Public Joint Stock Company “FARMAK”

Consolidated Financial Statements for the Year Ended 31 December 2015

PJSC "FARMAK"

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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 2015 and the consolidated results of its operations, cash flows, and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

- Designing, implementing, and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable 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 2015 were approved by management and authorized for issue on 4 April 2016.

On behalf of management of PJSC "Farmak":

F. I. Zhebrovska,
General Director

V. G. Smarodina,
Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

To Shareholders and the Board of Directors of PJSC "Farmak"

We have audited the accompanying 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 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards ("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.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2015, and its consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

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

Deloitte & Touche

4 April 2016

PJSC “FARMAK”

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2015
(in Ukrainian Hryvnias and in thousands)

	Notes	2015	2014
ASSETS			
Non-current assets			
Property, plant, and equipment	6	1,700,094	1,390,748
Prepayments for property, plant, and equipment	6	55,192	99,371
Intangible assets	7	36,556	33,589
Investment property		1,015	1,148
Investments in associate		3,195	3,275
Deferred tax assets	19	36,252	54,299
Other accounts receivable		2,000	3,051
Total non-current assets		**1,834,304**	**1,585,481**
Current assets			
Inventories	8	715,024	458,364
Trade and other accounts receivable	9	591,638	484,944
Prepayments made	10	30,949	24,391
Taxes recoverable and prepaid, other than income taxes	11	69,702	75,902
Current income taxes prepaid		20,175	10,839
Cash and cash equivalents	12	182,549	96,835
Total current assets		**1,610,037**	**1,151,275**
Total assets		**3,444,341**	**2,736,756**
EQUITY AND LIABILITIES			
Equity			
Share capital	13	57,650	57,650
Foreign currency translation reserve		2,683	1,584
Retained earnings		2,070,560	1,684,033
Total equity attributable to equity holders of the Company		2,130,893	1,743,267
Non-controlling interests	14	(358)	(388)
Total equity		**2,130,535**	**1,742,879**
Non-current liabilities			
Borrowings	15	261,278	252,414
Finance lease obligations	16	-	4,108
Other non-current liabilities	17	21,416	19,532
Total non-current liabilities		**282,694**	**276,054**
Current liabilities			
Borrowings	15	592,506	354,675
Trade and other accounts payable	18	425,843	333,823
Advances received		136	11,946
Finance lease obligations	16	6,215	9,475
Taxes payable, other than income taxes	20	6,412	7,904
Total current liabilities		**1,031,112**	**717,823**
Total liabilities		**1,313,806**	**993,877**
Total equity and liabilities		**3,444,341**	**2,736,756**

On behalf of management of PJSC “Farmak”:

F. I. Zhebrovska,
General Director

V. G. Smarodina
Chief Financial Officer

The accompanying notes on pages from 9 to 47 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 2015
(in Ukrainian Hryvnias and in thousands)

	Notes	2015	2014
Continuing operations			
Revenue	21	3,578,033	2,503,335
Cost of sales	22	(1,467,686)	(1,001,044)
Gross profit		**2,110,347**	**1,502,291**
Selling and distribution expenses	23	(832,050)	(537,413)
General and administrative expenses	24	(316,668)	(242,843)
Research and development costs	25	(158,824)	(137,427)
Other operating income		40,204	5,685
Other operating expenses	26	(34,037)	(27,596)
Operating profit		**808,972**	**562,697**
Finance income		1,696	537
Finance costs	27	(29,048)	(22,210)
Net foreign exchange loss		(287,884)	(267,960)
Share in profit of associate		1,543	1,755
Profit before income tax		**495,279**	**274,819**
Income tax expense	19	(89,864)	(28,989)
Profit for the year from continuing operations		**405,415**	**245,830**
Discontinued operations			
Loss for the year from discontinued operations		-	(4,419)
Profit for the year		**405,415**	**241,411**
Other comprehensive (loss)/income			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of defined benefit obligations	17	(5,184)	(2,790)
Exchange differences on translating foreign operations		1,099	(23,756)
Total comprehensive income for the year		**401,330**	**214,865**
Profit for the year attributable to:			
Equity holders of the Company		405,385	237,933
Non-controlling interests		30	3,478
		405,415	**241,411**
Total comprehensive income/(loss) for the year attributable to:			
Equity holders of the Company		401,300	236,259
Non-controlling interests		30	(21,394)
		401,330	**214,865**

On behalf of management of PJSC "Farmak":

F. I. Zhebrovska,
General Director

V. G. Smarodina,
Chief Financial Officer

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PJSC "FARMAK"

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015
(in Ukrainian Hryvnias and in thousands)

	Notes	2015	2014
OPERATING ACTIVITIES			
Profit before income tax		**495,279**	**270,603**
Adjustments for:			
Depreciation and amortization		160,065	143,172
Net loss on disposal of property, plant, and equipment and intangible assets	26	2,194	4,492
Share in profit of associate		(1,543)	(1,755)
Loss on write down of raw materials and finished goods	26	11,680	9,850
Changes in provision for impairment and write off of accounts receivable	23, 26	5,238	1,051
Finance costs		29,048	24,658
Finance income		(1,696)	(537)
Net foreign exchange loss		266,584	253,711
Operating profit before changes in working capital		**966,849**	**705,245**
Changes in working capital:			
Increase in inventories		(265,329)	(129,018)
Increase in trade and other accounts receivable		(107,018)	(187,114)
(Increase)/decrease in prepayments made		(6,926)	10,782
Decrease/(increase) in taxes recoverable and prepaid, other than income taxes		6,200	(70,357)
Increase in trade and other accounts payable		55,960	144,191
(Decrease)/ increase in advances received		(11,810)	11,053
Decrease in taxes payable, other than income taxes		(1,760)	(44)
Cash generated by operations		636,166	484,738
Interest paid		(51,215)	(32,973)
Income taxes paid		(81,153)	(87,086)
Net cash generated by operating activities		**503,798**	**364,679**
INVESTING ACTIVITIES			
Acquisition of property, plant, and equipment and intangible assets		(397,284)	(401,546)
Proceeds on disposal of property, plant, and equipment		1,718	1,147
Net cash outflow due to the Group's reorganization		-	(13,944)
Dividends received from associate		2,722	1,836
Interest received		1,067	517
Net cash used in investing activities		**(391,777)**	**(411,990)**
FINANCING ACTIVITIES			
Proceeds on borrowings		93,684	227,515
Repayment of borrowings		(105,283)	(78,968)
Repayment of finance lease obligations		(13,159)	(13,669)
Dividends paid		(2,340)	(11,935)
Net cash (used in)/generated by financing activities		**(27,098)**	**122,943**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)
(in Ukrainian Hryvnias and in thousands)

