PJSC "FARMAK"

Consolidated Financial Statements
for the Year Ended 31 December 2017

PJSC "FARMAK"

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PJSC "FARMAK"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company ("PJSC") "Farmak" (hereinafter, the "Company") and its subsidiaries (jointly, the "Group") as of 31 December 2017 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 IFRS 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 them 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
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2017 were approved by management on 18 April 2018.

On behalf of the Management of PJSC "Farmak":

F. I. Zhebrovska,
Chairwomen of the Supervisory Board

V. G. Smarodina,
Chief Financial Officer

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of PJSC "Farmak":

Opinion

We have audited the consolidated financial statements of PJSC "Farmak" (the "Company") and its subsidiaries (jointly, the "Group"), which comprise the consolidated statement of financial position as of 31 December 2017 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code"), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why was the matter determined to be a key audit matter?	How was the matter addressed in the audit?

Retrospective adjustments (during the measurement period) to acquisition and goodwill impairment

See Note 8 "Arrangements on Acquisition of Subsidiaries" and Note 9 "Goodwill"

A retrospective adjustment to fair value measurements of contingent consideration for Nord Farm Group's acquisition and goodwill impairment in 2017 were considered to be key audit matters due to the following:

- The Group is required to make a number of judgments to assess to what extent the supplementary information identified subsequent to acquisition in 2016 and in January 2017 relates to the facts and circumstances that existed at the date of Nord Farm Group's acquisition and requires a retrospective adjustment to goodwill and contingent consideration within the measurement period.

- The value of contingent consideration is determined by a number of significant unobservable inputs and using management's judgment and estimates, including forecasted future sales of Nord Farm Group, the overall market size for new products of the Group to be launched in this market, and the potential impact of competitor products expected to be launched in the future.

- Judgment involved in impairment analysis of goodwill based on the performance of Nord Farm Group for the first half year of 2017 and as of the reporting date included assumptions of future profitability, revenue growth, margins, and forecasted cash flows, and the selection of an appropriate discount rate.

Our procedures included the following:

- Reviewing the supplementary information identified subsequent to Nord Farm Group's acquisition in 2016 and in January 2017 as to whether it relates to the facts and circumstances that existed at the date of Nord Farm Group's acquisition and required a retrospective adjustment to goodwill and contingent consideration within the measurement period.

- Reviewing the correctness of retrospective adjustments to Nord Farm Group made by the Group at the acquisition date based on the supplementary information.

- Using our internal valuation specialists to review the appropriateness of the discount rate used for the purposes of goodwill impairment analysis.

- Assessing key assumptions regarding Nord Farm Group's cash flows for the purposes of impairment analysis of goodwill.

- Reviewing forecasted cash flows, including assumptions relating to revenue growth rates and operating margins, to assess reliability of management's forecasts for the purposes of impairment analysis of goodwill based on Nord Farm Group's performance.

- Reviewing the adjustments and respective disclosures made in the consolidated financial statements.

Our procedures concluded that the key judgments used by management and the resulting valuation conclusions were appropriate.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the consolidated financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein.

Deloitte & Touche

18 April 2018

PJSC "FARMAK"

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2017
In Ukrainian Hryvnias and in thousands

	Notes	2017	2016
Assets			
Non-current assets			
Property, plant, and equipment	6	2,071,236	1,908,820
Prepayments for property, plant, and equipment	6	147,118	59,266
Intangible assets	7	94,818	72,278
Goodwill	9	46,308	186,090
Investments in associate		4,622	2,304
Deferred tax assets	19	23,060	30,165
Other non-current assets		67,185	1,127
Total non-current assets		**2,454,347**	**2,260,050**
Current assets			
Inventories	10	1,051,321	879,547
Trade and other accounts receivable	11	1,181,258	1,040,252
Prepayments made	12	61,672	41,459
Taxes recoverable and prepaid, other than income taxes	13	54,037	42,711
Current income taxes prepaid		3,139	1,508
Cash and cash equivalents	14	53,947	44,020
Total current assets		**2,405,374**	**2,049,497**
Total assets		**4,859,721**	**4,309,547**
Equity and liabilities			
Equity			
Share capital	15	54,352	54,479
Foreign currency translation reserve		28,918	7,060
Retained earnings		3,292,456	2,529,544
Total equity attributable to equity holders of the Company		3,375,726	2,591,083
Non-controlling interests		35	(181)
Total equity		**3,375,761**	**2,590,902**
Non-current liabilities			
Loans and borrowings	16	2,264	248,270
Finance lease obligations		8,546	10,786
Defined benefit obligations	17	91,777	28,566
Liabilities for business combination		10,049	7,700
Total non-current liabilities		**112,636**	**295,322**
Current liabilities			
Loans and borrowings	16	497,627	642,520
Trade and other accounts payable	18	771,080	723,330
Finance lease obligations		16,749	7,331
Income taxes payable		67,128	34,195
Taxes payable, other than income taxes		18,740	15,947
Total current liabilities		**1,371,324**	**1,423,323**
Total liabilities		**1,483,960**	**1,718,644**
Total equity and liabilities		**4,859,721**	**4,309,547**

On behalf of the Management of PJSC "Farmak":

F. I. Zhebrovska,
Chairwomen of the Supervisory Board

V. G. Smarodina,
Chief Financial Officer

The accompanying notes on pages from 11 to 56 form an integral part of these consolidated financial statements.

PJSC "FARMAK"

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017
In Ukrainian Hryvnias and in thousands

	Notes	2017	2016
Revenue	20	6,084,681	5,112,352
Cost of sales	21	(2,723,663)	(2,398,495)
Gross profit		**3,361,018**	**2,713,857**
Selling and distribution expenses	22	(1,237,688)	(1,094,302)
General and administrative expenses	23	(546,175)	(467,233)
Research and development costs	24	(187,999)	(158,974)
Other operating income		20,575	7,431
Other operating expense	25	(219,619)	(33,288)
Operating profit		**1,190,112**	**967,491**
Finance income		9,860	3,032
Finance costs	26	(51,428)	(50,480)
Net foreign exchange loss		(70,333)	(83,314)
Share in profit of associate		3,965	1,350
Profit before income tax		**1,082,176**	**838,079**
Income tax expense	19	(243,086)	(152,821)
Profit for the year		**839,090**	**685,258**
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of defined benefit obligations	17	(24,085)	(1,517)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		21,858	4,377
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**836,863**	**688,118**
Profit for the year attributable to:			
Equity holders of the Company		838,874	685,081
Non-controlling interests		216	177
		839,090	**685,258**
Total comprehensive income for the year attributable to:			
Equity holders of the Company		836,647	687,941
Non-controlling interests		216	177
		836,863	**688,118**

On behalf of the Management of PJSC "Farmak":

F. I. Zhebrovska,
Chairwomen of the Supervisory Board

V. G. Smarodina,
Chief Financial Officer

The accompanying notes on pages from 11 to 56 form an integral part of these consolidated financial statements.

PJSC "FARMAK"

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
In Ukrainian Hryvnias and in thousands

	Notes	2017	2016
Operating activities			
Profit before income tax		**1,082,176**	**838,079**
Adjustments for:			
Depreciation and amortization		252,368	198,482
Net profit on disposal of property, plant, and equipment and intangible assets	25	(4,155)	(973)
Loss on impairment of goodwill	25	161,630	-
Share in profit of associate		(3,965)	(1,350)
Loss on write off of raw materials and finished goods	10	22,444	16,007
Changes in provision for impairment and write off of accounts receivable	22, 25	12,868	824
Finance costs		51,428	50,480
Finance income		(9,860)	(3,032)
Net foreign exchange loss		61,525	92,978
Operating profit before changes in working capital		1,626,459	1,191,495
Changes in working capital:			
Increase in inventories		(174,811)	(111,310)
Increase in trade and other accounts receivable		(184,707)	(358,080)
Increase in prepayments made		(19,680)	(7,308)
Increase/(decrease) in taxes recoverable and prepaid, other than income taxes		(8,711)	31,649
Increase in trade and other accounts payable and other liabilities		15,967	173,440
Increase in liabilities due to business combination	8	-	6,901
Increase in taxes payable, other than income taxes		2,048	5,169
Cash generated from operating activities		1,256,565	931,956
Interest paid		(43,308)	(60,451)
Income taxes paid		(205,688)	(91,923)
Net cash generated from operating activities		1,007,569	779,582
Investing activities			
Acquisition of property, plant, and equipment and intangible assets		(479,672)	(430,622)
Short-term placement of free funds		(20,472)	-
Proceeds on disposal of property, plant, and equipment		7,630	3,353
Net cash outflow due to acquisition of subsidiary	8	-	(183,372)
Dividends received from associate		2,570	2,262
Interest received		2,322	1,701
Net cash used in investing activities		(487,622)	(606,678)
Financing activities			
Proceeds on loans and borrowings		129,941	218,419
Repayment of loans and borrowings		(584,474)	(285,208)
Repayment of finance lease obligations		(15,032)	(13,792)
Repurchase of treasury shares		(8,510)	(198,058)
Dividends paid		(33,238)	(32,962)
Net cash used in financing activities		(511,313)	(311,601)

The accompanying notes on pages from 11 to 56 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)
In Ukrainian Hryvnias and in thousands

	Notes	2017	2016
Net increase/(decrease) in cash and cash equivalents		**8,634**	**(138,697)**
Cash and cash equivalents, as of 1 January	**14**	**44,020**	**182,549**
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		1,293	168
Cash and cash equivalents, as of 31 December	**14**	**53,947**	**44,020**

Non-cash transactions for the year ended 31 December 2017 were represented by property, plant, and equipment received under finance leases in the amount of UAH 20,196 thousand (2016: UAH 18,936 thousand).

