
PJSC “FARMAK”

Consolidated Financial Statements
for the Year Ended 31 December 2018

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PJSC "FARMAK"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018 and the consolidated results of its operations, cash flows, and changes in equity for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the preparation of the financial statements requirements of the Law of Ukraine "On accounting and financial reporting in Ukraine".

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

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the Group's consolidated financial position and consolidated 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 and IFRS;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group;
- Preventing and detecting fraud and other irregularities; and
- Complying with other requirements of the effective legislation in the sphere of audit, accounting, and corporate governance the Group's management should comply with, and ensuring that the highest governance bodies of the Group adhere to them.

The consolidated financial statements of the Group for the year ended 31 December 2018 were approved by management and authorized for issue on 26 April 2019.

On behalf of management of PJSC "Farmak":



V. H. Kostiuk,
Chief Executive Officer



V. G. Smarodina,
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To Shareholders of Public Joint Stock Company "Farmak":

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of PJSC "Farmak" (the "Company") and its subsidiaries (jointly, the "Group"), which comprise the consolidated statement of financial position as of 31 December 2018 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2018, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the preparation of the consolidated financial statements requirements of the Law of Ukraine "On accounting and financial reporting in Ukraine" ("Law on accounting and financial reporting").

Basis for opinion

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

Key audit matters

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

Key audit matter	How the matter has been addressed in the audit
Trade and other accounts receivable	
Starting from 1 January 2018, the Group has adopted IFRS 9 "Financial Instruments" ("IFRS 9"). IFRS 9 has a significant impact on measurement of the expected credit losses from trade and other accounts receivable.	We have obtained understanding in respect of policies, processes, and controls of the Group regarding measurement of the expected credit losses from trade and other accounts receivable by using the estimated provision matrix.

Key audit matter	How the matter has been addressed in the audit
<p>Measurement of the expected credit losses from trade and other accounts receivable requires that management apply significant judgments and subjective assumptions.</p> <p>Considering a significant amount of trade and other accounts receivable and a high subjectivity degree of judgments and assumptions, we believe measurement of the expected credit losses from trade and other accounts receivable to be a key audit matter.</p> <p>Details are provided in Note 11 "Trade and Other Accounts Receivable" and Note 3 "Application of New and Revised International Financial Reporting Standards ("IFRS")".</p>	<p>We have assessed the appropriateness of the Group's methodology for measurement of the expected credit losses on a collective basis using the simplified approach for non-defaulted balances, and on an individual basis for all defaulted balances taking into account the requirements of IFRS 9 and the Group's accounting policies.</p> <p>On a sample basis, we have checked the correctness of aging of trade and other accounts receivable as of the reporting date by reconciling the balances to supporting documents.</p> <p>We have reviewed the Group's historical information for 2017-2018 to determine the actual credit losses that have occurred and checked that loss rates used in the provision matrix are consistent with historical losses. We have performed recalculation of the expected credit losses that are determined on a collective basis.</p> <p>We have also assessed the appropriateness of management's judgments regarding determination of respective groups of accounts receivable based on similar credit risk characteristics, probability of default, period of statistics for calculating the probability of default, and loss given default for the balances assessed on a collective basis, as well as for the balances at Stage 3 for which credit losses are assessed on an individual basis.</p> <p>We have checked the completeness and accuracy of relevant disclosures to the consolidated financial statements.</p>

Other information

Management is responsible for the other information. The other information comprises the information included in the report on management, which also includes the corporate governance report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the annual data of a securities' issuer, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual data of a securities' issuer, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the consolidated financial information of the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the audit of the Group. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period, which constitute the key audit matters included herein. We describe these matters in our auditor's report, except for the cases when a law or regulation prohibits a public disclosure of a specific matter or, in extremely adverse circumstances, we determine that such a matter should not be addressed in our report, as negative consequences from such a disclosure may predictably outweigh its usefulness for interests of the public.