	Notes	2015	2014
Net increase in cash and cash equivalents		84,923	75,632
CASH AND CASH EQUIVALENTS, as of 1 January	12	96,835	21,784
Effect of exchange rate changes on balances of cash and cash equivalents held in foreign currencies		791	(581)
CASH AND CASH EQUIVALENTS, as of 31 December	12	182,549	96,835

On behalf of management of PJSC "Farmak":

F. I. Zhebrovska,
General Director

V. G. Smarodina,
Chief Financial Officer

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

PJSC "FARMAK"

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015
(in Ukrainian Hryvnias and in thousands)

	Share capital	Treasury shares	Foreign currency translation reserve	Retained earnings	Total equity attributable to equity holders of the Company	Non-controlling interests	Total equity
As of 1 January 2014	**57,650**	**(6,503)**	**468**	**1,329,161**	**1,380,776**	**16,329**	**1,397,105**
Profit for the year	-	-	-	237,933	237,933	3,478	241,411
Other comprehensive income/(loss) for the year	-	-	1,116	(2,790)	(1,674)	(24,872)	(26,546)
Total comprehensive income for the year	**-**	**-**	**1,116**	**235,143**	**236,259**	**(21,394)**	**214,865**
The Group's restructuring	-	6,503	-	132,675	139,178	4,677	143,855
Dividends declared	-	-	-	(12,946)	(12,946)	-	(12,946)
As of 31 December 2014	**57,650**	**-**	**1,584**	**1,684,033**	**1,743,267**	**(388)**	**1,742,879**
Profit for the year	-	-	-	405,385	405,385	30	405,415
Other comprehensive income/(loss) for the year	-	-	1,099	(5,184)	(4,085)	-	(4,085)
Total comprehensive income for the year	**-**	**-**	**1,099**	**400,201**	**401,300**	**30**	**401,330**
Dividends declared	-	-	-	(13,674)	(13,674)	-	(13,674)
As of 31 December 2015	**57,650**	**-**	**2,683**	**2,070,560**	**2,130,893**	**(358)**	**2,130,535**

On behalf of management of PJSC "Farmak":

F. I. Zhebrovska,
General Director

V. G. Smarodina,
Chief Financial Officer

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

(in Ukrainian Hryvnias and in thousands)

1. GENERAL INFORMATION

PJSC "Farmak" (the "Company") is a public joint stock company incorporated in Ukraine. The principal operating office of the Company is located at: 63 Frunze Str., Kyiv, 04080, Ukraine. The principal activities of the Company and its subsidiaries (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 2015	2014
Subsidiaries:				
SE "Baza Vidpochynku "Smuhlianka"	Recreation center	Ukraine, Odesa	100%	100%
LLC "Farmakhim"	Property leasehold	Ukraine, Kharkiv	100%	100%
LLC "Berenika"	Production and sale of drugs	Ukraine, Zhytomyr	100%	n/a
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 has a practical ability to direct the relevant activities of the structured entity unilaterally and, hence, the Company has control over the entity. As such, the entity has been consolidated in these consolidated financial statements.

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

2. OPERATING ENVIRONMENT, RISKS, AND ECONOMIC CONDITIONS

Political crisis – In 2015, an armed conflict with separatists continued in certain parts of Luhansk and Donetsk regions, and a peaceful resolution of the conflict did not occur as it was foreseen by the Minsk agreements.

In 2015, the Ukrainian economy was going through a recession, a gross domestic product has contracted by 10% (2014: 7%), and an annual inflation rate reached 43% (2014: 25%). Unfavorable conditions in markets where Ukraine's primary commodities were traded were influencing further devaluation of the Ukrainian Hryvnia against major foreign currencies. The Ukrainian companies and banks continued to suffer from lack of funding from domestic and international financial markets.

(in Ukrainian Hryvnias and in thousands)

The National Bank of Ukraine (the "NBU") extended its range of measures that were introduced in 2014 and aimed at limiting the outflow of foreign currency from the country, inter alia, a mandatory sale of foreign currency earnings, certain restrictions on purchases of foreign currencies on the interbank market and on usage of foreign currencies for settlement purposes, limitations on remittances abroad.

In early 2015, the Government of Ukraine agreed with the IMF a four-year program for USD 17.5 billion loan aimed at supporting the economic stabilization of Ukraine. The program defines economic reforms that must be undertaken by the Government of Ukraine to reinstate a sustainable economic growth in the mid-term perspective.

In 2015, political and economic relationships between Ukraine and the Russian Federation remained strained that led to a significant reduction in trade and economic cooperation. On 1 January 2016, a free-trade element of Ukraine's association agreement with the European Union came into force. In late 2015, the Russian Federation denounced the free trade zone agreement with Ukraine and further trade restrictions were announced by both countries.

Stabilization of the economic and political situation depends, to a large extent, upon the ability of the Ukrainian Government to continue reforms and the efforts of the NBU to further stabilize the banking sector, as well as upon the ability of the Ukrainian economy in general to respond adequately to changing markets. Nevertheless, further economic and political developments, as well as the impact of the above factors on the Group, its customers, and contractors are currently difficult to predict.

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

New and revised IFRSs – In the current year, the Group has applied a range of new and revised IFRSs issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Standards Interpretations Committee ("IFRS IC") that are mandatorily effective for accounting periods beginning on or after 1 January 2015.

Standards/Interpretations	**Effective for annual accounting periods beginning on or after**
Amendments to IAS 19 "Employee Benefits" – Defined benefit plans: Employee contributions	1 July 2014
Annual Improvements to IFRSs 2010-2012 Cycle	1 July 2014
Annual Improvements to IFRSs 2011-2013 Cycle	1 July 2014
Amendments to IFRS 8 "Operating Segments"	1 July 2014

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

(in Ukrainian Hryvnias and in thousands)

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

Standards/Interpretations	**Effective for annual accounting periods beginning on or after**
IFRS 9 "Financial Instruments"	1 January 2018
IFRS 14 "Regulatory Deferral Accounts"	1 January 2016
IFRS 15 "Revenue from Contracts with Customers"	1 January 2018
IFRS 16 "Leases"	1 January 2019
Amendments to IFRS 11 "Joint Arrangements" – Accounting for acquisitions of interests in joint ventures	1 January 2016
Amendments to IAS 16 "Property, Plant, and Equipment" and IAS 38 "Intangible Assets" – Classification of acceptable methods of depreciation and amortization	1 January 2016
Amendments to IAS 16 "Property, Plant, and Equipment" and IAS 41 "Agriculture" – Agriculture: Bearer plants	1 January 2016
Amendments to IAS 27 "Separate Financial Statements" – Equity method in separate financial statements	1 January 2016
Annual Improvements to IFRSs 2012-2014 Cycle	1 July 2016
Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure initiative	1 January 2016
Amendment to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities", and IAS 28 "Investments in Associates and Joint Ventures" (2011) – Investment entities: Applying the consolidation exception	1 January 2016
Amendment to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or contribution of assets between an investor and its associate or joint venture	The effective date is not determined
Amendments to IAS 12 "Income Taxes" – Recognition of deferred tax assets for unrealized losses	1 January 2017
Amendments to IAS 7 "Statement of Cash Flows" – Disclosure initiative	1 January 2017

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation of the consolidated financial statements – 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 or fair value at the date of transition to IFRS for property, plant, and equipment.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability 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 – Based on the economic substance of the underlying events and circumstances relevant to each entity of the Group, the functional currency of the companies domiciled in Ukraine has been determined to be the Ukrainian Hryvnia. The Group's associate is based in Poland and its functional currency is the Polish Zloty.