On behalf of the Management of PJSC "Farmak":

F. I. Zhebrovska,
Chairwomen of the Supervisory Board

V. G. Smarodina,
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

In Ukrainian Hryvnias and in thousands

	Share capital	Foreign currency translation reserve	Retained earnings	Total equity attributable to equity holders of the Company	Non-controlling interests	Total equity
As of 1 January 2016	**57,650**	**2,683**	**2,070,560**	**2,130,893**	**(358)**	**2,130,535**
Profit for the year	-	-	685,081	**685,081**	177	**685,258**
Other comprehensive (loss)/income for the year	-	4,377	(1,517)	**2,860**	-	**2,860**
Total comprehensive income for the year	-	4,377	683,564	**687,941**	177	**688,118**
Repurchase of treasury shares (Note 15)	(3,171)	-	(194,887)	**(198,058)**	-	**(198,058)**
Effect on initial recognition of receivables from the Group's shareholder at fair value	-	-	(7,655)	**(7,655)**	-	**(7,655)**
Dividends declared (Note 15)	-	-	(22,038)	**(22,038)**	-	**(22,038)**
As of 31 December 2016	**54,479**	**7,060**	**2,529,544**	**2,591,083**	**(181)**	**2,590,902**
Profit for the year	-	-	838,874	**838,874**	216	**839,090**
Other comprehensive income/(loss) for the year	-	21,858	(24,085)	**(2,227)**	-	**(2,227)**
Total comprehensive income for the year	-	21,858	814,789	**836,647**	216	**836,863**
Repurchase of treasuries (Note 15)	(127)	-	(8,383)	**(8,510)**	-	**(8,510)**
Effect on initial recognition of receivables from the Group's shareholder at fair value	-	-	(11,951)	**(11,951)**	-	**(11,951)**
Dividends declared (Note 15)	-	-	(31,543)	**(31,543)**	-	**(31,543)**
As of 31 December 2017	**54,352**	**28,918**	**3,292,456**	**3,375,726**	**35**	**3,375,761**

On behalf of the Management of PJSC "Farmak":

F. I. Zhebrovska,
Chairwomen of the Supervisory Board

V. G. Smarodina,
Chief Financial Officer

The accompanying notes on pages from 11 to 56 form an integral part of these consolidated financial statements.

In Ukrainian Hryvnias and in thousands

1. GENERAL INFORMATION

PJSC "Farmak" (hereinafter, the "Company") is a public joint stock company incorporated in accordance with the legislation of Ukraine. The principal operating office of the Company is located at: 63 Kyrylivska Str., Kyiv, 04080, Ukraine. The principal activities of the Company and its subsidiaries (jointly, 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 entity, 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	
			2017	2016
Subsidiaries:				
SE "Baza Vidpochynku "Smuhlianka"	Recreation center	Ukraine, Odesa	100%	100%
LLC "Farmakhim"	Property leasehold and operations with securities	Ukraine, Kharkiv	100%	100%
LLC "Berenika"	Production and sale of drugs	Ukraine, Zhytomyr	100%	100%
Farmak Invest Limited	Investments	Cyprus, Nicosia	100%	100%
KWW Kotkowski Wierzbicki Wegrzyn sp. z o.o.	Investments	Poland, Warsaw	100%	100%
NORD FARM Sp. z o.o.	Distribution of drugs	Poland, Warsaw	100%	100%
Consolidated structured entity*:				
LLC "Simpozium"	Business travel, conference services	Ukraine, Kyiv	-	-
Associate:				
LLC "Farmak SP"	Distribution of drugs	Poland, Warsaw	26%	26%

* As described in Note 5, management concluded that the Company had a practical ability to direct the relevant activities of the structured entity unilaterally and, hence, the Company had control over the entity. As such, the entity was consolidated in these consolidated financial statements.

The Group's ultimate controlling party is Ms. Zhebrovska, Filia Ivanivna.

2. OPERATING ENVIRONMENT

In the recent years, Ukraine has been in a political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. In 2016-2017, an armed conflict with separatists continued in certain parts of Luhanska and Donetska regions. These events resulted in higher inflation, devaluation of the national currency against major foreign currencies, decrease of GDP, illiquidity, and volatility of financial markets.

In 2017, the inflation rate amounted to 13.7% (2016: 12.4%). The Ukrainian economy proceeded recovery from the economic and political crisis of previous years, which resulted in real GDP smooth growth of around 2.5% (2016: 2.4%) and stabilization of national currency. From trading perspective, the economy is demonstrating refocusing on the European Union ("EU") market, which was a result of the signed Association Agreement with the EU in January 2016 that established the Deep and Comprehensive Free Trade Area ("DCFTA"). Under this agreement, Ukraine has committed to harmonize its national trade-related rules, norms, and standards with those of the EU, progressively reduce import customs duties for the goods originating from the EU member states, and abolish export customs duties during a 10-year transitional period. Implementation of DCFTA began on 1 January 2017. As a result, the Russian Federation implemented a trade embargo or import duties on key Ukrainian export products. In response, Ukraine implemented similar measures against Russian products.

In terms of currency regulations, the National Bank of Ukraine ("NBU") decreased the required share of mandatory sale of foreign currency proceeds from 65% to 50% from April 2017, increased settlement period for export-import transactions in foreign currency from 120 to 180 days from May 2017, and allowed companies to pay the 2013 (and earlier) dividends with a limit of USD 2 million per month from November 2017 (from June 2016, companies were allowed to pay dividends for 2014-2016 to non-residents with a limit of USD 5 million per month).

In March 2015, Ukraine signed four-year Extended Fund Facility ("EFF") with the International Monetary Fund ("IMF") that will last until March 2019. The total program amounted to USD 17.5 billion, while Ukraine has so far received only USD 8.7 billion from the entire amount. In September 2017, Ukraine successfully issued USD 3 billion of Eurobonds, of which USD 1.3 billion is new financing, with the remaining amount aimed to refinance the bonds due in 2019. The NBU expects that Ukraine will receive another USD 3.5 billion from the IMF in 2018. To receive next tranches, the government of Ukraine has to implement certain key reforms, including in such areas as pension system, anti-corruption regulations, and privatization.

Further stabilization 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.

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

Adoption of new and revised International Financial Reporting Standards

The following Standards were adopted by the Group as of 1 January 2017:

- Amendments to IAS 7 *Statement of Cash Flows* – Disclosure Initiative;
- Amendments to IAS 12 *Income Taxes* – Recognition of Deferred Tax Assets for Unrealized Losses;
- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 12 *Disclosure of Interests in Other Entities*.

In Ukrainian Hryvnias and in thousands

Amendments to IAS 7 "Statement of Cash Flows" – Disclosure initiative

The Group has applied these amendments for the first time in the current year. The amendments require that an entity provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of interest-bearing loans and borrowings, interest accrued, finance lease obligations and dividends. A reconciliation between the opening and closing balances of these items is provided in Note 31. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 31, the application of these amendments has had no impact on the Group's consolidated financial statements.

Amendments to IAS 12 "Income Taxes" – Recognition of deferred tax assets for unrealized losses

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs 2014-2016 Cycle

The Group has applied the amendments to IFRS 12 *Disclosure of Interests in Other Entities* included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group.

IFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates, or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements.

New and revised IFRS in issue but not yet effective

At the date of authorization of these consolidated financial statements for issue, the following Standards and Interpretations, as well as amendments to the Standards were in issue but not yet effective:

Standards/Interpretations	**Effective for annual periods beginning on or after:**
IFRS 9 *Financial Instruments*	1 January 2018
IFRS 15 *Revenue from Contracts with Customers*, including amendments to IFRS 15	1 January 2018
Clarifications to IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
Amendments to IFRS 4 *Insurance Contracts* – Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*	1 January 2018
Interpretation of IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
Amendments to IAS 40 *Investment property* – Transfers of Investment Property	1 January 2018
Amendments to IFRS 2 *Share-Based Payment* – Classification and Measurement of Share-based Payment Transactions	1 January 2018
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2018
Interpretation of IFRIC 23 *Uncertainty Over Income Tax Treatments*	1 January 2019

In Ukrainian Hryvnias and in thousands

Standards/Interpretations	Effective for annual periods beginning on or after:
IFRS 16 *Leases*	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019
Amendments to IFRS 9 *Financial Instruments* – Prepayment Features with Negative Compensation	1 January 2019
Amendments to IAS 28 *Investments in Associates and Joint Ventures* – Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRS 17 *Insurance Contracts*	1 January 2021
Amendments 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	Carried forward for an indefinite period

The Group has elected not to early adopt any revised and amended Standards or Interpretations that have not yet become effective.

The Standards and Interpretations below could have an impact on the consolidated financial statements of the Group.

IFRS 9 "Financial Instruments"

The complete Standard was issued in July 2014, including the requirements previously issued and additional amendments, and becomes effective for financial years beginning on or after 1 January 2018. The new Standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and includes a new expected loss impairment model, changes to the classification and measurement requirements of financial assets as well as to hedge accounting. The impact of an expected loss impairment model does not materially impact the Group's consolidated financial statements on the basis that (i) The Group has no history of significant credit losses, which is based on the low probability of losses, therefore, it is planning to apply a simplified approach which envisages recognizing expected credit losses for the whole life of its trade accounts receivable, as permitted by IFRS 9; and (ii) there has not been a significant change in the mix, credit terms, or credit quality of the underlying counterparties as of 31 December 2017. The approach to classification and measurement of financial instruments is unchanged on application of the new Standard. The Group does not apply hedge accounting under IAS 39 and does not intend to apply it under IFRS 9.

IFRS 15 "Revenue from Contracts with Customers"

The new Standard was issued in May 2014 and outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes the current revenue recognition standard IAS 18 *Revenue*. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. The new Standard establishes the principles for the disclosure of useful information in the financial statements about the nature, amount, timing, and uncertainties of revenue and cash flows arising from contracts with customers. The Group has assessed the impacts of transitioning to IFRS 15. Under IFRS 15, the revenue recognition model will change from one based on the transfer of risk and reward of ownership to the transfer of control of ownership.
The Group's revenue is predominantly derived from sales of generic pharmaceutical drugs, where the point of recognition is defined based on DAP ("Delivered at Place"), FCA ("Free Carrier"), and CIP ("Carriage and Insurance Paid to") International Commercial terms ("Incoterms"). As the time of the transfer of risks and rewards coincides with the transfer of control under those terms, management does not anticipate that the application of IFRS 15 will have a significant impact on the consolidated financial position and/or consolidated financial performance of the Group.