Report on other legal requirements

We have been appointed as auditor of Public Joint Stock Company "Farmak" at the meeting of the Supervisory Board on 1 November 2018. In view of the previous renewals and reappointments, we conducted audit from 2011 to the date of this report.

We confirm that the audit opinion is consistent with the additional report to the Audit Committee.

We confirm that the prohibited non-audited services referred to in ISAs or requirements of Article 6, Paragraph 4 of the Law of Ukraine "On Audit of Financial Statements and Audit Activities" were not provided and that the audit engagement partner and audit firm remain independent of the Group in conducting the audit.

Basic information about audit firm

Name: PRIVATE JOINT STOCK COMPANY "DELOITTE & TOUCHE UKRAINIAN SERVICES COMPANY".

Address of registration and location of audit firm: 48, 50a Zhylianska Str., Kyiv, 01033, Ukraine.

"Private Joint Stock Company "Deloitte & Touche Ukrainian Services Company" is enrolled to Sections of "Audit Entities", "Audit Entities and Auditors That Have the Right to Conduct Statutory Audits of Financial Statements", and "Audit Entities and Auditors That Have the Right to Conduct Statutory Audits of Financial Statements of Public Interest Entities" of the Register of Auditors and Auditing Entities of the Audit Chamber of Ukraine under # 1973."

PJSC "Deloitte & Touche USC



Olga Shamrytska
Engagement Partner

26 April 2019

PJSC "FARMAK"

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2018
In Ukrainian Hryvnias and in thousands**

	Notes	2018	2017
Assets			
<i>Non-current assets</i>			
Property, plant, and equipment	6	2,361,157	2,071,236
Right-of-use assets	8	246,479	-
Prepayments for property, plant, and equipment	6	166,777	147,118
Intangible assets	7	115,297	94,818
Goodwill	9	42,602	46,308
Investments in associate		4,855	4,622
Deferred tax assets	19	14,829	23,060
Other non-current assets		71,669	67,185
Total non-current assets		3,023,665	2,454,347
<i>Current assets</i>			
Inventories	10	1,165,550	1,051,321
Trade and other accounts receivable	11	1,487,344	1,160,786
Prepayments made	12	66,847	61,672
Taxes recoverable and prepaid, other than income taxes	13	30,130	54,037
Current income taxes prepaid		4,507	3,139
Other financial assets		40,970	20,472
Cash and cash equivalents	14	109,969	53,947
Total current assets		2,905,317	2,405,374
Total assets		5,928,982	4,859,721
Equity and liabilities			
<i>Equity</i>			
Share capital	15	54,352	54,352
Foreign currency translation reserve		26,261	28,918
Retained earnings		4,202,648	3,292,456
Total equity attributable to equity holders of the Group		4,283,261	3,375,726
Non-controlling interests		12	35
Total equity		4,283,273	3,375,761
<i>Non-current liabilities</i>			
Loans and borrowings	16	12,305	2,264
Lease obligations	8	174,537	8,546
Defined benefit obligations	17	112,421	91,777
Liabilities for business combination		-	10,049
Total non-current liabilities		299,263	112,636
<i>Current liabilities</i>			
Loans and borrowings	16	441,971	497,627
Trade and other accounts payable	17, 18	760,405	771,080
Lease obligations	8	59,573	16,749
Income taxes payable		61,863	67,128
Taxes payable, other than income taxes		22,634	18,740
Total current liabilities		1,346,446	1,371,324
Total liabilities		1,645,709	1,483,960
Total equity and liabilities		5,928,982	4,859,721

On behalf of the Management of PJSC "Farmak":

V. H. Kostiuik,
Chief Executive Officer

V. G. Smarodina,
Chief Financial Officer

PJSC "FARMAK"

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
In Ukrainian Hryvnias and in thousands**