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 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.

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 is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the investee and any non-controlling interests. All amounts previously 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 of the investee.

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

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

Leases – The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date: whether the 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.

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

Group as lessee – Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are 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. 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 the consolidated statement of 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 an expense on a straight-line basis over the lease term.

(in Ukrainian Hryvnias and in thousands)

Group as lessor – Rental income from operating leases is recognised 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 on the same basis as rental income. 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 currency 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.

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

Currency	As of 31 December 2015	Average exchange rate for 2015	As of 31 December 2014	Average exchange rate for 2014
UAH/USD	24.0007	21.8290	15.7686	11.9095
UAH/EUR	26.2231	24.2054	19.2329	15.7410
UAH/RUB	0.3293	0.3617	0.3030	0.3112

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

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

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

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

All other borrowing costs are 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.

Post-employment and other non-current benefit obligations

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

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

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

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

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

Taxation – Income tax expense represents the sum of 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 there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset 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 which 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.

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

Intangible assets – Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated 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 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.

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

Recoverable amount is the higher of fair value of 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 and packaging materials, work in progress, finished goods, 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 assets and liabilities – Contingent assets are not recognized in the consolidated financial statements but disclosed 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/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 of the Group are classified into the "loans and accounts receivable" category and include trade and other accounts receivable and other financial assets that have fixed or determinable payments that are not quoted in an active market. Loans and accounts receivable are measured at 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 accounts receivable (loans granted) when the recognition of interest would be immaterial.

Cash and cash equivalents – Cash and cash equivalents comprise cash with banks and on hand and short-term deposits with an original maturity within three months.

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

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

The objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It is becoming 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 through the use of 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 another entity.

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

Financial liabilities – Financial liabilities of the Group include borrowings, finance lease obligations, and trade and other accounts payable that are classified as "other financial liabilities". 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.

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

Treasury shares – Own equity instruments repurchased by the Company or its subsidiaries are recognized at cost and 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 Group's own equity instruments. Any difference between the carrying amount and the consideration is recognized in equity.

Reclassification of the comparative financial information presented – Certain reclassifications were made by the Group to bring the information presented in the consolidated financial statements for the year ended 31 December 2014 in conformity with the way of presentation of the consolidated financial statements for the year ended 31 December 2015.

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 of the Group 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.

Control over LLC "Simpozium" – Note 1 describes that LLC "Simpozium" is a consolidated structured entity of the Group even though the Group has no ownership or voting rights in it. Management of the Group has concluded that the Group has control over this company due to the fact that the Group: (1) receives substantially all of the returns related to its operations and net assets (the entity performs its relevant activities exclusively for the Group); (2) has the current ability to direct the entity's activities that most significantly affects these returns. As of 31 December 2015 and 2014, 100% of net assets of the entity is presented as non-controlling interest in the consolidated statement of financial position.

Recognition of research and development costs – Costs incurred on research and development projects are 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.

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 and concluded that there are no business activities within the Group whose operating results are reviewed and analyzed separately.

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

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

Impairment of property, plant, and equipment – IFRSs 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 Company shall estimate the recoverable amount of the asset. Evaluation of whether the indications of impairment are present as at the reporting date, including analysis of both internal and external factors, requires that management apply judgment. No impairment has been 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 estimate 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;
- Present market prices; and
- Degree of the subsequent use of inventories.

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

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

(in Ukrainian Hryvnias and in thousands)

6. PROPERTY, PLANT, AND EQUIPMENT

As of 31 December 2015 and 2014, movements in property, plant, and equipment were as follows:

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Office equipment	Other depreciable assets	Capital construction in progress and uninstalled equipment	Total
Cost								
As of 31 December 2013	**962**	**514,554**	**879,432**	**80,836**	**24,990**	**2,532**	**124,411**	**1,627,717**
Additions	-	15,043	79,182	15,951	8,399	702	255,761	375,038
Internal transfers	-	11,424	8,495	5,186	2,779	-	(27,884)	-
Transfers to investment property	-	-	-	(59)	-	-	-	(59)
De-recognition due the Group's restructuring	-	-	(42)	(54)	(253)	(240)	-	(589)
Disposals	-	(6,034)	(1,668)	(2,119)	(735)	(160)	-	(10,716)
As of 31 December 2014	**962**	**534,987**	**965,399**	**99,741**	**35,180**	**2,834**	**352,288**	**1,991,391**
Additions	3,623	26,188	85,274	23,336	8,852	779	316,098	464,150
Reclassifications	-	-	(19,762)	-	19,762	-	-	-
Internal transfers	-	11,666	89,120	1,606	1,497	-	(103,889)	-
Disposals	(72)	(3,512)	(3,549)	(1,715)	(1,241)	-	(36)	(10,125)
As of 31 December 2015	**4,513**	**569,329**	**1,116,482**	**122,968**	**64,050**	**3,613**	**564,461**	**2,445,416**

(in Ukrainian Hryvnias and in thousands)

	Land	Buildings and constructions	Machinery and equipment
Accumulated depreciation and impairment			
As of 31 December 2013	**-**	**(84,127)**	**(349,722)**
Depreciation charges	-	(16,372)	(96,359)
Transfers to investment property	-	-	-
De-recognition due the Group's restructuring	-	-	32
Disposals	-	2,216	1,492
As of 31 December 2014	**-**	**(98,283)**	**(444,557)**
Depreciation charges	-	(17,747)	(107,678)
Reclassifications	-	-	9,133
Disposals	-	683	3,440
As of 31 December 2015	**-**	**(115,347)**	**(539,662)**
Net book value			
As of 31 December 2014	**962**	**436,704**	**520,842**
As of 31 December 2015	**4,513**	**453,982**	**576,820**

Vehicles	Office equipment	Other depreciable assets	Capital construction in progress and uninstalled equipment	Total
(27,464)	**(13,503)**	**(963)**	**-**	**(475,779)**
(11,344)	(5,588)	(515)	-	(130,178)
59	-	-	-	59
-	-	-	-	32
651	703	161	-	5,223
(38,098)	**(18,388)**	**(1,317)**	**-**	**(600,643)**
(14,608)	(10,845)	(748)	-	(151,626)
-	(9,133)	-	-	-
1,676	1,148	-	-	6,947
(51,030)	**(37,218)**	**(2,065)**	**-**	**(745,322)**
61,643	**16,792**	**1,517**	**352,288**	**1,390,748**
71,938	**26,832**	**1,548**	**564,461**	**1,700,094**

(in Ukrainian Hryvnias and in thousands)

As of 31 December 2014, included in construction in progress and uninstalled equipment were mainly equipment for laboratory facilities, as well as equipment and construction works in respect of a new plant for production of Active Pharmaceutical Ingredients in Shostka, Ukraine. During 2015, the laboratory facilities were put into operation.