IFRS 16 "Leases"

The new Standard was issued in January 2016 replacing the previous leases standard, IAS 17 *Leases*, and related Interpretations. IFRS 16 establishes the principles for the recognition, measurement, presentation, and disclosure of leases for the customer ("lessee") and the supplier ("lessor"). IFRS 16 eliminates the classification of leases as either operating or finance as is required by IAS 17. Instead, it introduces a single lessee accounting model requiring a lessee to recognize assets and liabilities for all leases, unless the underlying asset has a low value or the lease term is 12 months or less. Currently, the Group leases land and equipment under operating leases and machinery under finance leases. The Group expects that the new Standard will primarily result in the recognition of right-of-use assets and liabilities in respect of the long-term rental contracts for land, as well as for lease equipment. This new Standard applies to annual reporting periods beginning on or after 1 January 2019. The Group is currently assessing the effect of its application and has no intention to early adopt the new Standard.

Interpretation of IFRIC 23 "Uncertainty over Income Tax Treatments"

The Interpretation was issued in June 2017, and clarifies the accounting treatment for uncertainties in income taxes. The new Interpretation is to be applied to the determination of taxable results, tax bases, unused tax losses, unused tax credits, and tax rates, when there is uncertainty over income tax treatments under IAS 12 *Income Taxes*, and becomes effective for financial years beginning on or after 1 January 2019. The Group is in the process of performing the impact assessment and does not intend to early apply the new Interpretation.

The Group does not expect an impact on its consolidated financial statements from all other Standards, Interpretations, and amendments issued at the reporting date, but not yet to be adopted for these consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation of the consolidated financial statements

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

These 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.

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 if market participants would take 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 realizable 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 categorized 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

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary of the economic environment in which the entity operates (the "functional currency"). The functional currency of the entities domiciled in Ukraine and Cyprus is Ukrainian Hryvnia ("UAH"), and the entities registered in Poland – Polish Zloty ("PLZ"). These consolidated financial statements are presented in Ukrainian Hryvnias, and all amounts 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 the structured entity) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power over 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 the voting rights are sufficient to give it the practical ability to direct the relevant 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 vote holders;
- Potential voting rights held by the Company, other vote 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 direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of an investee begins from the date, when the Company obtains control over the investee and ceases when the Company loses control over 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 subsidiaries 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 subsidiaries 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 entities of the Group are eliminated in full on consolidation.

Non-controlling interests

Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to the Company's equity holders.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and other comprehensive income and within equity in the consolidated statement of financial position, separately from the Company's shareholders' equity.

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 recognized directly in equity and attributed to equity holders of the Company.

When the Group loses control over an investee, a gain or loss from disposal is recognized in the consolidated statement of 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 recognized 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 (i.e. reclassified to profit or loss or transferred directly to retained earnings).

Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquire, and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, or IAS 37 *Provisions, Contingent Liabilities, and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the provisional amounts are reported for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, (additional assets or liabilities could also be recognized), to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business, less accumulated impairment losses, if any.

For impairment testing, goodwill is allocated to each of cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of profit or loss and other comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investment in associate

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

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 recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share in 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 recognized 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 in normal course of business. Revenue is reduced by estimated customer returns, discounts, rebates, value added tax and other sale taxes, and duties.

Revenue from the sale of goods is recognized when the goods are delivered and titles have been transferred, 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 recognized 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 recognized 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 with reference to the amount of VAT.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date. With regard to the above mentioned it is required to determine whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset as at inception date.

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 a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized 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.
The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. 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 recognized immediately in profit or loss.

Capitalized 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 recognized as expenses of the current period over the lease term.

Group as a lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term. Rental income is recognized as other operating income in the period in which it is earned.

Foreign currencies

Transactions in currencies other than the respective functional currencies are treated as transactions in foreign currencies. Transactions in foreign currencies are initially recognized at the rates of exchange ruling at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated 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 retranslated.

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

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Ukrainian Hryvnia ("UAH") using 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 arising, if any (foreign currency translation reserve), are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the 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 the equity holders of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

In Ukrainian Hryvnias and in thousands

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

Currency	As of 31 December 2017	Average exchange rate for 2017	As of 31 December 2016	Average exchange rate for 2016
UAH/USD	28.0672	26.5966	27.1909	25.5513
UAH/EUR	33.4954	30.0042	28.4226	28.2919
UAH/RUB	0.4870	0.4561	0.4511	0.3831
UAH/PLZ	8.0117	7.0490	6.4390	6.4903

Loan and borrowing costs

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

Loan and 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 loan and borrowing costs eligible for capitalization.

All other loan and borrowing costs are recognized in profit or loss in the period in which they are incurred.

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, cost of raw materials and supplies relating to development of such generic drugs, and registration of new drugs. Expenditure on research activities is recognized as an expense in the reporting period in which it is incurred. Expenditure on the research and development of an individual generic drug is recognized as an intangible asset if, and only if, all of the following have been demonstrated:

- The technical feasibility to complete 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 technical, financial, and other resources to complete the development and use or sale of the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Pension and other non-current benefit obligations to employees

Defined benefit 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.

Also, in accordance with corporate pension arrangements, the Group pays the defined benefits to certain employees upon their retirement. The amounts of such payments depend upon employee's service period with the Company and represent non-current benefits.

The Group does not create any special funds/reserves to finance these defined benefit plans (the "Plans"), and they have no Plan assets. The Group funds its obligations in the way that the actual benefits payable in the period is covered at the cost of the current period charges.

The Group's net obligation in respect of these Plans is calculated separately for each Plan by estimating the amount of future benefits 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 obligations, traded in the world stock markets, and is adjusted with reference to average expected inflation rate.

Defined benefit costs are categorized as follows:

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

The Company 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 in profit or loss in the period in which plans are changed.

The re-measurement recognized in other comprehensive income is charged directly to retained earnings and should not be reclassified to profit or loss.

State defined contribution pension plan

The employees of the Company receive pension benefits from the government in accordance with the pension legislation of Ukraine. The Company pays to the State Pension Fund of Ukraine an amount based on each employee's wages. The Company's costs for these contributions are included in the caption of "Staff Costs". These amounts are expensed when incurred.

Taxation

Income tax expense represents the sum of the current tax and deferred tax.

Current tax

The tax currently payable 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 tax liability is calculated using tax rates that have been enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized 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 recognized for all taxable temporary differences. Deferred tax assets are generally recognized 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 utilized. Such deferred tax assets and liabilities are not recognized 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 recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized 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 recognized to the extent that it is probable that they are expected to reverse in the foreseeable future and there will be sufficient taxable profits against which to utilize the benefits of the temporary differences.

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 realized, 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 and deferred taxes for the year

Current and deferred taxes are recognized in consolidated profit or loss and other comprehensive income, except when they relate to items that are recognized in other comprehensive income or directly in equity. In such case, the current and deferred taxes are also recognized 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 a property, plant, and equipment item 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 asset 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 labor, and an appropriate portion of production overheads.

Capitalized 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 capitalization are charged to 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 methods are reviewed at each financial year-end. The effect of any changes from previous estimates is accounted for as a change in an accounting estimate on a prospective basis.

An item of property, plant, and equipment is derecognized 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 or write off of the property, plant, and equipment item (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is recognized in profit or loss.

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.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization of intangible assets is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization 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 derecognized on disposal or when no future economic benefits are expected from further 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 recognized in profit or loss when the asset is derecognized.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Impairment of tangible and intangible assets, other than goodwill

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 the 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 recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or 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 recognized for the asset (or cash-generating unit) in prior years.

Inventories

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

Cost of inventories include purchase costs (less any indirect taxes), and, where applicable, those costs 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 using weighted average method.

Inventories are valued at the lower of cost and net realizable value. Net realizable 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 liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. Subsequently, contingent liabilities are measured at the higher of: a) the amount that would be recognized in accordance with IAS 37 *Provisions, Contingent Liabilities, and Contingent Assets* and b) the amount initially recognized, less cumulative amortization recognized in accordance with IAS 18 *Revenue*.

Contingent assets and liabilities

Contingent assets are not recognized in the consolidated financial statements but disclosed in notes, when an inflow of economic benefits is probable.

Contingent liabilities are not recognized 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 recognized 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 recognized 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 recognized immediately in profit or loss.
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 or incurred at terms below market is recognized net of tax effect as income or expense, except for financial assets and liabilities with shareholders or entities under common control, whereby the effect is recognized through equity.

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

Effective interest rate method

The effective interest rate method is a method of calculating the amortized 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 are classified into the following specified categories: financial assets "at fair value through profit or loss", "held-to-maturity" investments, "available-for-sale" financial assets, and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets of the Group include mainly cash and cash equivalents and trade and other accounts receivable.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash with banks, 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.

Trade and other accounts receivable

Trade and other accounts receivable with fixed or determinable payments that are not quoted in an active market are classified as receivables. Trade and other accounts receivable are measured at amortized cost using the effective interest rate method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

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 impacted adversely.

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 probable that the borrower will enter bankruptcy or financial re-organization; 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 are assessed for impairment on a collective basis even if they were assessed not to be impaired individually.

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 amortized 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 using an allowance account. When a trade 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 recognized 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 recognized, the previously recognized 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 amortized cost would have been had the impairment not been recognized.

De-recognition of financial assets

The Group derecognizes 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 third party.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for the 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 recognize the financial asset and recognizes a collateralized borrowing for the proceeds received.

Financial liabilities and equity instruments

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Share capital

The Company's share capital is recognized at the value of consideration received by the Company. All subsequent share capital increases are recognized at the fair value of the consideration received.

Own equity instruments repurchased by the Company are deducted from equity. No gain or loss is recognized in the consolidated statement of profit or loss and other comprehensive income on the purchase, sale, issue, or cancellation of the Company's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities "at fair value through profit or loss" or "other financial liabilities".

Other financial liabilities

Other financial liabilities of the Group include loans and borrowings, finance lease obligations, and trade and other accounts payable that are classified as "other financial liabilities". Other financial liabilities are initially measured at fair value, net of transaction costs, and subsequently are measured at amortized cost using the effective interest rate method.

De-recognition of financial liabilities

The Group derecognizes 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 derecognized and the consideration paid and payable is recognized in profit or loss.

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, management 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 by the management 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 recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both 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 recognized in the consolidated financial statements.

Recognition of research and development costs

Costs incurred on research and development projects are recognized as intangible assets only when they meet the recognition criteria described in the Group's accounting policies. To date, no research and development costs have met those recognition criteria. Accordingly, all of the Group's research and development costs to date have been expensed when incurred (Note 24).