	Notes	2018	2017
Revenue	20	6,618,911	6,084,681
Cost of sales	21	(2,933,774)	(2,723,663)
Gross profit		3,685,137	3,361,018
Selling and distribution expenses	22	(1,341,839)	(1,237,688)
General and administrative expenses	23	(681,292)	(546,175)
Research and development costs	24	(234,282)	(187,999)
Other operating income		19,009	20,575
Other operating expense	25	(86,635)	(219,619)
Operating profit		1,360,098	1,190,112
Finance income		14,377	9,860
Finance costs	26	(45,686)	(51,428)
Net foreign exchange loss		(35,033)	(70,333)
Share in profit of an associate		3,680	3,965
Profit before income tax		1,297,436	1,082,176
Income tax expense	19	(247,230)	(243,086)
Profit for the year		1,050,206	839,090
Other comprehensive income/(loss)			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Revaluation of defined benefit obligations	17	(1,168)	(24,085)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		(2,657)	21,858
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,046,381	836,863
Profit/(loss) for the year attributable to:			
Equity holders of the Group		1,050,229	838,874
Non-controlling interests		(23)	216
		1,050,206	839,090
Total comprehensive income/(loss) for the year attributable to:			
Equity holders of the Group		1,046,404	836,647
Non-controlling interests		(23)	216
		1,046,381	836,863

On behalf of the Management of PJSC "Farmak":


V. H. Kostyuk,
Chief Executive Officer


V. G. Smarodina,
Chief Financial Officer

PJSC "FARMAK"
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
In Ukrainian Hryvnias and in thousands


	Notes	2018	2017
Operating activities			
Profit before income tax		1,297,436	1,082,176
Adjustments for:			
Depreciation and amortization		324,600	252,368
Net profit on disposal of property, plant, and equipment and intangible assets	25	(4,337)	(4,155)
Loss on impairment of goodwill	25	-	161,630
Share in profit of an associate		(3,680)	(3,965)
Loss on write off of raw materials and finished goods	10, 25	52,552	22,444
Changes in allowance for impairment and write offs of accounts receivable	22, 25	31,977	12,868
Finance costs	26	45,686	51,428
Finance income		(14,377)	(9,860)
Net foreign exchange loss		3,139	61,525
Operating profit before changes in working capital		1,732,996	1,626,459
Changes in working capital:			
Increase in inventories		(172,782)	(174,811)
Increase in trade and other accounts receivable		(462,012)	(184,707)
Increase in prepayments made		(7,842)	(19,680)
(Decrease)/increase in taxes recoverable and prepaid, other than income taxes		22,922	(8,711)
(Decrease)/increase in trade and other accounts payable and other liabilities		(3,627)	15,967
Increase in taxes payable, other than income taxes		4,147	2,048
Cash generated from operating activities		1,113,802	1,256,565
Interest paid		(31,331)	(43,308)
Income taxes paid		(246,093)	(205,688)
Net cash generated from operating activities		836,378	1,007,569
Investing activities			
Acquisition of property, plant, and equipment and intangible assets		(622,831)	(479,672)
Short-term placement of free funds		(20,498)	(20,472)
Proceeds on disposal of property, plant, and equipment		8,131	7,630
Contingent compensation paid as a result of acquisition of a subsidiary		(7,746)	-
Dividends received from associate		2,703	2,570
Interest received		7,278	2,322
Net cash used in investing activities		(632,963)	(487,622)

PJSC "FARMAK"**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
In Ukrainian Hryvnias and in thousands**

	Notes	2018	2017
Financing activities			
Proceeds on loans and borrowings		233,587	129,941
Repayment of loans and borrowings		(267,486)	(584,474)
Repayment of lease obligations		(73,149)	(15,032)
Repurchase of treasury shares		-	(8,510)
Dividends paid		(39,714)	(33,238)
Net cash used in financing activities		(146,762)	(511,313)
Net increase in cash and cash equivalents		56,653	8,634
Cash and cash equivalents, as of 1 January	14	53,947	44,020
Effect of exchange rate changes on balances of cash and cash equivalents held in foreign currencies		(631)	1,293
Cash and cash equivalents, as of 31 December	14	109,969	53,947

Non-cash transactions for the year ended 31 December 2018 were represented by right-of-use assets recognized under leases in the amount of UAH 246,479 thousand. Non-cash transactions for the year ended 31 December 2017 were represented by property, plant, and equipment in the amount of UAH 20,196 thousand.