As of 31 December 2015, included in construction in progress and uninstalled equipment were mainly equipment and construction works in respect of the new plant for production of Active Pharmaceutical Ingredients in Shostka, Ukraine. In December 2015, the Group obtained a permit on the production of Active Pharmaceutical Ingredients. The Group's management is planning to complete the construction of the new plant and launch the commercial production in certain areas of the plant in 2016.

Pledged assets – As of 31 December 2015 and 2014, the carrying amounts of the Group's property, plant, and equipment used as a collateral for borrowings (Note 15) were as follows:

	2015	2014
Buildings and constructions	312,157	276,489
Machinery and equipment	291,052	313,219
Vehicles	57	87
Total	**603,266**	**589,795**

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 2015 at cost in the amount of UAH 151,330 thousand (2014: UAH 101,321 thousand) were fully depreciated but remained in use.

Finance leases – The carrying amounts of vehicles held under finance leases as of 31 December 2015 amounted to UAH 9,714 thousand (2014: UAH 17,249 thousand).

Prepayments for property, plant, and equipment – As of 31 December 2015 and 2014, prepayments for property, plant, and equipment were represented by prepaid construction works and equipment for the workshop for production of substances in Shostka and improvement of equipment of main production plants.

(in Ukrainian Hryvnias and in thousands)

7. INTANGIBLE ASSETS

As of 31 December 2015 and 2014, movements in intangible assets were as follows:

	Software and licenses	Other intangible assets	Intangible assets in progress	Total
Cost				
As of 31 December 2013	**28,193**	**14,818**	**787**	**43,798**
Additions	8,436	8,983	4,541	21,960
Internal transfers	723	28	(751)	-
De-recognition due the Group's restructuring	-	(805)	-	(805)
Disposals	(14)	(973)	-	(987)
As of 31 December 2014	**37,338**	**22,051**	**4,577**	**63,966**
Additions	5,979	7,876	3,852	17,707
Internal transfers		252	(252)	-
Disposals	(5,838)	(3)	-	(5,841)
As of 31 December 2015	**37,479**	**30,176**	**8,177**	**75,832**
Accumulated amortization and impairment				
As of 31 December 2013	**(11,513)**	**(6,345)**	**-**	**(17,858)**
Amortization charges	(7,085)	(6,794)	-	(13,879)
De-recognition due the Group's restructuring	-	516	-	516
Disposals	14	830	-	844
As of 31 December 2014	**(18,584)**	**(11,793)**	**-**	**(30,377)**
Amortization charges	(6,132)	(8,600)	-	(14,732)
Disposals	5,833	-	-	5,833
As of 31 December 2015	**(18,883)**	**(20,393)**	**-**	**(39,276)**
Net book value				
As of 31 December 2014	**18,754**	**10,258**	**4,577**	**33,589**
As of 31 December 2015	**18,596**	**9,783**	**8,177**	**36,556**

Intangible assets in progress comprise costs directly related to acquisition and development of items of intangible assets. 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 2015 at cost in the amount of UAH 16,835 thousand (2014: UAH 11,681 thousand) were fully amortized but remained in use.

(in Ukrainian Hryvnias and in thousands)

8. INVENTORIES

As of 31 December 2015 and 2014, inventories were as follows:

	2015	2014
Finished goods	323,114	182,101
Raw materials	232,802	148,879
Packaging materials	100,860	85,369
Work in progress	41,694	33,108
Other inventories	16,554	8,907
Total	**715,024**	**458,364**

Cost of inventories recognized as expense and included in cost of sales (Note 22) for the year ended 31 December 2015 amounted to UAH 952,731 thousand (2014: UAH 589,191 thousand).

The amount of inventory write-downs recognized in other operating expense (Note 26) for the year ended 31 December 2015 was UAH 11,680 thousand (2014: UAH 9,850 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.

9. TRADE AND OTHER ACCOUNTS RECEIVABLE

As of 31 December 2015 and 2014, trade and other accounts receivable were as follows:

	2015	2014
Trade accounts receivable	609,045	492,921
Other accounts receivable	11,659	13,045
	620,704	**505,966**
Allowance for impairment of accounts receivable	(29,066)	(21,022)
Total current trade and other accounts receivable	**591,638**	**484,944**

As of 31 December 2015, trade and other accounts receivable included balances with related parties in the amount of UAH 22,105 thousand (2014: UAH 17,692 thousand) (Note 28).

No interest is charged on trade accounts receivable. The credit period on sales of goods was generally 30-90 days in 2015 (2014: 30-90 days).

As of 31 December 2015 and 2014, the aging analysis of past due but not impaired trade accounts receivable was as follows:

				Past due but not impaired			
	Total	**Impaired trade accounts receivable**	**Neither past due nor impaired**	**Up to 3 months**	**3-6 months**	**6-12 months**	**Over 12 months**
2015	**609,045**	23,666	558,425	17,066	9,422	401	65
2014	**492,921**	20,506	445,842	22,861	3,679	25	8

(in Ukrainian Hryvnias and in thousands)

Trade accounts receivable which are past due but not impaired represent the amounts at the end of the reporting period for which the Group has not 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 2015 and 2014, the aging analysis of impaired accounts receivable was as follows:

	2015	2014
6-12 months	2,350	1,298
Over 12 months	26,716	19,724
Total	**29,066**	**21,022**

Movements in the allowance for impairment of accounts receivable for the years ended 31 December 2015 and 2014 were as follows:

	2015	2014
As of 1 January	**21,022**	**16,815**
Impairment losses recognized in respect of accounts receivable	5,026	1,809
Write-offs of irrecoverable amounts during the year	(16)	(163)
Losses on translation differences	3,189	3,156
Accounts receivable reimbursed	(155)	(595)
As of 31 December	**29,066**	**21,022**

10. PREPAYMENTS MADE

As of 31 December 2015 and 2014, prepayments made were as follows:

	2015	2014
Prepayments to suppliers for services	16,804	13,939
Prepayments to suppliers for raw materials	14,442	10,452
Allowance for impairment of accounts receivable	(297)	-
Total	**30,949**	**24,391**

As of 31 December 2015, included in prepayments made were balances with related parties in the amount of UAH 6,266 thousand (2014: UAH 17,798 thousand) (Note 28).