Segment information

Management considers that the Group is operating as a single operating segment. In making this judgment, management has analyzed definition of operating segment under IFRS 8 *Operating Segments* and concluded that there are no business activities within the Group whose operating results are reviewed and analyzed separately for marginality by products or geographical positions. The Group does not single out operations of Nord Farm Group as a separate segment due to the fact that the performance share of its income, profits/losses, and assets does not meet the quantitative criteria of IFRS.

Determination of production facilities in the city of Shostka as a cash-generating unit

Management has concluded that, for the purposes of analyzing the impairment of property, plant, and equipment, the production facilities used for manufacturing active pharmaceutical ingredients in the city of Shostka, Ukraine, should not be treated as a separate cash-generating unit due to the absence of a complete production cycle and active market for the products manufactured in those premises, as well as due to the interrelation of cash flows between the production facilities in Shostka and Kyiv.

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.

Allowance for impairment of accounts receivable

The allowance 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 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 statement of profit or loss in the period when they become known.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires that management estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

As stated in Note 9, based on the performance of Nord Farm Group for the first half year of 2017, it has been concluded that the goodwill that arose on its acquisition was impaired. As of 31 December 2017, no additional impairment of goodwill was identified.

Impairment of property, plant, and equipment

IFRS require that an entity assess at the end of each reporting period whether there is any indication that assets may be impaired. If any such indication exists, the Group shall estimate the recoverable amount of the asset to estimate the amount of loss the impairment (in case, impairment exist). Evaluation of whether the indications of impairment are present as of the reporting date, including analysis of both internal and external factors, requires that management apply judgment. No impairment has been recognized 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 life of an item of property, plant, and equipment is a matter of management's judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear, and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates, which are accounted for prospectively.

Net realizable value of inventories

In accordance with IAS 2 *Inventories*, inventories are carried at the lower of cost and net realizable value. In assessing net realizable 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; 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 realizable value (Note 10).

Measurement of the fair value of contingent consideration

The contingent consideration transferred by the Group within the framework of a business combination is classified as a financial liability.

In the course of measuring the fair value of the contingent consideration, the Group uses varied judgments:

- Estimated future revenue of Nord Farm Group;
- Estimated cash flows and achieving the margin of earnings before interest, taxes, depreciation, and amortization (EBITDA) by Nord Farm Group;
- Average weighted probability by all possible performance;
- A discount rate to reflect the time value of money.

The estimated fair value of the contingent consideration has been revised within the framework of the acquisition agreement's finalization (Note 8).

In Ukrainian Hryvnias and in thousands

6. PROPERTY, PLANT, AND EQUIPMENT

As of 31 December 2017 and 2016, movements in property, plant, and equipment were as follows:

Cost	Land	Buildings and constructions	Machinery and equipment	Vehicles	Office equipment	Other depreciable assets	Capital construction in progress and uninstalled equipment	Total
As of 31 December 2015	**4,513**	**569,329**	**1,116,482**	**122,968**	**64,050**	**3,613**	**564,461**	**2,445,416**
Additions	376	25,974	160,873	56,491	22,155	2,545	115,639	**384,053**
Additions in a business combination	-	1,826	-	6,580	40	-	777	**9,223**
Reclassifications	-	-	(1,056)	-	1,056	-	-	**-**
Transfers to investment property	-	-	(682)	-	(39)	-	-	**(721)**
Internal transfers	572	166,723	219,573	1,669	4,492	770	(393,799)	**-**
Effect of translation differences		(4)	(4)	33	-	-	15	**40**
Disposals	-	(494)	(1,199)	(5,452)	(1,687)	(48)	(226)	**(9,106)**
As of 31 December 2016	**5,461**	**763,354**	**1,493,987**	**182,289**	**90,067**	**6,880**	**286,867**	**2,828,905**
Additions	-	34,487	139,231	43,739	29,650	1,059	141,587	**389,753**
Transfers to investment property	-	-	-	148	(540)	(214)	-	**(606)**
Internal transfers	-	89,254	109,537	636	3,493	214	(203,134)	**-**
Effect of translation differences	-	1,069	130	2,542	71	-	-	**3,812**
Disposals	-	(512)	(2,305)	(13,926)	(1,267)	(296)	-	**(18,306)**
As of 31 December 2017	**5,461**	**887,652**	**1,740,580**	**215,428**	**121,474**	**7,643**	**225,320**	**3,203,558**

In Ukrainian Hryvnias and in thousands

Accumulated depreciation	Land	Buildings and constructions	Machinery and equipment	Vehicles	Office equipment	Other depreciable assets	Capital construction in progress and uninstalled equipment	Total
As of 31 December 2015	-	**(115,347)**	**(539,662)**	**(51,030)**	**(37,218)**	**(2,065)**	**-**	**(745,322)**
Depreciation charges	-	(22,532)	(110,011)	(30,907)	(17,844)	(893)	-	**(182,187)**
Transfers to investment property	-	-	648	-	25	-	-	**673**
Reclassifications	-	-	398	-	(398)	-	-	**-**
Effect of translation differences	-	-	-	(19)	-	-	-	**(19)**
Disposals	-	97	1,096	3,907	1,624	46	-	**6,770**
As of 31 December 2016	**-**	**(137,782)**	**(647,531)**	**(78,049)**	**(53,811)**	**(2,912)**	**-**	**(920,085)**
Depreciation charges	-	(29,089)	(143,845)	(30,256)	(20,668)	(1,022)	-	**(224,880)**
Transfers to investment property	-	-	-	(153)	-	-	-	**(153)**
Effect of translation differences	-	(483)	(75)	(1,458)	(20)	-	-	**(2,036)**
Disposals	-	107	2,173	11,126	1,158	268	-	**14,832**
As of 31 December 2017	**-**	**(167,247)**	**(789,278)**	**(98,790)**	**(73,341)**	**(3,666)**	**-**	**(1,132,322)**
Net book value								
As of 31 December 2016	**5,461**	**625,572**	**846,456**	**104,240**	**36,256**	**3,968**	**286,867**	**1,908,820**
As of 31 December 2017	**5,461**	**720,405**	**951,302**	**116,638**	**48,133**	**3,977**	**225,320**	**2,071,236**

In Ukrainian Hryvnias and in thousands

As of 31 December 2017, included in capital construction in progress and uninstalled equipment were mainly works and equipment on improvement of the operating production facilities in the city of Kyiv, in particular, expanding facilities on manufacturing solid drugs, ampule production, and storage facilities. In 2016, the Group put into operation the main part of the new plant in Shostka and launched the commercial production of active pharmaceutical ingredients in most areas of the plant.

Pledged assets

As of 31 December 2017 and 2016, the carrying amounts of the Group's property, plant, and equipment used as a collateral for loans and borrowings (Note 16) were as follows:

	2017	2016
Machinery and equipment	274,744	286,423
Buildings and constructions	163,471	312,378
Vehicles	5	30
Total	**438,220**	**598,831**

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 2017 at cost in the amount of UAH 183,794 thousand (2016: UAH 163,012 thousand) were fully depreciated but remained in use.

Finance leases

The carrying amounts of vehicles held under finance leases as of 31 December 2017 amounted to UAH 31,183 thousand (2016: UAH 13,192 thousand).

Prepayments for property, plant, and equipment

As of 31 December 2017 and 2016, prepayments for property, plant, and equipment were represented by prepaid construction works and equipment to improve and expand the operating production facilities on manufacturing solid drugs, ampule production, and storage facilities.

7. INTANGIBLE ASSETS

As of 31 December 2017 and 2016, movements in intangible assets were as follows:

	Software and licenses	Other intangible assets	Intangible assets in progress	Total
Cost				
As of 31 December 2015	**37,479**	**30,176**	**8,177**	**75,832**
Additions	14,983	5,729	31,197	**51,909**
Internal transfers	1,665	7,494	(9,159)	**-**
Disposals	(700)	(9,312)	-	**(10,012)**
As of 31 December 2016	**53,427**	**34,087**	**30,215**	**117,729**
Additions	4,998	11,754	32,966	**49,718**
Internal transfers	6,021	1,750	(7,771)	**-**
Effect of translation differences	-	175	-	**175**
Disposals	(182)	(3,957)	-	**(4,139)**
As of 31 December 2017	**64,264**	**43,809**	**55,410**	**163,483**

In Ukrainian Hryvnias and in thousands

	Software and licenses	Other intangible assets	Intangible assets in progress	Total
Accumulated amortization				
As of 31 December 2015	**(18,883)**	**(20,393)**	**-**	**(39,276)**
Amortization charges	(7,263)	(8,905)	-	**(16,168)**
Disposals	700	9,293	-	**9,993**
As of 31 December 2016	**(25,446)**	**(20,005)**	**-**	**(45,451)**
Amortization charges	(9,652)	(17,667)	-	**(27,319)**
Effect of translation differences	-	(34)	-	**(34)**
Disposals	182	3,957	-	**4,139**
As of 31 December 2017	**(34,916)**	**(33,749)**	**-**	**(68,665)**
Net book value				
As of 31 December 2016	**27,981**	**14,082**	**30,215**	**72,278**
As of 31 December 2017	**29,348**	**10,060**	**55,410**	**94,818**

Intangible assets in progress comprise costs directly related to acquisition and development of items of intangible assets, including software development in the amount of UAH 38,575 thousand and purchase of product specification files in the process of registration in the amount of UAH 16,835 thousand. Intangible assets in progress are neither amortized nor transferred to software and licenses or other intangible assets until they are ready for intended use.

Fully amortized assets

Items of intangible assets recorded as of 31 December 2017 at cost in the amount of UAH 32,110 thousand (2016: UAH 16,762 thousand) were fully amortized but remained in use.

8. ARRANGEMENTS ON ACQUISITION OF SUBSIDIARIES

On 3 February 2016, the Group acquired 100% of shares in KWW Kotkowski Wierzbicki Wegrzyn Sp. z o.o. which, in turn, owned 100% of shares in the company NORD FARM Sp. z o.o. (jointly, "Nord Farm Group").

Nord Farm Group is specializing in marketing and sales of pharmaceuticals, biologically active additives, and medications in the market of Poland. For the purpose of acquisition, the company, Farmak Invest Limited, was established under the laws of Cyprus.

