitivity to a 100% increase in UAH exchange rate against relevant foreign currencies, with all other variables remaining unchanged. 100% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 100% change in foreign currency exchange rates. A positive value below indicates an increase in profit or equity where UAH devaluates by 100% against the relevant currency. A negative value below indicates a decrease in profit or equity where UAH devaluates by 100% against the relevant currency. For a 100% appreciation of UAH against the relevant currency, there would be an equal and opposite impact on profit or equity as the amounts noted per the devaluation.

2014	**Devaluation of UAH**	**Effect on profit before income tax**
UAH/EUR	100.00%	(365,261)
UAH/USD	100.00%	(265,193)
UAH/RUB	100.00%	20,356

(in Ukrainian Hryvnias and in thousands)

2013	Devaluation of UAH	Effect on profit before income tax
UAH/EUR	25.00%	(37,145)
UAH/USD	25.00%	(22,800)
UAH/RUB	25.00%	2,385

Interest rate risk – Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's borrowings with floating interest rates. Management monitors the market interest rates with sufficient regularity to minimize the Group's exposure to interest rate risk.

The sensitivity analysis below have been determined based on the exposure to interest rates at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis points increase or 25 points decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The following table details impact on profit before tax if interest rates change and all other variables remain constant.

2014	Increase/ (decrease) in basis points	Effect on profit before income tax
Change in interest rate (EURIBOR)	100	(3,360)
Change in interest rate (EURIBOR)	(25)	840
Change in interest rate (LIBOR)	100	(2,711)
Change in interest rate (LIBOR)	(25)	678

2013	Increase/ (decrease) in basis points	Effect on profit before income tax
Change in interest rate (EURIBOR)	100	(1,276)
Change in interest rate (EURIBOR)	(25)	319
Change in interest rate (LIBOR)	100	(603)
Change in interest rate (LIBOR)	(25)	151

Liquidity risk – Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's objective is to maintain balance between continuity and flexibility of funding through the use of credit terms provided by suppliers and banks.

The Group analyses the ageing of its assets and the maturity of its liabilities and plans its liquidity depending on the expected repayment of the respective financial instruments. In instances of insufficient or excessive liquidity in individual entities, the Group relocates resources and funds among the Group entities to achieve optimal financing of the business needs of each entity.

(in Ukrainian Hryvnias and in thousands)

The table below summarises the original contractual maturity profile of the Group's financial liabilities as of 31 December 2014 and 2013 based on undiscounted payments:

2014	**Weighted average effective interest rate**	**On demand**	**Up to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Total**
Borrowings	6.83%	-	276,748	31,748	62,450	270,717	641,663
Finance lease obligations	24.25%	-	3,060	2,972	5,944	4,869	16,845
Trade and other accounts payable	-	81,198	242,166	4,068	6,391	19,532	353,355
Guarantees issued	-	-	39	39	78	2,103	2,259
Total		**81,198**	**522,013**	**38,827**	**74,863**	**297,221**	**1,014,122**

2013	**Weighted average effective interest rate**	**On demand**	**Up to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Total**
Borrowings	8.51%	-	85,365	17,104	55,248	283,081	440,798
Finance lease obligations	24.31%	11	3,950	3,902	4,752	8,690	21,305
Trade and other accounts payable	-	56,115	107,511	4,610	2,362	4,444	175,042
Guarantees issued	-	-	38	38	3,277	16,577	19,930
Total		**56,126**	**196,864**	**25,654**	**65,639**	**312,792**	**657,075**

The amounts included above for guarantees issued are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee.

The Group has access to credit line facilities, of which UAH 334,052 thousand were unused as of 31 December 2014 (2013: UAH 237,495 thousand).

Credit risk – Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss to the Group. Financial instruments which potentially subject the Group to significant concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. The Group's maximum exposure to credit risk as of 31 December 2014 amounted to UAH 569,250 thousand (2013: UAH 322,549 thousand).

The Group's cash and cash equivalents are primarily held with major reputable banks located in Ukraine. Management carries out continuous monitoring of the financial position in respect of the financial institutions where the Group's cash and cash equivalents are placed. The credit risk for the Group relates to the default of banks on their obligations and is limited to the balance of cash and cash equivalents placed with banks.

(in Ukrainian Hryvnias and in thousands)

The Group mainly trades with reputable customers both in the domestic and export markets. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Furthermore, in 2012, the Group implemented additional procedure for monitoring of customers' financial information on a quarterly basis. Other exposures are monitored and analysed on a case-by-case basis and the Group's management believes that credit risk is appropriately reflected in impairment allowances recognised against assets.

Revenue before deduction of discounts and rebates from the Group's top six customers in 2014 amounted to UAH 1,611,767 thousand (2013: UAH 1,434,629 thousand), with the balances on settlements with the said customers as of 31 December 2014 amounting to UAH 246,635 thousand (2013: UAH 204,798 thousand).

The Group has no significant concentration of credit risk to any single counterparty. Concentration of credit risk with respect to any counterparty did not exceed 10% of gross monetary assets during the year.

In addition, the Group is exposed to credit risk in relation to financial guarantees provided by the Group. The Group's maximum exposure in this respect is the maximum amount the Group could have to pay if the guarantee is called on.

Capital management – The Group considers debt and shareholders' equity as primary capital sources. The Group's objectives, when managing capital, are to ensure the Group's ability to continue as a going concern in order to provide returns to the shareholders and benefits to other stakeholders as well as to provide for financing of the Group. The Group's capital management policies aim to ensure and maintain an optimal capital structure to reduce the overall costs of capital raising and flexibility relating to the Group's access to capital markets.

	2014	**2013**
Borrowings	607,089	372,001
Finance lease obligations	13,583	16,666
Cash and cash equivalents	(96,835)	(21,784)
Net debt	**523,837**	**366,883**
Total equity	1,742,879	1,397,105
Equity and net debt	2,266,716	1,763,988
Gearing ratio	**23.1%**	**20.8%**

Management monitors the Group's capital structure on a regular basis and may adjust its capital management policies and objective following changes in the operating environment, market trends, or its development strategy.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which the instrument could be exchanged in a current arm's length transaction between willing parties, other than in a forced or liquidation sale.

Carrying values of the financial assets and liabilities with maturities of less than one year, less any estimated adjustments, are assumed to be their fair values.

(in Ukrainian Hryvnias and in thousands)

Except as detailed in the following table, management of the Group considers that the carrying amounts of financial assets and liabilities recognised in the consolidated financial statements approximate their fair values:

	Carrying amounts		Fair value	
	2014	**2013**	**2014**	**2013**
Financial liabilities (current and non-current)				
Borrowings	607,089	372,001	610,671	362,546
Finance lease obligations	13,583	16,666	14,328	15,504

Fair values of the financial instruments presented above correspond to Level 2 of fair value hierarchy and have been determined by discounting future contractual cash flows at the year-end market interest rates available to the Group for similar financial instruments.

33. SUBSEQUENT EVENTS

Dividends declared – In March 2015, the General Shareholders’ Meeting approved distribution of dividends for the year 2014 of UAH 2.25 per share for the total amount of UAH 16,365 thousand.

Devaluation of UAH – After 31 December 2014, UAH devalued against USD and EUR. As of the date of signing these consolidated financial statements, 1 USD costed UAH 23.5060 and 1 EUR costed UAH 25.4970.

34. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the management and authorised for issue on 8 April 2015.