On behalf of the Management of PJSC "Farmak":


V. H. Kostyuk,
Chief Executive Officer


V. G. Smarodina,
Chief Financial Officer

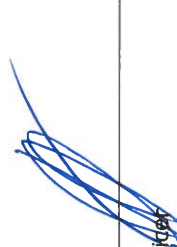
PJSC "FARMAK"

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018 In Ukrainian *Hryvnias and in thousands*

	Share capital	Foreign currency translation reserve	Retained earnings	Total equity attributable to equity holders of the Group	Non-controlling interests	Total equity
As of 1 January 2017	54,479	7,060	2,529,544	2,591,083	(181)	2,590,902
Profit for the year	-	-	838,874	838,874	216	839,090
Other comprehensive (loss)/income for the year	-	21,858	(24,085)	(2,227)	-	(2,227)
Total comprehensive income for the year	-	21,858	814,789	836,647	216	836,863
Repurchase of treasury shares (Note 15)	(127)	-	(8,383)	(8,510)	-	(8,510)
Effect on initial recognition of receivables from the Group's shareholder at fair value	-	-	(11,951)	(11,951)	-	(11,951)
Dividends declared (Note 15)	-	-	(31,543)	(31,543)	-	(31,543)
As of 31 December 2017	54,352	28,918	3,292,456	3,375,726	35	3,375,761
Profit for the year	-	-	1,050,229	1,050,229	(23)	1,050,206
Other comprehensive loss for the year	-	(2,657)	(1,168)	(3,825)	-	(3,825)
Total comprehensive income for the year	-	(2,657)	1,049,061	1,046,404	(23)	1,046,381
Effect on initial recognition of receivables from the Group's shareholder at fair value	-	-	(99,440)	(99,440)	-	(99,440)
Dividends declared (Note 15)	-	-	(39,429)	(39,429)	-	(39,429)
As of 31 December 2018	54,352	26,261	4,202,648	4,283,261	12	4,283,273

On behalf of the Management of PJSC "Farmak":


V. H. Kostiuk,
Chief Executive Officer


V. G. Smarodina,
Chief Financial Officer

PJSC "FARMAK"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 *In Ukrainian Hryvnias and in thousands*

1. GENERAL INFORMATION

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

Subsidiaries, a consolidated structured entity, and an 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	
			2018	2017
Subsidiaries:				
SE "Baza Vidpochynku "Smuhlianka"	Recreation center	Ukraine, Odesa	100%	100%
	Property leasehold and operations with securities			
LLC "Farmakhim"	Production and sale of drugs	Ukraine, Kharkiv	100%	100%
LLC "Berenika"	Investments	Ukraine, Zhytomyr	100%	100%
Farmak Invest Limited		Cyprus, Nicosia	100%	100%
Farmak International Sp. z o.o.	Investments	Poland, Warsaw	100%	100%
NORD FARM Sp. z o.o.	Distribution of drugs	Poland, Warsaw	100%	100%
Consolidated structured entity*:				
LLC "Simpozium"	Business travel, conference services	Ukraine, Kyiv	-	-
Associate:				
LLC "Farmak SP"	Distribution of drugs	Poland, Warsaw	26%	26%

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

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

2. OPERATING ENVIRONMENT

In 2018 year, the Ukrainian economy proceeded recovery from the economic and political crisis of previous years and demonstrated sound real GDP growth of around 3.4% (2017: 2.5%), modest annual inflation of 9.8% (2017: 13.7%), and slight devaluation of national currency by around 2.4% to USD and 8.2% to EUR comparing to previous year averages.