Nord Farm Group was acquired within the framework of further extension of the Group's activities in the area of pharmaceutical distribution.

As of 31 December 2016, the initial accounting for the business combination was not completed, therefore, the consolidated financial statements for the year ended 31 December 2016 presented the provisional amounts of fair values of assets, liabilities, contingent consideration, and goodwill.

As of 31 December 2017, the initial accounting for the business combination was completed, and the provisional amounts of contingent consideration and goodwill presented in 2016 were adjusted.

Contingent consideration

Under the contingent consideration agreement within the framework of Nord Farm Group acquisition, the Group is obliged to pay to sellers an additional amount that will depend on revenue of Nord Farm Group for the period from 2016 to 2018 and value margin of earnings before interest, taxes, depreciation, and amortization (EBITDA) for 2018. The amount of this additional payment may range from nil to EUR 5.7 million. Considering the financial performance of Nord Farm Group, management expects that, as of 31 December 2018, the planned performance will not be achieved, thus, the Group will not have to pay the contingent consideration. However, the final amount of contingent consideration is subject to agreeing between the parties in future periods.

Management believes that the below facts and circumstances indicate that pre-planned performance indicators will hardly be achieved:

- The primary goal for acquiring Nord Farm Group was to obtain a quick access to the Polish market of drug store sales. The basis for calculating the contingent consideration amount was the estimated increase in sales volumes and profitability in the short-term perspective (3 years) as a result of the synergy effect of favorable positioning of distribution agents of Nord Farm Group in the local market and the extended portfolio of drugs represented by highly profitable and perspective products manufactured by PJSC "Farmak". During the measurement period, it turned out that the actual terms of drugs registration significantly exceeded the terms declared by the Polish regulatory bodies in respect of local/centralized phase (30 days) for registering pharmaceutical drugs, which led to a significant delay in bringing drugs to the market of Poland.
- The decision to extend to the market of Poland also considered the unification of the laws of Ukraine and the European Union regarding a simplified registration of pharmaceutical drugs. However, a part of drugs that had been earlier included into the group of drugs that could apply a simplified system of registration were not registered within the period set. The laws of the European Union in the area of drugs' registration are characterized by complexity of treatment, which, in turn, resulted in disputable interpretations of regulations and requirements regarding classification and, correspondingly, scope and quality of the clinic researches. As a result, the registration was postponed for an indefinite period of time.

Due to these facts and circumstances, the Group revised the fair value of contingent consideration on acquisition of Nord Farm Group from UAH 69,529 thousand to nil. As a result, total consideration amount decreased from UAH 260,058 thousand (before adjustments) to UAH 190,529 thousand upon adjustments. At the same time, the fair value of net assets remained unchanged. The goodwill that occurred from acquisition of Nord Farm Group decreased from UAH 254,852 thousand to UAH 185,323 thousand upon all adjustments made.

Changes in the fair value of contingent consideration were recognized as the measurement period adjustments and recorded retrospectively at the cost of decrease in goodwill (by the amount of UAH 69,529 thousand), which led to a respective adjustment of foreign currency translation effect (by the amount of UAH 286 thousand) and the financial result in part of discounting (by the amount of UAH 7,523 thousand) and foreign exchange differences (by the amount of UAH 535 thousand) for the year ended 31 December 2016. Adjustments arose due to the supplementary information obtained during the measurement period regarding facts and circumstances that existed at the date of acquisition.

Obligations as a result of business combination

Under the agreement on acquisition of Nord Farm Group, the Group is obliged to pay to sellers an additional consideration of EUR 300 thousand in 2018, which is irrevocable and does not depend on the achieved performance described above. Management recognized, at the acquisition date, deferred liabilities in the amount of UAH 6,901 thousand and revalued the estimated fair value of those liabilities in the amount of UAH 7,700 thousand and UAH 10,049 thousand as of 31 December 2016 and 2017, respectively, at the discount rate of 10.7%. Other key assumptions regarding future cash flows used by management for estimating the contingent consideration are disclosed in Note 31.

In Ukrainian Hryvnias and in thousands

Acquired assets and recognized liabilities at the acquisition date

	Nord Farm Group
Non-current assets	
Property, plant, and equipment	9,223
Deferred tax assets	2,171
Current assets	
Inventories	69,101
Trade and other accounts receivable	98,669
Prepayments made	488
Taxes recoverable and prepaid, other than income tax	4,727
Cash and cash equivalents	256
Other current assets	421
Non-current liabilities	
Finance lease obligations	(1,433)
Deferred tax liabilities	(147)
Current liabilities	
Loans and borrowings	(15,016)
Trade and other accounts payable	(154,732)
Income taxes payable	(483)
Finance lease obligations	(3,703)
Taxes payable, other than income tax	(4,336)
Total cost of net assets	**5,206**

Goodwill has arisen as a result of acquisition of Nord Farm Group, because cost of business combination included a control premium. In addition, the amount paid for business combination actually included the amounts related to benefits of expected synergy, revenue growth, future market development, and combination of the working potential capacity of Nord Farm Group and the Group. These benefits are not recognized separately from goodwill, since they do not meet the recognition criteria for identifiable intangible assets.

No goodwill arising from these acquisitions is expected to be included in deductible expenses for taxation purposes.

Net disposal of cash as a result of acquisition of subsidiaries

	2016
Consideration paid in cash	183,628
Less: Acquired cash balances and cash equivalents	(256)
Total	**183,372**

Effect of acquisitions on the Group's performance

Included in the Group's profits for 2016 was the amount of UAH 554 thousand generated from additional business activities of Nord Farm Group. Revenue for the year amounted to UAH 501,357 thousand relating to operations of Nord Farm Group.

In Ukrainian Hryvnias and in thousands

Had the transactions of Nord Farm Group acquisition taken place as of 1 January 2016, the Group's revenue would have amounted to UAH 5,156,071 thousand, and profit would have amounted to UAH 677,527 thousand. Management believes that these "estimated" figures reflect the approximate performance of the combined Group for the year and may be used as a basis for comparison in future periods.

9. GOODWILL

As of 31 December 2017, goodwill was as follows:

	2017	2016 After the measurement period adjustments	2016 Before the measurement period adjustments
Cost	203,217	186,090	255,905
Accumulated impairment losses	(156,909)	-	-
	46,308	**186,090**	**255,905**

Cost	2017	2016	2016
As of 1 January	**186,090**	-	-
Amounts recognized as a result of business combination (Note 8)	-	185,323	254,852
Effect of foreign exchange differences	17,127	767	1,053
As of 31 December	**203,217**	**186,090**	**255,905**

The increase in cost from UAH 186,090 thousand to UAH 203,217 thousand as of 31 December 2017 was due to the effect of exchange differences that arose as a result of translation of the functional currency Polish Zloty ("PLZ") to the presentation currency Ukrainian Hryvnia ("UAH").

Accumulated impairment losses	2017
As of 1 January	-
Impairment losses recognized during the year (Note 25)	(161,630)
Effect of foreign exchange differences	4,721
As of 31 December	**(156,909)**

For impairment testing, goodwill was fully included in Nord Farm Group as a separate cash-generating unit.

In 2017, the Group recognized losses on impairment of goodwill. The decision on assessing goodwill for impairment was taken based on negative result caused by failure to fulfill sales plans for the first half year of 2017.

Negative financial results and failure to fulfill sales plans were related to overestimated expectations from the synergy effect of combination of the Group's working capacity, and the methods selected for promoting new products in the market of Poland by Nord Farm Group turned out not to deliver expectations. In the first half year of 2017, the Group conducted an advertising campaign in Poland, which did not lead to the expected results of growth in sales volumes. Thus, management decided to revise downward the estimated future cash flows that had been used for calculating the recoverable amount of Nord Farm Group.

In Ukrainian Hryvnias and in thousands

The recoverable amount of Nord Farm Group, for the purpose of impairment testing based on the results for the first half year of 2017 and as of 31 December 2017, has been calculated using the estimated cash flows in accordance with the five-year plan approved by management and the discount rate of 13.31% per annum. Cash flows upon expiration of this period have been extrapolated on the basis of the consistent growth rate of 2.50%. The said growth rate does not exceed the average estimated long-term growth rate of the pharmaceutical market of Poland. Management believes that any estimated change in key assumptions regarding estimation of the recoverable amount will not lead to the excess of the carrying value of the cash-generating unit over its recoverable amount.

Summarized below are key assumptions used in calculation of the recoverable amount of Nord Farm Group:

Planned revenue	Average revenue for the period immediately preceding the period of projection is decreased for the effect of discontinuance of low-margin products and change in sales structure. Management estimates that the planned average annual revenue drop rate compared to the actual average revenue preceding the period of projection will amount to 4.5%. However, effective from 2019, volumes of sales are planned to grow.
Planned gross profit	Average gross profit for the period immediately preceding the period of projection is increased with reference to estimated changes in sales structure. Management estimates that the average gross profit growth rate of 5% is achievable.
Change in procurement prices and inflation rates	Projected consumer price indices in Poland and Ukraine during the planning period. Index figures are estimated by management based on the actual data for the period immediately preceding the period of projection and forecasts obtained from external sources for the relevant period.

No additional impairment of goodwill based on the results of the impairment assessment as of 31 December 2017 was identified.

10. INVENTORIES

As of 31 December 2017 and 2016, inventories were as follows:

	2017	2016
Finished goods	398,524	278,450
Raw materials	329,061	293,615
Packaging materials	145,601	133,049
Work in progress	85,175	78,849
Merchandise for resale	74,502	82,847
Other inventories	18,458	12,737
Total	**1,051,321**	**879,547**

Cost of inventories recognized as expense and included in cost of sales (Note 21) for the year ended 31 December 2017 amounted to UAH 1,615,206 thousand (2016: UAH 1,384,462 thousand).

The amount of inventory write-downs recognized in other operating expense (Note 25) for the year ended 31 December 2017 was UAH 22,444 thousand (2016: UAH 16,007 thousand). Such write-downs relate to raw materials and finished goods and are recognized based on results of stock counts and quality inspections performed by the Group.