11. TAXES RECOVERABLE AND PREPAID, OTHER THAN INCOME TAXES

As of 31 December 2015 and 2014, taxes recoverable and prepaid were as follows:

	2015	2014
VAT recoverable	69,623	75,833
Other taxes	79	69
Total	**69,702**	**75,902**

(in Ukrainian Hryvnias and in thousands)

12. CASH AND CASH EQUIVALENTS

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

As of 31 December 2015 and 2014, cash and cash equivalents were as follows:

	2015	2014
Cash on hand and with banks	107,024	31,445
Short-term bank deposits	75,525	51,345
Cash in transit	-	14,045
Total	**182,549**	**96,835**

Balances of cash with banks earned interest income at floating rates based on daily bank deposit rates. As of 31 December 2015 and 2014, short-term bank deposits were represented by deposits on demand and overnight.

13. SHARE CAPITAL

As of 31 December 2015 and 2014, 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 2015 and 2014, the carrying amount of the Group's share capital amounted to UAH 57,650 thousand, being the original share capital amount adjusted for the effect of historical hyperinflation under IAS 29 in the amount of UAH 21,284 thousand.

As of 31 December 2015 and 2014, the ownership structure of the Group's share capital was as follows:

	2015		2014	
	Number of shares	**Ownership interest, %**	**Number of shares**	**Ownership interest, %**
Immediate shareholders:				
FARMAK GROUP N.V.	4,910,153	67.51%	4,910,153	67.51%
Individuals (< 2% individually)	884,673	12.16%	888,120	12.21%
Farmak International Holding GmbH	820,390	11.28%	820,390	11.28%
Foyil Capital Limited	508,552	6.99%	508,552	6.99%
Legal entities (< 2% individually)	114,495	1.58%	113,501	1.56%
F.I. & P. Holdings Limited	34,937	0.48%	32,484	0.45%
Total	**7,273,200**	**100.0%**	**7,273,200**	**100.0%**

Dividends – In March 2015, the General Shareholders' Meeting approved distribution of dividends for the year ended 31 December 2014 of UAH 1.88 per share for the total amount of UAH 13,674 thousand. In March 2014, the General Shareholders' Meeting approved distribution of dividends for the year ended 31 December 2013 of UAH 1.78 per share for the total amount of UAH 12,946 thousand.

(in Ukrainian Hryvnias and in thousands)

14. NON-CONTROLLING INTERESTS

As of 31 December 2015 and 2014, non-controlling interests were represented by net assets of the following consolidated structured entity of the Group:

Name of consolidated structured entity	Proportion of ownership interests and voting rights held by non-controlling interests		Accumulated non-controlling interests	
	2015	2014	2015	2014
LLC "Simpozium"	100%	100%	(358)	(388)
Total			**(358)**	**(388)**

15. BORROWINGS

As of 31 December 2015 and 2014, outstanding borrowings were as follows:

Secured borrowings:	Currency	Weighted average interest rate	2015	Weighted average interest rate	2014
Borrowings from EBRD[1]	EUR	4.87%	412,542	5.08%	336,027
Credit line facilities from Ukrainian banks	USD	7.39%	441,242	7.14%	271,062
Total borrowings			**853,784**		**607,089**
Less: Short-term borrowings and current portion of long-term borrowings			(592,506)		(354,675)
Long-term borrowings			**261,278**		**252,414**

1) During 2015, the Group received a tranche under the loan agreement with the European Bank for Reconstruction and Development ("EBRD") in the amount of EUR 2,500 thousand and made a scheduled repayment of a part of the borrowing in the amount of EUR 4,286 thousand, as a result of which total amounts outstanding under the loan agreement with EBRD as of 31 December 2015 amounted to EUR 15,714 thousand.

In addition, in December 2014, the Group entered into a loan agreement with EBRD for the amount of EUR 8,500 thousand to replenish its working capital and refinance borrowings from local banks. No tranches under this agreement were received in 2015 and 2014.

Loan agreements with EBRD have established limitations on disposal of assets and distribution of dividends, and other restrictions on the Group's activities. In addition, certain financial covenants are stipulated for under the terms and conditions of those loan agreements. For the years ended 31 December 2015 and 2014, the Group was in compliance with those covenants.

As of 31 December 2015 and 2014, all borrowings of the Group were attracted at floating interest rates.

(in Ukrainian Hryvnias and in thousands)

As of 31 December 2015 and 2014, the borrowings were secured by the following types of assets pledged:

	2015	2014
Property, plant, and equipment (Note 6)	603,266	589,795
Investment property	57	80
Total	**603,323**	**589,875**

In addition, as of 31 December 2015, future cash proceeds on sales were used as a collateral under loan agreements for the total amount of UAH 35,000 thousand (2014: UAH 35,000 thousand).

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 2015 and 2014, 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.

16. FINANCE LEASE OBLIGATIONS

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

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

	Minimum lease payments		Present value of minimum lease payments	
	2015	2014	2015	2014
Within one year	7,365	11,976	6,215	9,475
From two to five years inclusive	-	4,869	-	4,108
	7,365	**16,845**	**6,215**	**13,583**
Less: Future finance charges	(1,150)	(3,262)	-	-
Finance lease obligations	**6,215**	**13,583**	**6,215**	**13,583**

(in Ukrainian Hryvnias and in thousands)

17. OTHER NON-CURRENT LIABILITIES

As of 31 December 2015 and 2014, other non-current liabilities were as follows:

	2015	2014
Retirement and other non-current employee benefit obligations	20,331	15,890
Other non-current liabilities	1,085	3,642
Total	**21,416**	**19,532**

Balances of present cost of retirement and other non-current employee benefit obligations for the years ended 31 December 2015 and 2014 can be reconciled as follows:

	2015	2014
Balance at the beginning of the year	**17,409**	**4,545**
Current service cost	863	9,425
Interest expense	2,611	2,072
Past service cost	(1,515)	-
Actuarial losses recognized in other comprehensive income	5,184	2,790
Benefits paid during the year	(2,050)	(1,423)
Balance at the end of the year	**22,502**	**17,409**

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

	2015	2014
Interest expense	2,611	2,072
Current service cost	863	9,425
Past service cost	(1,515)	-
Total	**1,959**	**11,497**

During 2015, the Group included in other comprehensive income actuarial losses in the amount of UAH 5,184 thousand (2014: UAH 2,790 thousand).