Also Ukraine continued to limit its political and economic ties with Russia, given annexation of Crimea, an autonomous republic of Ukraine, and a frozen armed conflict with separatists in certain parts of Luhanska and Donetska regions. Amid such events, the Ukrainian economy demonstrated further refocusing on the European Union ("EU") market realizing all potentials of established Deep and Comprehensive Free Trade Area with EU, in such a way effectively reacting to mutual trading restrictions imposed between Ukraine and Russia. As a result, the weight of the Russian's export and import substantially fell from 18.2% and 23.3% in 2014 to around 7.7% and 14.2% in 2018, respectively.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

In Ukrainian Hryvnias and in thousands

In terms of currency regulations, the new currency law was adopted in 2018 and will come into force on 7 February 2019. It purports to enable the NBU to promulgate more liberal currency regulation and soften a number of currency restrictions, such as: requirement to register loans obtained from non-residents with the NBU, 180-day term for making payments in foreign economic transactions, required 50% share of mandatory sale of foreign currency proceeds, etc.

Further economic growth depends, to a large extent, upon success of the Ukrainian government in realization of planned reforms, cooperation with the International Monetary Fund ("IMF"), and smooth transition through presidential and parliamentary elections, due in March and October 2019, respectively.

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

Adoption of new and revised International Financial Reporting Standards

In 2018, the Group adopted all new and revised Standards issued by International Accounting Standards Board (the "IASB") and Interpretations issued by International Financial Reporting Standards Interpretation Committee ("IFRS IC") that are relevant to its operations and mandatorily effective for annual reporting periods that begin on or after 1 January 2018:

- IFRS 9 *Financial Instruments*;
- IFRS 15 *Revenue from Contracts with Customers* (and the related Clarifications to IFRS 15);
- Amendments to IFRS 2 *Share-based Payment* – Classification and measurement of share-based payment transactions;
- Amendments to IAS 40 *Investment Property* – Transfers of investment property;
- Interpretation of IFRS IC 22 *Foreign Currency Transactions and Advance Consideration*;
- Annual Improvements to IFRS for the period 2014-2016.

Also, the Group has early adopted IFRS 16 *Leases* that is mandatorily effective for annual reporting periods that begin on or after 1 January 2019.

IFRS 9 *Financial Instruments*

In the current year, the Group has applied IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS that are effective for annual periods that begin on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives.

IFRS 9 has introduced the new requirements to:

- ***Classification and measurement of financial assets and financial liabilities.*** All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Management of the Group reviewed and assessed the Group's existing financial assets as of 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 had no significant impact on the Group's financial assets as regards their classification and measurement. Financial assets classified as cash and cash equivalents, accounts receivable for products, goods, works, services, and other accounts receivable under IAS 39 *Financial Instruments: Recognition and Measurement* that had been measured at amortized cost continued to be measured at amortized cost under IFRS 9 as they were held within a business model to collect contractual cash flows, and those cash flows consisted solely of payments of principal and interest on the principal amount outstanding.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

In Ukrainian Hryvnias and in thousands

No reclassifications of financial assets had any impact on the Group's consolidated financial position, profit or loss, other comprehensive income, or total comprehensive income for the year. The application of IFRS 9 had no impact on the classification and measurement of the Group's financial liabilities.

- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires that an entity account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically, broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

Additionally, the Group adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that were applied to the disclosures for 2018.

There were no financial assets or financial liabilities which the Group had previously designated as at fair value through profit or loss under IAS 39 that were subject to reclassification or which the Group has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Group has elected to designate as at fair value through profit or loss at the date of initial application of IFRS 9.

A summarized impact from the adoption of IFRS 9 is as follows:

- Presentational changes in trade and other accounts receivable (Note 11), cash and cash equivalents (Note 14), risk management policies (Note 30) disclosures to reflect the business model and cash flow characteristics of these assets and liabilities and group them into their respective IFRS 9 category or other IFRS classification;
- An expected credit loss allowance in the amount of UAH 5,804 thousand as of 31 December 2018 (Note 11); no effect on the retained earnings as of 1 January 2018 from application of the new Standard was identified.

IFRS 16 Leases

In the current year, the Group, for the first time, has applied IFRS 16 *Leases* (as issued by the IASB in January 2016) in advance of its effective date.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 8.