In Ukrainian Hryvnias and in thousands

11. TRADE AND OTHER ACCOUNTS RECEIVABLE

As of 31 December 2017 and 2016, trade and other accounts receivable were as follows:

	2017	2016
Trade accounts receivable	1,185,461	979,590
Other accounts receivable	45,722	94,814
	1,231,183	**1,074,404**
Allowance for impairment of accounts receivable	(49,925)	(34,152)
Total trade and other accounts receivable	**1,181,258**	**1,040,252**

As of 31 December 2017, trade and other accounts receivable included outstanding balances with related parties in the amount of UAH 79,533 thousand (2016: UAH 95,215 thousand) (Note 28).

No interest is charged on trade accounts receivable. The credit period on sales of goods was generally 30-120 days in 2017 (2016: 30-120 days).

As of 31 December 2017 and 2016, the aging analysis of accounts receivable was as follows:

				Past due but not impaired			
	Total	Impaired accounts receivable	Neither past due nor impaired	Up to 3 months	3-6 months	6-12 months	Over 12 months
2017	**1,231,183**	49,925	1,048,481	116,073	2,116	8,408	6,180
2016	**1,074,404**	34,152	860,920	145,191	15,004	9,624	9,513

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 recognized an allowance for impairment because there has not been a significant change in credit quality, and the amounts are still considered recoverable.

As of 31 December 2017 and 2016, the aging analysis of impaired accounts receivable was as follows:

	2017	2016
6-12 months	5,761	-
Over 12 months	44,164	34,152
Total	**49,925**	**34,152**

Movements in the allowance for impairment of accounts receivable for the years ended 31 December 2017 and 2016 were as follows:

	2017	2016
As of 1 January	**34,152**	**29,066**
Impairment losses recognized in respect of accounts receivable	12,868	4,031
Write-offs of irrecoverable amounts during the year	-	-
Losses on translation differences	2,905	1,553
Accounts receivable reimbursed	-	(498)
As of 31 December	**49,925**	**34,152**

In Ukrainian Hryvnias and in thousands

12. PREPAYMENTS MADE

As of 31 December 2017 and 2016, prepayments made were as follows:

	2017	2016
Prepayments to suppliers for raw materials	37,005	25,266
Prepayments to suppliers for services	18,657	13,664
Deferred expense	6,339	2,779
	62,001	**41,709**
Allowance for impairment of prepayments made	(329)	(250)
Total	**61,672**	**41,459**

As of 31 December 2017, included in prepayments made were balances with related parties in the amount of UAH 736 thousand (2016: UAH 6,970 thousand) (Note 28).

13. TAXES RECOVERABLE AND PREPAID, OTHER THAN INCOME TAXES

As of 31 December 2017 and 2016, taxes recoverable and prepaid were as follows:

	2017	2016
VAT recoverable	38,539	42,309
Other taxes	15,498	402
Total	**54,037**	**42,711**

Subsequent to the reporting date 31 December 2017, the Group received VAT recoverable in the amount of UAH 35,602 thousand.

14. CASH AND CASH EQUIVALENTS

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

As of 31 December 2017 and 2016, cash and cash equivalents were as follows:

	2017	2016
Cash on hand and with banks	41,947	36,844
Short-term bank deposits	12,000	7,176
Total	**53,947**	**44,020**

Balances of cash with banks earned interest income at floating rates based on daily bank deposit rates. As of 31 December 2017 and 2016, short-term bank deposits were represented by deposits on demand and overnight.

In Ukrainian Hryvnias and in thousands

15. SHARE CAPITAL

As of 31 December 2017 and 2016, authorized, 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 2017, the carrying amount of the Group's share capital amounted to UAH 54,352 thousand (UAH 54,479 thousand as of 31 December 2016), being the original share capital amount adjusted for the effect of historical hyperinflation under IAS 29 in the amount of UAH 21,284 thousand, less a holding of shares in the amount of UAH 3,298 thousand repurchased by the Group's subsidiary, LLC "Farmakhim".

As of 31 December 2017 and 2016, the ownership structure of the Group's share capital was as follows:

	2017		2016	
	Number of shares	Ownership interest, %	Number of shares	Ownership interest, %
Immediate shareholders:				
FARMAK GROUP N.V.	4,945,090	67.99%	4,945,090	67.99%
Individuals (< 2% individually)	768,635	10.57%	839,078	11.54%
Foyil Capital Limited	508,552	6.99%	508,552	6.99%
Farmak International Holding GmbH	420,364	5.78%	420,364	5.78%
LLC "Farmakhim"	415,946	5.72%	400,026	5.50%
Legal entities (< 2% individually)	137,590	1.89%	135,749	1.87%
F.I. & P. Holdings Limited	77,023	1.06%	24,341	0.33%
Total	**7,273,200**	**100.00%**	**7,273,200**	**100.00%**

Dividends

In April 2017, the General Shareholders' Meeting approved distribution of dividends for the year ended 31 December 2016 in the amount of UAH 4.60 per share for the total amount of UAH 33,457 thousand. In April 2016, the General Shareholders' Meeting approved distribution of dividends for the year ended 31 December 2015 in the amount of UAH 3.03 per share for the total amount of UAH 22,038 thousand.

Treasury shares repurchased

In 2017, the Group's subsidiary, LLC "Farmakhim", repurchased shares of PJSC "Farmak" from one of the minority shareholders of PJSC "Farmak" in the number of 15,920 shares, which constituted 0.22% of the Group's share capital. The fair value of treasury shares amounted to UAH 8,510 thousand, and the excess of fair value of treasury shares over their nominal value was recognized directly in equity in the consolidated statement of changes in equity in the amount of UAH 8,383 thousand.

In November 2016, the Group's subsidiary, LLC "Farmakhim", repurchased shares of PJSC "Farmak" from one of the equity holders of PJSC "Farmak", Farmak International Holding GmbH, in the number of 400,026 shares, which constituted 5.5% of the Group's share capital. The fair value of treasury shares amounted to UAH 198,058 thousand, and the excess of fair value of treasury shares over their nominal value was recognized directly in equity in the consolidated statement of changes in equity in the amount of UAH 194,887 thousand.

In Ukrainian Hryvnias and in thousands

16. LOANS AND BORROWINGS

As of 31 December 2017 and 2016, outstanding loans and borrowings were as follows:

Secured loans and borrowings:	**Currency**	**2017**	**2016**
Credit line facilities from Ukrainian banks	USD	190,609	479,909
Credit line facilities from Ukrainian banks	EUR	133,967	-
Borrowings from EBRD[1)]	EUR	143,968	398,923
Borrowing from a foreign bank	PLZ	16,148	9,947
Borrowing from a related party	EUR	15,199	2,011
Total loans and borrowings		**499,891**	**890,790**
Less: Short-term loans and borrowings and current portion of long-term loans and borrowings		(497,627)	(642,520)
Long-term loans and borrowings		**2,264**	**248,270**

[1)] During the year ended 31 December 2017, the Group repaid a part of the borrowing under the loan agreement with the European Bank for Reconstruction and Development ("EBRD") in the amount of EUR 9,714 thousand, as a result of which total amounts outstanding under the loan agreement with EBRD as of 31 December 2017 amounted to EUR 4,286 thousand.

Loan agreements with EBRD have established limitations on disposal of assets and distribution of dividends by the Company, and other restrictions on the Group's activities. In addition, certain financial covenants are stipulated for under the terms and conditions of those loan agreements. For the years ended 31 December 2017 and 2016, the Group was in compliance with those covenants.

In 2017, average weighted interest rates on foreign currency denominated borrowing facilities of the Groups were represented as follows: for USD-denominated borrowings – 5.72%, for EUR-denominated borrowings – 4.4%, and for PLZ-denominated borrowings – 3.71%. The similar information for 2016 was as follows: for USD-denominated borrowings – 7.57%, for EUR-denominated borrowings – 6%, and for PLZ-denominated borrowings – 3.46%. The table below summarizes the Group's loans and borrowings attracted at fixed and floating interest rates as of 31 December 2017 and 2016:

	2017	**2016**
Floating interest rates	350,725	820,802
Fixed interest rates	149,166	69,988
Total	**499,891**	**890,790**

As of 31 December 2017 and 2016, the loans and borrowings were secured by the following types of assets pledged:

	2017	**2016**
Property, plant, and equipment (Note 6)	438,220	598,831
Finished goods (Note 10)	-	150,833
Investment property	17	30
Total	**438,237**	**749,694**

In addition, as of 31 December 2017, future cash proceeds on sales were used as a collateral under loan agreements for the total amount of UAH 40,000 thousand (2016: UAH 35,000 thousand).

In Ukrainian Hryvnias and in thousands

Credit line agreements entered into with domestic banks also establish requirements to certain financial ratios and contain the condition of cross default, when a failure to comply with one debt obligation is treated as default in respect of the other. For the years ended 31 December 2017 and 2016, the Group was in compliance with those covenants and did not breach the condition of cross default.

Undrawn credit line facilities available to the Group as well as contractual maturity profile of the Group's borrowings are disclosed in Note 30.

17. DEFINED BENEFIT OBLIGATIONS

Reconciliation of present value of retirement and other non-current employee benefit obligations for the years ended 31 December 2017 and 2016 was as follows:

	2017	2016
Balance at the beginning of the year	**31,846**	**22,502**
Including:		
Non-current obligations	28,566	20,331
Current obligations	3,280	2,171
Current service cost	2,970	930
Interest expense	5,732	4,051
Past service cost	50,551	5,051
Actuarial losses recognized in other comprehensive income	24,085	1,517
Benefits paid during the year	(8,327)	(2,205)
Balance at the end of the year	**106,857**	**31,846**
Including:		
Non-current obligations	91,777	28,566
Current obligations (Note 18)	15,080	3,280

The amounts recognized in profit or loss in respect of defined benefit obligations were as follows:

	2017	2016
Interest expense	5,732	4,051
Current service cost	2,970	930
Past service cost	50,551	5,051
Total	**59,253**	**10,032**

During the year ended 31 December 2017, the Group included in other comprehensive income actuarial losses in the amount of UAH 24,085 thousand (2016: UAH 1,517 thousand).