Main assumptions used for actuarial valuation as of 31 December 2015 and 2014 were as follows:

	31 December 2015	31 December 2014
Discount rate	18%	15%
Estimated payroll growth rate	10%	10%

To determine a discount rate, management uses market yields on highly liquid corporate bonds as adjusted for the estimated effect of differences by maturities. 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 2015 and 2014, trade and other accounts payable were as follows:

	2015	2014
Trade accounts payable for:		
Raw materials	213,053	166,429
Services	44,424	32,429
Property, plant, and equipment and intangible assets	39,589	26,138
	297,066	**224,996**
Other accounts payable:		
Payables to employees	80,428	67,947
Accrued liabilities	29,746	32,853
Dividends payable	11,442	108
Current portion of retirement and other non-current employee benefit obligations	2,172	1,519
Other accounts payable	4,989	6,400
	128,777	**108,827**
Total	**425,843**	**333,823**

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

As of 31 December 2015, included in trade accounts payable of the Group for raw materials and services were balances with related parties in the amount of UAH 104,146 thousand (2014: UAH 50,796 thousand) (Note 28).

As of 31 December 2015, included in the Group's payables to employees were balances with the Group's key management personnel in the amount of UAH 1,387 thousand (2014: UAH 887 thousand) (Note 28).

As of 31 December 2015, included in accrued liabilities were royalties payable to related parties (key management personnel) in the amount of UAH 3,836 thousand (2014: UAH 2,727 thousand) (Note 28).

19. INCOME TAX EXPENSE

Components of income tax expense for the reporting years ended 31 December 2015 and 2014 comprised the following:

	2015	2014
Current income tax		
Current income tax expense	71,817	74,794
	71,817	**74,794**
Deferred income tax		
Deferred income tax expense/(benefit)	18,047	(45,805)
	18,047	**(45,805)**
Total income tax expense	**89,864**	**28,989**

The Group's profit was subject to taxation in Ukraine. The Group was subject to corporate income tax at the rate of 18% during 2015 (2014: 18%).

(in Ukrainian Hryvnias and in thousands)

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:

	2015	2014
Profit before income tax	**495,279**	**274,819**
Income tax expense at the statutory tax rates of 18%	89,150	49,468
Effect of non-deductible expenses, net	714	6,334
Effect of indexation of property, plant, and equipment for tax purposes	-	(26,813)
Total income tax expense	**89,864**	**28,989**

As of 31 December 2015 and 2014, deferred tax assets and liabilities related to the following:

	Consolidated statement of financial position		Consolidated statement of profit or loss and other comprehensive income	
	2015	2014	2015	2014
Trade and other accounts receivable	6,312	2,886	(3,426)	(219)
Trade and other accounts payable, other non-current liabilities	4,545	15,304	10,759	(8,719)
Inventories	784	2,279	1,495	(1,502)
Property, plant, and equipment[1)]	24,753	34,543	9,790	(34,943)
Prepayments made	(142)	(713)	(571)	(422)
Deferred income tax benefits			**18,047**	**(45,805)**
Net deferred tax assets	**36,252**	**54,299**		

1) As of 31 December 2014, the Group's property, plant, and equipment were indexed for tax purposes for the inflation rate in Ukraine in 2014, without revising their cost for financial accounting purposes.

As of 31 December 2015 and 2014, the Group did not recognize deferred tax in respect of temporary differences associated with investments in subsidiaries, since the Group was able to control the timing of the reversal of those temporary differences and the Group did not intend to realize them in the foreseeable future.

20. TAXES PAYABLE, OTHER THAN INCOME TAXES

As of 31 December 2015 and 2014, taxes payable, other than income taxes, were as follows:

	2015	2014
Payroll related taxes	6,392	7,672
Other taxes	20	232
Total	**6,412**	**7,904**

(in Ukrainian Hryvnias and in thousands)

21. REVENUE

Revenue for the years ended 31 December 2015 and 2014 was as follows:

	2015	2014
Revenue from sales of finished goods	3,552,022	2,488,817
Revenue from sales of merchandise for resale	18,767	9,781
Other revenue	7,244	4,737
Total	**3,578,033**	**2,503,335**

For the year ended 31 December 2015, included in revenue from sales of finished goods were sales to related parties in the amount of UAH 15,038 thousand (2014: UAH 17,265 thousand) (Note 28).

22. COST OF SALES

Cost of sales for the years ended 31 December 2015 and 2014 was as follows:

	2015	2014
Raw materials and supplies	952,731	589,191
Staff costs	183,480	148,754
Depreciation and amortization	99,085	91,149
Royalties	87,443	42,752
Repairs and maintenance of property, plant, and equipment	58,088	60,113
Energy, water, and other utilities	62,647	54,008
Other expense	24,212	15,077
Total	**1,467,686**	**1,001,044**

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 2015, royalties to the Group's key management personnel amounted to UAH 29,161 thousand (2014: UAH 20,508 thousand) (Note 28).

(in Ukrainian Hryvnias and in thousands)

23. SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses for the years ended 31 December 2015 and 2014 were as follows:

	2015	2014
Marketing and advertising expenses	345,234	212,882
Representative office costs	173,585	81,462
Staff costs	166,220	148,683
Transportation	71,999	45,104
Registration fees	43,769	23,249
Depreciation and amortization	20,688	16,681
Maintenance of property, plant, and equipment	5,208	5,293
Changes in allowance for impairment and write-offs of accounts receivable	(30)	718
Other expense	5,377	3,341
Total	**832,050**	**537,413**

Representative office costs for the year ended 31 December 2015 included staff costs related to employees of such representative offices in the amount of UAH 136,092 thousand (2014: UAH 61,704 thousand).

Marketing and advertising expenses for the year ended 31 December 2015 included income taxes of non-residents providing advertising services in the amount of UAH 18,214 thousand (2014: UAH 7,552 thousand).

24. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December 2015 and 2014 were as follows:

	2015	2014
Staff costs	207,658	148,628
Maintenance of property, plant, and equipment	31,503	18,163
Depreciation and amortization	26,117	22,133
Consulting and other professional services	12,775	25,796
Taxes, other than income tax	10,196	6,881
Bank charges	7,533	5,686
Communication	7,310	5,122
Transportation	1,860	1,908
Other expense	11,716	8,526
Total	**316,668**	**242,843**

Staff costs for the year ended 31 December 2015 included remuneration to the Group's key management personnel in the amount of UAH 43,100 thousand (2014: UAH 26,391 thousand) (Note 28).

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25. RESEARCH AND DEVELOPMENT COSTS

Research and development costs of the Group for the years ended 31 December 2015 and 2014 were represented by: registration fees for the new generic drugs; preclinical and clinical trials related to generic drugs; and preclinical and clinical trials in respect of a self-developed drug.