In transition to IFRS 16, the Group has applied the following practical expedients:

- a) Exemption from the need to reclassify the leases existing as of 1 January 2018 for the compliance with the new Standard's criteria;

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- b) Application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- c) Exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- d) Hindsight may be used, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The effect of IFRS 16 adoption on the Group's consolidated financial statements

The date of initial application of IFRS 16 for the Group is 1 January 2018.

The Group has applied IFRS 16 using the approach of recognizing a cumulative effect of the first application of this Standard as of 1 January 2018 as an adjustment of retained earning balances without restating the comparative information.

Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 *Leases* and Interpretation of IFRS IC 4 *Determining Whether an Arrangement Contains a Lease* will continue to be applied to leases entered or modified before 1 January 2018.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identifiable asset for a period of time in exchange for consideration.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2018 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on lessee accounting

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

- a) Recognizes right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments discounted at the incremental borrowings rates of the lessee at the date of initial application;
- b) Assesses a right-of-use asset as an amount that is equal to the lease liability adjusted for the amount of any prepaid or accrued lease payments related to the lease recognized in the consolidated statement of financial position immediately before the date of initial recognition;
- c) Recognizes depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss and other comprehensive income; and
- d) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g., free rent period) are recognized as part of the measurement of the right-of-use assets and lease liabilities, whereas, under IAS 17, they resulted in the recognition of a lease incentive liability, amortized as a reduction of rental expense on a straight-line basis.

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Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*. This replaces the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less), the Group has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within other expense in the consolidated statement of profit or loss and other comprehensive income.

Former finance leases

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. IFRS 16 requires that the Group recognize as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Group's consolidated financial statements.

Impact on lessor accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

The Group as a lessee

- The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities. It resulted in a decrease in other expense and an increase in depreciation and amortization expense and in interest expense.
- The initial measurement of the right-of-use asset includes the initial measurement amount of lease liability, lease payments at the date of lease commencement or before that date, less incentive lease terms received, lease-related initial direct costs incurred, as well as estimated costs to be incurred on dismantling, transferring, or recovering an underlying asset.
- Machinery held under finance lease arrangements previously presented within property, plant, and equipment is now presented within the line item right-of-use-assets. There has been no change in the amount recognized.
- Lease liability on leases previously classified as financing leases under IAS 17 and previously presented within borrowings is now presented in the separate line lease liabilities. There has been no change in the liability recognized.
- The lease incentive liability previously recognized in respect to operating leases has been derecognized and the amount factored in the measurement of the right-of-use assets and lease liabilities.

No effect on the retained earnings as of 1 January 2018 from application of the new Standard was identified. Key changes as of 1 January 2018 were as follows:

	Net book value of property, plant, and equipment under IAS 17, as of 31 December 2017	Prepayments made as of 31 December 2017	Right-of-use assets under IFRS 16, as of 1 January 2018	Finance lease obligations under IAS 17, as of 31 December 2017	Lease obligations under IFRS 16, as of 1 January 2018
Land	-	-	9,415	-	(9,415)
Buildings and constructions	-	1,504	36,793	-	(35,289)
Vehicles	28,297	-	28,297	(23,557)	(23,557)

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During the year ended 31 December 2018, the Group entered into new leases and recognized right-of-use assets and lease liabilities under IFRS 16. Carrying value of right-of-use assets and lease liabilities as of 31 December 2018 amounted to UAH 246,479 thousand and UAH 234,110 thousand, respectively.

As of 1 January 2018, for the purposes of discounting lease obligations, the following incremental borrowing rates of a lessee were applied:

For foreign currency denominated contracts	5%
For UAH denominated contracts	18%

Incremental borrowing rates of a lessee are determined as interest rates that the Group would be required to pay under the borrowings obtained for similar periods and with similar collateral that are required to receive an asset of the value comparable to the value of a right-of-use asset in the similar environment.

The application of IFRS 16 has an impact on the Group's consolidated statement of cash flows.