Key assumptions used for actuarial valuation as of 31 December 2017 and 2016 were as follows:

	31 December 2017	31 December 2016
Discount rate	14%	18%
Estimated payroll growth rate	8%	8%

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

In Ukrainian Hryvnias and in thousands

18. TRADE AND OTHER ACCOUNTS PAYABLE

As of 31 December 2017 and 2016, trade and other accounts payable were as follows:

	2017	2016
Trade accounts payable for:		
Raw materials	371,663	383,244
Services	133,511	119,904
Property, plant, and equipment and intangible assets	42,190	15,389
	547,364	**518,537**
Other accounts payable:		
Payables to employees	168,998	157,884
Accrued liabilities	27,016	34,551
Current portion of retirement and other non-current employee benefit obligations (Note 17)	15,080	3,280
Advances received	4,550	1,824
Other accounts payable	8,072	7,254
	223,716	**204,793**
Total	**771,080**	**723,330**

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

As of 31 December 2017, included in trade accounts payable of the Group for raw materials and services were balances with related parties in the amount of UAH 115,081 thousand (2016: UAH 63,054 thousand) (Note 28).

As of 31 December 2017, included in the Group's payables to employees were balances with the Group's key management personnel in the amount of UAH 12,461 thousand (2016: UAH 22,960 thousand) (Note 28).

As of 31 December 2017, included in accrued liabilities were royalties payable to related parties (key management personnel) in the amount of UAH 6,681 thousand (2016: UAH 5,138 thousand) (Note 28).

19. INCOME TAX EXPENSE

Components of income tax expense for the reporting years ended 31 December 2017 and 2016 comprised the following:

	2017	2016
Current income tax		
Current income tax expense	235,981	144,710
Deferred income tax		
Deferred income tax expense	7,105	8,111
Total income tax expense	**243,086**	**152,821**

The Group's profit was subject to taxation in Ukraine and in Poland. During the year ended 31 December 2017, the Group was subject to corporate income tax at the rate of 18% in Ukraine and 19% in Poland (2016: 18% in Ukraine and 19% in Poland).

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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:

	2017	2016
Profit before income tax	**1,082,176**	**830,022**
Income tax expense at the statutory tax rates of 18%	194,792	149,404
Effect of non-deductible expenses, net	39,562	2,974
Effect of differences in tax rates in different countries	8,732	443
Total income tax expense	**243,086**	**152,821**

As of 31 December 2017 and 2016, deferred tax assets and liabilities related to the following:

31 December 2017	At the end of the year	Reported in profit or loss	Acquired in a business combination	At the beginning of the year
Trade and other accounts receivable	8,445	1,963	-	6,482
Trade and other accounts payable, other non-current liabilities	5,796	783	-	5,013
Inventories	1,470	(146)	-	1,616
Property, plant, and equipment	7,290	(9,906)	-	17,196
Prepayments made	59	201	-	(142)
Deferred income tax expense		**(7,105)**		
Net deferred tax assets	**23,060**		**-**	**30,165**

31 December 2016	At the end of the year	Reported in profit or loss	Acquired in a business combination	At the beginning of the year
Trade and other accounts receivable	6,482	(1,045)	1,215	6,312
Trade and other accounts payable, other non-current liabilities	5,013	(341)	809	4,545
Inventories	1,616	832	-	784
Property, plant, and equipment	17,196	(7,557)	-	24,753
Prepayments made	(142)	-	-	(142)
Deferred income tax expense		**(8,111)**		
Net deferred tax assets	**30,165**		**2,024**	**36,252**

20. REVENUE

Revenue for the years ended 31 December 2017 and 2016 was as follows:

	2017	2016
Revenue from sales of finished goods	5,557,629	4,583,154
Revenue from sales of merchandise for resale	484,959	514,824
Other revenue	42,093	14,374
Total	**6,084,681**	**5,112,352**

For the year ended 31 December 2017, included in revenue from sales of finished goods were sales to related parties in the amount of UAH 23,727 thousand (2016: UAH 26,355 thousand) (Note 28).

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21. COST OF SALES

Cost of sales for the years ended 31 December 2017 and 2016 was as follows:

	2017	2016
Raw materials and supplies (Note 10)	1,615,206	1,384,462
Cost of merchandise for resale	355,570	335,410
Staff costs	279,612	275,911
Royalties	137,691	114,879
Depreciation and amortization	134,917	110,148
Repairs and maintenance of property, plant, and equipment	90,720	81,402
Energy, water, and other utilities expenses	89,364	79,571
Other expense	20,583	16,712
Total	**2,723,663**	**2,398,495**

Royalties

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 2017, royalties to the Group's key management personnel amounted to UAH 43,835 thousand (2016: UAH 37,711 thousand) (Note 28).

22. SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses for the years ended 31 December 2017 and 2016 were as follows:

	2017	2016
Marketing and advertising expenses	520,551	466,727
Staff costs	315,301	277,873
Representative office costs	166,373	164,799
Transportation expenses	111,182	102,611
Depreciation and amortization	43,025	26,651
Registration fees	37,079	33,071
Maintenance of property, plant, and equipment	23,047	10,923
Changes in allowance for impairment and write-offs of accounts receivable	11,693	1,100
Other expense	9,437	10,547
Total	**1,237,688**	**1,094,302**

Representative office costs for the year ended 31 December 2017 included staff costs related to employees of such representative offices in the amount of UAH 123,719 thousand (2016: UAH 112,097 thousand).

Marketing and advertising expenses for the year ended 31 December 2017 included income taxes of non-residents providing advertising services in the amount of UAH 14,082 thousand (2016: UAH 11,136 thousand).

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23. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December 2017 and 2016 were as follows:

	2017	2016
Staff costs	386,504	296,252
Maintenance of property, plant, and equipment	42,998	43,350
Depreciation and amortization	38,271	33,264
Consulting and other professional services	25,612	32,511
Taxes, other than income tax	17,426	21,730
Bank charges	7,394	7,933
Transportation expenses	6,069	4,044
Communication services	3,186	8,637
Other expense	18,715	19,512
Total	**546,175**	**467,233**

24. RESEARCH AND DEVELOPMENT COSTS

Research and development costs of the Group for the years ended 31 December 2017 and 2016 were represented by costs on: preclinical and clinical trials related to generic drugs, and preclinical and clinical trials in respect of self-developed drug.

25. OTHER OPERATING EXPENSE

Other operating expense for the years ended 31 December 2017 and 2016 was as follows:

	2017	2016
Impairment of goodwill (Note 9)	161,630	-
Charity and donations	34,982	16,993
Loss on write down of raw materials and finished goods (Note 10)	22,444	16,007
Net gain on disposal of property, plant, and equipment and intangible assets, net	(4,155)	(973)
Fines and penalties	1,189	1,297
Change in allowance for impairment and write-offs of accounts receivable	1,175	(276)
Other expenses	2,354	240
Total	**219,619**	**33,288**

26. FINANCE COSTS

Finance costs for the years ended 31 December 2017 and 2016 were as follows:

	2017	2016
Interest expense on loans and borrowings	40,155	58,578
Finance lease costs	2,651	2,009
Other expense	9,276	5,567
Less: Amounts included in initial cost of qualifying assets	(654)	(15,674)
Total	**51,428**	**50,480**

For qualifying assets, the weighted average capitalization rate of the funds borrowed during the year ended 31 December 2017 amounted to 5.8% (2016: 7.27%).

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27. CONTRIBUTIONS TO THE STATE PENSION FUND

The vast majority of the Group's employees receive pensions from the state in accordance with the statutory regulations of Ukraine. Contributions to the State Pension Fund of Ukraine are recorded in the consolidated statement of profit or loss and other comprehensive income using an accrual method. Total amount of contributions to the State Pension Fund recorded in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2017 and 2016 amounted to UAH 128,274 thousand and UAH 106,751 thousand, respectively, and was included in cost of sales, selling and distribution expenses, general and administrative expenses, and research and development costs.

28. RELATED PARTY DISCLOSURES

Related parties are represented by entities under common control, associate, and other related parties (family members of the Ultimate controlling party). Terms of operations with related parties are determined on the basis of the specific terms and conditions inherent in each agreement or transaction and may differ from those used for third parties.

The Group's transactions with its related parties for the years ended 31 December 2017 and 2016 were as follows:

	Revenue from sales of finished goods	Rental income	Purchase of raw materials and supplies	Purchase of services
2017				
Entities under common control	-	770	(555,031)	(81,155)
Associate	22,127	-	-	-
Other related parties (family members of the Ultimate controlling party)	1,600	521	(12,031)	(10,082)
Total	**23,727**	**1,291**	**(567,062)**	**(91,237)**
2016				
Entities under common control	-	792	(469,161)	(66,533)
Associate	14,216	-	-	(275)
Other related parties (family members of the Ultimate controlling party)	12,139	512	(13,794)	(11,084)
Total	**26,355**	**1,304**	**(482,955)**	**(77,892)**

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 performed on 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 related parties comprised mainly royalties, purchases of repair and construction services.

Charities to other related parties for the year ended 31 December 2017 amounted to UAH 32,850 thousand (2016: UAH 15,029 thousand).

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As of 31 December 2017 and 2016, the Group's outstanding balances with its related parties were as follows:

	Trade and other accounts receivable	Prepayments made	Trade and other accounts payable
2017			
Entities under common control	65,021	-	113,586
Associate	8,231	-	-
Other related parties (family members of the Ultimate controlling party)	6,281	736	1,495
Total	**79,533**	**736**	**115,081**
2016			
Entities under common control	83,050	-	60,862
Associate	3,505	-	-
Other related parties (family members of the Ultimate controlling party)	8,660	6,970	2,192
Total	**95,215**	**6,970**	**63,054**

As of 31 December 2017, trade and other accounts receivable from entities under common control included the amount of UAH 64,781 thousand due from the Company's equity holder, Farmak International Holding GmbH (2016: UAH 82,505 thousand).

Treasury shares repurchased

During the year ended 31 December 2017, the Group repurchased 5.72% of own shareholder's capital from the Company's equity holders (Note 15).

Balances and transactions with the Group's key management personnel

Key management personnel of the Group consist of the Company's Chief Executive Officer, members of the Board of Directors, and members of the Supervisory Board. As of 31 December 2017, key management personnel totaled to 14 persons (2016: 11 persons).

Short-term benefits to key management personnel for the year ended 31 December 2017 amounted to UAH 164,880 thousand (2016: UAH 115,748 thousand).