26. OTHER OPERATING EXPENSES

Other operating expenses for the years ended 31 December 2015 and 2014 were as follows:

	2015	2014
Charity and donations	14,171	12,157
Loss on write down of raw materials and finished goods (Note 8)	11,680	9,850
Change in allowance for impairment and write-offs of accounts receivable	5,268	-
Net loss on disposal of property, plant, and equipment and intangible assets	2,194	4,492
Fines and penalties	637	500
Other expenses	87	597
Total	**34,037**	**27,596**

27. FINANCE COSTS

Finance costs for the years ended 31 December 2015 and 2014 were as follows:

	2015	2014
interest expense on borrowings	48,395	28,488
Finance lease costs	3,462	4,164
Other expense	3,787	3,126
Less: Amounts included in initial cost of qualifying assets	(26,596)	(13,568)
Total	**29,048**	**22,210**

For qualifying assets, the weighted average capitalization rate of the funds borrowed during the year ended 31 December 2015 amounted to 7.24% (2014: 7.01 %).

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28. RELATED PARTY DISCLOSURES

The Group's transactions with its related parties for the years ended 31 December 2015 and 2014 were as follows:

	Revenue from sales of finished goods	Rental income	Purchase of raw materials and supplies	Purchase of services
2015				
Entities under common control	-	1,038	(325,060)	(49,479)
Associate	12,255	-	-	-
Other related parties (family members of ultimate controlling party)	2,783	633	(14,333)	(16,789)
Total	**15,038**	**1,671**	**(339,393)**	**(66,268)**
2014				
Entities under common control	-	1,118	(149,073)	(30,829)
Associate	12,876	-	-	-
Other related parties (family members of ultimate controlling party)	4,389	488	(11,844)	(14,751)
Total	**17,265**	**1,606**	**(160,917)**	**(45,580)**

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 entities under common control comprised mainly royalties, purchases of repair and construction services.

Charities to other related parties for the year ended 31 December 2015 amounted to UAH 10,970 thousand (2014: UAH 9,459 thousand).

As of 31 December 2015 and 2014, the Group's outstanding balances with its related parties were as follows:

	Trade and other accounts receivable	Prepayments made	Trade and other accounts payable
2015			
Entities under common control	651	-	101,300
Associate	9,513	-	-
Other related parties (family members of ultimate controlling party)	11,941	6,266	2,846
Total	**22,105**	**6,266**	**104,146**

(in Ukrainian Hryvnias and in thousands)

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

Balances and transactions with the Group's key management personnel – Key management personnel of the Group consists of the Company's General Director and members of the Board of Directors. Key management personnel totaled to 11 persons as of 31 December 2015 and 2014.

The Group's transactions with its key management personnel for the years ended 31 December 2015 and 2014 were as follows:

	2015	2014
Short-term benefits including:		
Remuneration and related taxes	43,100	26,391
Royalties	29,161	20,508
Total	**72,261**	**46,899**

As of 31 December 2015 and 2014, the Group's outstanding balances with its key management personnel were as follows:

	2015	2014
Royalties accrued	3,836	2,727
Payables for remuneration and related taxes	1,387	887
Loans granted	(61)	(76)
Total	**5,162**	**3,538**

As of 31 December 2015, some members of key management personnel were entitled to post-employment defined benefit plans according to their employment contracts. The amounts of such benefits as of 31 December 2015 in the amount of UAH 16,683 thousand were included in other non-current liabilities (2014: UAH 10,737 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 tax payers. Inconsistent application, interpretation, and enforcement of tax laws can lead to litigation which, as a consequence, may result in the imposition of additional taxes, penalties, and interest, and these amounts could be material. Facing current economic and political issues, the Government has implemented certain reforms in the tax system of Ukraine by adopting the Law of Ukraine "On Amending the Tax Code of Ukraine and Certain Laws of Ukraine" which is effective from 1 January 2015, except for certain provisions which will take effect at a later date.

Most significant changes to the Tax Code concern a revision of rules governing the payment of Value Added Tax ("VAT"), a revision of rules on computation of corporate income tax, and introduction of real estate (property) tax, in the following way:

- According to the Law, the output VAT to be paid to tax authorities is based on the supply of goods or services, net of input VAT if this VAT is determined to have been paid to tax authorities by the Company's suppliers. Also, the minimal tax base for VAT input on goods and services purchased was introduced and special VAT accounts for every taxpayer to be opened at the State Treasury of Ukraine for the VAT purposes. The purpose of these special VAT accounts is to guarantee fulfilment of VAT liabilities by the taxpayers.
- It has significantly changed general rules for assessment of an item of taxation, as well as terms and procedures for submission of tax returns. In accordance with the Tax Code requirements, the item of taxation shall be determined based on the profit before income tax (upon certain adjustments) as defined in the taxpayer's financial statements submitted to the tax authorities together with the tax returns. However, the Tax Code has not regulated a rather broad range of transactions arising from the need to reflect in tax reports intermediary balances accounted for in the Group's consolidated financial statements as of 31 December 2014. Such an uncertainty may refer to estimation and reflection of accruals, collaterals, and allowances for impairment losses, which, in turn, may result in assessment of additional tax liabilities, fines, and penalties, if tax authorities challenge certain interpretations based on the Group's management's estimates. The Group's management believes it has accrued all effective taxes based on its interpretation of the tax legislation.
- A new real estate (property) tax was introduced which is to be levied based on the floor area of the Group's buildings (subject to certain reliefs).

Management believes that the Group has been in compliance with all requirements of the effective tax legislation and currently is assessing the possible impact of the introduced amendments.

According to the Group's management, future tax examinations could raise issues or assessments, which are contrary to the Group's tax filings and could lead to additional taxes, penalties, and interest. Management of the Group believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations and paid or accrued all taxes and withholdings that are applicable. At the same time, in the event of the contrary treatment of such transactions by tax authorities, the Group's management assesses the amount of potential contingent tax liabilities in respect of tax accounting of deductible expenses as of 31 December 2015 and 2014 to be immaterial for the purposes of these consolidated financial statements. Most tax returns of the Group for the period ended 31 December 2009 were examined by tax authorities without significant disagreements or imposition of additional tax liabilities.

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

Transfer pricing – Starting from 1 September 2013, the Tax Code of Ukraine introduced new, based on the OECD transfer pricing guidelines, rules for determining and applying fair market prices which significantly changed transfer pricing ("TP") regulations in Ukraine.

The Group imports goods and purchases services which may potentially be in the scope of the new Ukrainian TP regulations. The Group has submitted the controlled transaction report for the year ended 31 December 2014 within the required deadline. Management believes that the Group has prepared all necessary documentation on controlled transactions for the year ended 31 December 2014 as required by the legislation and continues preparing them for the year ended 31 December 2015. The report on controlled transactions for the year ended 31 December 2015 shall be prepared by the Company till 1 May 2016.