Presentation changes in the consolidated statement of cash flows

Under IFRS 16, lessees should present:

- Short-term lease payments and variable lease payments not included in the measurement of the lease liability as part of operating activities (the Group has included those payments as part of representative office costs and transportation and storage expenses in Note 22);
- Cash paid for the interest portion of lease liability as either operating activities or financing activities, as permitted by IAS 7 *Statement of Cash Flows* (the Group has opted to include the interest paid as part of operating activities); and
- Cash payments for the principal portion for leases liability, as part of financing activities.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities.

Consequently, the net cash generated by operating activities has increased by UAH 52,787 thousand, and net cash used in financing activities increased by the same amount.

IFRS 15 Revenue from Contracts with Customers (and the related Clarifications)

In the current year, the Group has applied IFRS 15 *Revenue from Contracts with Customers* (and relevant amendments adopted in April 2016) that is effective for the annual periods beginning on or after 1 January 2018. IFRS 15 has introduced a new 5-step approach to revenue recognition. IFRS 15 has been complemented by detailed guidelines for the actions to be used under specific scenarios.

The new Standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at a significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

IFRS 15 requires that an entity apply judgments, with reference to all important facts and circumstances, in applying each stage of the model in respect of contracts with customers. This Standard also determines a procedure of accounting for additional costs incurred to obtain a contract, as well as expenses directly related to contract performance. In addition, the Standard requires more extensive disclosures.

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The Group earlier applied IAS 18 *Revenue* to revenue recognition, and the transition to IFRS 15 had no material impact on the Group's revenue recognition. Thus, the Group has not applied any adjustments or changes to the disclosures related to adoption of IFRS 15.

The adoption of other new and revised Standards and Interpretations has not had any effect on the Group's consolidated financial position or consolidated performance recorded in the consolidated financial statements and has not resulted in any changes to the Group's accounting policies and the amounts reported for the current or prior years.

Standards and Interpretations in issue but not yet effective

At 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:

- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* – Sale or contribution of assets between an investor and its associate or joint venture³;
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* – Long-term shares in associates and joint ventures¹;
- IFRS 17 *Insurance Contracts*²;
- Interpretation of IFRS IC 23 *Uncertainty over Income Tax Treatments*¹;
- Amendments to IAS 19 *Employee Benefits* – Plan amendment, curtailment, or settlement¹;
- Amendments to IFRS 9 *Financial Instruments* – Prepayment features with negative compensation¹;
- Annual Improvements to IFRS for the period 2015-2017¹.

¹ Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.

³ Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

The Group's management is currently assessing the impact of other amendments and new Standards on the Group's consolidated financial statements in future periods.

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

The consolidated financial statements have been prepared on a going concern basis, which stipulates for realization of assets and settlement of liabilities in the normal course of business in the foreseeable future.

These consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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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 IFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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

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

Functional and presentation currency

Items included in the consolidated financial statements relating to each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the entities domiciled in Ukraine and Cyprus is Ukrainian Hryvnia ("UAH"), and the entities registered in Poland – Polish Zloty ("PLZ"). These consolidated financial statements are presented in Ukrainian Hryvnias, and all amounts are rounded to the nearest thousand, unless otherwise indicated.

Basis of consolidation

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

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

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

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

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders, or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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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 expense 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 in line with the Group's accounting policies.

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

Non-controlling interests

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

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

Changes in the Group's ownership interests in investees

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

When the Group loses control over an investee, a gain or loss 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, i.e. reclassified to profit or loss or transferred directly to retained earnings.

Business combinations

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

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

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

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

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

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

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

Goodwill

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

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

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

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

Investment in an 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.

A gain or loss and assets and liabilities of an 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 on the basis of the consideration received or receivable that the Group expects to receive under a contract with a customers, less any estimated customer returns, discounts, rebates, value added tax and other sales-related taxes, and duties.

For the Group's contracts with customers, the performance obligations are satisfied at a certain point of time, and not over the period of certain time – in particular, when goods are delivered to customers or a carrier who will deliver goods to customers. The control is transferred when goods become available for the carrier or when the buyer receives possession of them (when the buyer obtains risks and rewards/benefits of ownership of goods). This point of time depends to a great extent on delivery terms, as specified in a relevant contract.