As of 31 December 2017, balances of the Group's liabilities to key management personnel amounted to UAH 19,110 thousand (2016: UAH 28,051 thousand).

As of 31 December 2017, some members of key management personnel were entitled to post-employment defined benefit plans. The amounts of such benefits as of 31 December 2017 in the amount of UAH 96,220 thousand were included in defined benefit obligations (2016: UAH 25,647 thousand).

29. CONTINGENCIES AND CONTRACTUAL COMMITMENTS

Taxation

Ukraine's tax environment is characterized by complexity in tax administering, arbitrary interpretation by tax authorities of tax laws and regulations that, inter alia, can increase fiscal pressure on taxpayers. Inconsistent application, interpretation, and enforcement of tax laws can lead to litigation, which, as a consequence, may result in the imposition of additional taxes, fines and penalties, and these amounts could be material. Management believes that the Company has been in compliance with all requirements of the effective tax legislation.

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, fines and penalties. Management of the Group believes that its interpretation of the tax legislation is appropriate, and that the Group has accrued and paid all taxes and withholdings in accordance with current legislation. 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 2017 and 2016 to be immaterial for the purposes of these consolidated financial statements. Key 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.

Transfer pricing

The Group imports goods and purchases services, which may potentially be in the scope of the Ukrainian transfer pricing ("TP") regulations. The Group submitted the controlled transaction report for the year ended 31 December 2016 within the required deadline. Management believes that the Company prepared all necessary documentation on controlled transactions for the year ended 31 December 2016 as required by the legislation and continues preparing them for the year ended 31 December 2017. The report on controlled transactions for the year ended 31 December 2017 shall be prepared by the Company by 1 October 2018.

Management believes that the Company is in compliance with TP requirements. As the practice of implementation of the transfer pricing rules has not yet developed, and wording of some terms of the rules may cause contradictions as a result of various interpretations, the impact of challenge of the Company's transfer pricing positions by the tax authorities cannot be reliably estimated.

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 2017, the Group had outstanding commitments in respect of purchases of property, plant, and equipment for the total amount of UAH 249,081 thousand (2016: UAH 116,882 thousand).

In Ukrainian Hryvnias and in thousands

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments comprise cash and cash equivalents, trade and other accounts receivable, investments in associate, loans and borrowings, finance lease obligations, and trade and other accounts payable.

The Group did not enter 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 analyses and agrees policies for managing each of those risks, which are summarized below.

Market risk

The Group's activities expose it primarily to the financial risks as a result 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 due to 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 Ukrainian entities of the Group.

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

	EUR	USD	RUB	PLZ
As of 31 December 2017	33.4954	28.0672	0.4870	8.0117
As of 31 December 2016	28.4226	27.1909	0.4511	6.4390

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	
	2017	2016	2017	2016	2017	2016
Financial assets						
Cash and cash equivalents	6,291	11,824	3,030	-	10,321	2,324
Trade and other accounts receivable	197,142	245,597	119,398	61,843	15,642	13,377
Total financial assets	**203,433**	**257,421**	**122,428**	**61,843**	**25,963**	**15,701**
Financial liabilities						
Loans and borrowings	190,609	479,909	-	-	293,134	400,827
Finance lease obligations	23,557	13,056	-	-	-	-
Trade and other accounts payable	122,098	73,778	1,381	3,894	114,171	137,818
Liabilities as a result of business combination	-	-	-	-	10,049	7,700
Total financial liabilities	**336,264**	**566,743**	**1,381**	**3,894**	**417,354**	**546,345**
Total net position	**(132,831)**	**(309,322)**	**121,047**	**57,949**	**(391,391)**	**(530,644)**

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Foreign currency denominated short-term and long-term loans and 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 table below discloses the Group's sensitivity to a 15% increase in UAH exchange rate against relevant foreign currencies, with all other variables remaining unchanged. 15% 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 15% change in foreign currency exchange rates.

A positive value below indicates an increase in profit where UAH devaluates by 15% against the relevant currency. A negative value below indicates a decrease in profit where UAH devaluates by 15% against the relevant currency. For a 15% 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.

2017	**Devaluation of UAH**	**Effect on profit before income tax**
UAH/EUR	15.00%	(56,813)
UAH/USD	15.00%	(19,925)
UAH/RUB	15.00%	18,157

2016	**Devaluation of UAH**	**Effect on profit before income tax**
UAH/EUR	25.00%	(132,661)
UAH/USD	25.00%	(77,331)
UAH/RUB	25.00%	14,487

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 received at 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 has 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 table below discloses impact on profit before income tax if interest rates change and all other variables remain constant.

2017	**Increase/ (decrease) in basis points**	**Effect on profit before income tax**
Change in interest rate EURIBOR	100	(1,440)
Change in interest rate EURIBOR	(25)	360
Change in interest rate LIBOR	100	(1,906)
Change in interest rate LIBOR	(25)	477

In Ukrainian Hryvnias and in thousands

2016	Increase/ (decrease) in basis points	Effect on profit before income tax
Change in interest rate EURIBOR	100	(3,989)
Change in interest rate EURIBOR	(25)	997
Change in interest rate LIBOR	100	(4,119)
Change in interest rate LIBOR	(25)	1,030

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 using credit terms provided by suppliers and banks.

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

The table below summarizes the original contractual maturity profile of the Group's financial liabilities as of 31 December 2017 and 2016 on agreements based on undiscounted payments:

2017	Weighted average effective interest rate	On demand	Up to 3 months	3-6 months	6-12 months	1-5 years	Total
Loans and borrowings	4.88%	-	241,359	199,261	61,527	2,578	**504,725**
Finance lease obligations	26.47%	-	5,195	5,171	10,285	10,157	**30,808**
Trade and other accounts payable	n/a	171,537	527,465	22,368	45,161	-	**766,531**
Defined benefit obligations	n/a	-	-	-	15,080	91,777	**106,857**
Liabilities as a result of business combination	n/a	-	-	-	-	10,049	**10,049**
Guarantees issued	n/a	-	609	35	71	1,521	**2,236**
Total		**171,537**	**774,628**	**226,835**	**132,124**	**116,082**	**1,421,206**

2016	Weighted average effective interest rate	On demand	Up to 3 months	3-6 months	6-12 months	1-5 years	Total
Loans and borrowings	6.18%	-	484,951	59,353	116,543	258,138	**918,985**
Finance lease obligations	24.64%	-	2,563	2,257	4,273	13,328	**22,421**
Trade and other accounts payable	n/a	171,420	532,984	849	16,253	-	**721,506**
Defined benefit obligations	n/a	-	-	-	3,280	28,566	**31,846**
Other non-current liabilities	n/a	-	-	-	-	7,700	**7,700**
Guarantees issued	n/a	-	52	52	104	2,237	**2,445**
Total		**171,420**	**1,020,550**	**62,511**	**140,453**	**309,969**	**1,704,903**

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

The Group has access to credit line facilities, of which UAH 509,420 thousand were undrawn as of 31 December 2017 (2015: UAH 268,918 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. As of 31 December 2017, the Group's maximum exposure to credit risk amounted to UAH 1,235,205 thousand (2016: UAH 994,458 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 cash and cash equivalents are placed. The credit risk of 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.

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

Revenue after deduction of discounts and rebates from the top six customers in 2017 amounted to UAH 3,389,253 thousand (2016: UAH 2,736,772 thousand), with the balances on settlements with those customers as of 31 December 2017 amounted to UAH 611,557 thousand (2016: UAH 400,692 thousand).

The Group has no significant credit risk exposure to any of its counterparties. Concentration of credit risk in respect of any counterparty did not exceed 17% of the total amount of monetary assets during the year.

In addition, the Group is exposed to credit risk in relation to financial guarantees provided by the Group. The 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 sources of funding. The Group's objectives, when managing capital, are to ensure the ability to provide returns to the shareholders and benefits to other stakeholders as well as to provide for financing of the Group operations.
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.

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	2017	2016
Loans and borrowings (Note 16)	499,891	890,790
Finance lease obligations	25,295	18,117
Cash and cash equivalents (Note 14)	(53,947)	(44,020)
Net debt	**471,239**	**864,887**
Total equity	3,375,726	2,591,083
Equity and net debt	**3,846,965**	**3,455,970**
Gearing ratio	**12.2%**	**25.0%**

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

31. 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 informed, interested and independent parties, other than in a forced sale or liquidation.

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

	Carrying amounts		Fair value	
	2017	2016	2017	2016
Financial liabilities (current and non-current)				
Loans and borrowings	499,891	890,790	499,451	892,369
Finance lease obligations	25,295	18,117	28,843	15,034

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 market interest rates available to the Group for similar financial instruments. Future cash flows are measured, directly or indirectly, on the basis of observable inputs.

Deferred liabilities (Note 8)

To reflect time value of money, liabilities have been discounted at the discount rate of 10.7% per annum.

Change in fair value

	2017	2016
31 December 2016		
At the beginning of the year	7,700	-
Acquisition	-	6,901
Change in fair value	974	747
Translation differences	1,375	52
At the end of the year	**10,049**	**7,700**

In Ukrainian Hryvnias and in thousands

Reconciliation of liabilities arising from financing activities

The table below details main changes in the Group's liabilities arising from financing activities, including cash and non-cash changes. Liabilities arising from financing activities are obligations in respect of which cash flows were or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Loans and borrowings	Finance lease obligations	Dividends accrued payable	Total
As of 1 January	**890,790**	**18,117**	**518**	**909,425**
Cash proceeds/Purchase of property, plant, and equipment/Accrual of dividends	129,941	20,196	33,457	**183,594**
Cash payments	(584,474)	(15,032)	(31,543)	**(631,049)**
Interest expense	40,155	2,651	-	**42,806**
Interest paid	(40,657)	(2,651)	-	**(43,308)**
Taxes paid	-	-	(1,695)	**(1,695)**
Translation difference expense, net	64,136	2,014	-	**66,150**
As of 31 December	**499,891**	**25,295**	**737**	**525,923**

Financing activities also include cash flows related to repurchase of treasury shares (Note 15).

32. EVENTS AFTER THE REPORTING DATE

Before these consolidated financial statements were authorized for issue, the Group had no subsequent events that would require disclosures.

33. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by management and authorized for issue on 18 April 2018.