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Management believes that the Group is in compliance with TP requirements. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses of the rules may be subject to various interpretations, the impact of challenge of the Group'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 2015, the Group had outstanding commitments in respect of purchases of property, plant, and equipment for the total amount of UAH 122,854 thousand (2014: UAH 180,971 thousand).

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, 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 reviews 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 of changes in foreign currency exchange rates and interest rates. Market risk exposures are measured using sensitivity analysis which evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year.

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

The Group's exposure to foreign currency risk is mainly attributed to the exchange rate fluctuations of UAH against USD, euro ("EUR"), and Russian Ruble ("RUB") experienced by Ukraine-based 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
As of 31 December 2015	26.2231	24.0007	0.3293
As of 31 December 2014	19.2329	15.7686	0.3030

(in Ukrainian Hryvnias and in thousands)

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	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Financial assets						
Cash and cash equivalents	82,310	602	95	5,239	2,176	21,936
Trade and other accounts receivable	105,268	101,958	28,777	26,129	20,426	20,139
Total financial assets	**187,578**	**102,560**	**28,872**	**31,368**	**22,602**	**42,075**
Financial liabilities						
Borrowings	441,242	271,062	-	-	412,542	336,027
Finance lease obligations	6,215	13,583	-	-	-	-
Trade and other accounts payable	92,999	83,108	6,205	11,012	82,501	71,309
Total financial liabilities	**540,456**	**367,753**	**6,205**	**11,012**	**495,043**	**407,336**
Total net position	**(352,878)**	**(265,193)**	**22,667**	**20,356**	**(472,441)**	**(365,261)**

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

The following table details the Group's sensitivity to a 50% increase in UAH exchange rate against relevant foreign currencies, with all other variables remaining unchanged. 50% 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 50% change in foreign currency exchange rates. A positive value below indicates an increase in profit or equity where UAH devaluates by 50% against the relevant currency. A negative value below indicates a decrease in profit or equity where UAH devaluates by 50% against the relevant currency. For a 50% 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.

2015	**Devaluation of UAH**	**Effect on profit before income tax**
UAH/EUR	50.00%	(236,221)
UAH/USD	50.00%	(176,439)
UAH/RUB	50.00%	11,334

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

(in Ukrainian Hryvnias and in thousands)

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

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

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

2015	**Increase/ (decrease) in basis points**	**Effect on profit before income tax**
Change in interest rate (EURIBOR)	100	(4,125)
Change in interest rate (EURIBOR)	(25)	1,031
Change in interest rate (LIBOR)	100	(4,412)
Change in interest rate (LIBOR)	(25)	1,103

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

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

The Group 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 the Group entities to achieve optimal financing of the business needs of each entity.

(in Ukrainian Hryvnias and in thousands)

The table below summarizes the original contractual maturity profile of the Group's financial liabilities as of 31 December 2015 and 2014 based on undiscounted payments:

2015	**Weighted average effective interest rate**	**On demand**	**Up to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Total**
Borrowings	7.21%	-	486,278	42,022	82,675	274,999	885,974
Finance lease obligations	24.25%	-	4,489	2,876	-	-	7,365
Trade and other accounts payable	n/a	136,412	270,789	6,456	12,186	-	425,843
Other non-current liabilities	-	-	-	-	-	21,416	21,416
Guarantees issued	n/a	-	48	8,214	97	2,305	10,664
Total		**136,412**	**761,604**	**59,568**	**94,958**	**298,720**	**1,351,262**

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

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 380,341 thousand were undrawn as of 31 December 2015 (2014: UAH 334,052 thousand).

Credit risk – Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss to the Group. Financial instruments which potentially subject the Group to significant concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. The Group's maximum exposure to credit risk as of 31 December 2015 amounted to UAH 767,928 thousand (2014: UAH 569,250 thousand).

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

(in Ukrainian Hryvnias and in thousands)

The Group mainly trades with reputable customers both in the domestic and export markets. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Furthermore, in 2012, the Group implemented additional procedure for monitoring of customers' financial information on a quarterly basis. Other exposures are monitored and 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 Group's top six customers in 2015 amounted to UAH 2,185,507 thousand (2014: UAH 1,594,107 thousand), with the balances on settlements with these customers as of 31 December 2015 amounting to UAH 354,677 thousand (2014: UAH 246,635 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 12% 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 Group's maximum exposure in this respect is the maximum amount the Group could have to pay if the guarantee is called on.

Capital management – The Group considers debt and shareholders' equity as primary sources of capital. The Group's objectives, when managing capital, are to ensure the Group's 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.

	2015	**2014**
Borrowings (Note 15)	853,784	607,089
Finance lease obligations (Note 16)	6,215	13,583
Cash and cash equivalents (Note 12)	(182,549)	(96,835)
Net debt	**677,450**	**523,837**
Total equity	2,130,535	1,742,879
Equity and net debt	**2,807,985**	**2,266,716**
Gearing ratio	**24.1%**	**23.1%**

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

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 willing parties, other than in a forced sales or liquidation.

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

(in Ukrainian Hryvnias and in thousands)

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

	Carrying amounts		Fair value	
	2015	**2014**	**2015**	**2014**
Financial liabilities (current and non-current)				
Borrowings	853,784	607,089	857,085	610,671
Finance lease obligations	6,215	13,583	6,577	14,328

Fair values of the financial instruments presented above correspond to Level 2 of fair value hierarchy and have been determined by discounting future contractual cash flows at the year-end market interest rates available to the Group for similar financial instruments. Future cash flows are measured, directly or indirectly, on the basis of observable inputs. The measurements use one or more observable quoted prices in the markets considered to be active.

32. SUBSEQUENT EVENTS

Dividends declared – In March 2016, the General Shareholders' Meeting approved distribution of dividends for the year ended 31 December 2015 of UAH 3.03 per share for the total amount of UAH 22,038 thousand.

Acquisition of subsidiary – On 3 February 2016 the Group signed an agreement with KWW Kotkowski Wierzbicki Wegrzyn sp. j. on the purchase of 100% shareholding in NORD FARM Sp. z.o.o (Poland) specializing in marketing and sales of biologically active additives in the market of Poland. The agreement amounts to EUR 6,500 thousand. For the purposes of this acquisition, a special purpose company Farmak Invest Limited has been established under the laws of Cyprus.

Borrowings – In January 2016, in accordance with a supplementary agreement, the amount of available limit under the loan agreement with EBRD dated 9 December 2014 were changed to EUR 5,000 thousand. These funds shall be available for the Group until 30 June 2016.

33. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by management and authorized for issue on 4 April 2016.