The moment of revenue recognition coincides with the time of the transfer of title of ownership to goods in accordance with the delivery terms under the contract (commonly based on international commercial terms – Incoterms), when a customer obtains all substantial risks and rewards of ownership of goods, and the Group receives a right to payments for the goods delivered.

The Group's contracts with customers do not contain significant financing components. The transaction price is determined as a contract price, less a variable consideration in the form of rebates. Rebates are provided to customers based on sales volumes. At the end of each reporting period, management assesses the most favorable amount of this variable consideration and adjusts the revenue amount accordingly.

In the event contracts with customers envisage for several commitments to be performed, the contract price is allocated to each individual performance obligation based on the ratio of prices per each individual sales transaction.

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.

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Leases

The Group recognizes a right-of-use asset and a lease liability in respect of all leases (including sub-leases and leases of intangible assets) that transfer a right to control an identifiable asset over a certain period of time in exchange for consideration, except for short-term leases (with lease durations of 12 months or less) and leases of underlying assets with low value. For those lease transactions, the Group recognizes lease payments as operating expense on the straight line basis over the lease period. In identifying leases, the Group applies practical expedients of IFRS 16 that allow a lessee not to separate non-lease components of the contract and, instead, account for any lease and related non-lease components as single contracts.

Lease obligations are initially measured at the present value of lease payments not paid at the date of the lease commencement discounted by using the Group's incremental borrowing rates. Lease payments include fixed payments, variable lease payments that depend on indices or rates initially measured by using such indices or rates at the commencement date, amounts expected to be paid on residual value guarantees; exercise price of purchase probability if the Group is reasonably certain that it will get use of such a possibility, and payment of cancellation penalty fees, except for the cases when the Group is reasonable certain that the lease will not be early terminated. Variable payments that depend on external factors are included in expense when incurred.

At the date of lease commencement, the Group measures the right-of-use asset at cost, which consists of the initial cost of lease liability, any lease payments made on or before the date of lease commencement, plus any initial direct costs incurred and estimated costs to be incurred in the process of dismantling and transferring the underlying assets, less lease incentives received.

Right-of-use assets are subsequently depreciated on the straight-line basis over the expected lease period. The lease period is a period during which the contract may be cancelled, except for the cases when the Group is reasonably certain in realization of a possible extension of the lease. In estimating a lease period, the Group considers all relevant facts and circumstances that create an economic stimulus for the Group to get use of the possibility to extend the lease, e.g., the useful life of the asset located in leased premises, statistics of changes in location, trends in technological changes, profitability of leased assets, and costs on termination or conclusion of leases.

Useful lives of the right-of-use assets are presented as follows:

Land	1 year
Buildings and constructions (warehouses)	2-7 years
Vehicles	3-5 years

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.

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

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

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

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

Currency	As of 31 December 2018	Average exchange rate for 2018	As of 31 December 2017	Average exchange rate for 2017
UAH/USD	27.6883	27.2005	28.0672	26.5966
UAH/EUR	31.7141	32.1429	33.4954	30.0042
UAH/RUB	0.3983	0.4357	0.4870	0.4561
UAH/PLZ	7.3706	7.5502	8.0117	7.0490

Loan and borrowing costs

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

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

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

Research and development costs

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

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

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Pension and other non-current employee benefit obligations

Defined benefit obligations

The Group is obliged to compensate the State Pension Fund of Ukraine for pensions that are paid by the state to employees of the Group 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.

Also, in accordance with the corporate pension plan, the Group pays defined benefits to an approved number of employees upon their retirement. The amount of such payments depends upon employee's service period with the Group and represent non-current benefits.

The Group's defined benefit plans (the "Plans") are not funded and have no Plan assets. The Group finances its liabilities so that the actual expenses of the period were covered at the cost of the current period.

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 income/(expense); and
- Re-measurement.

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

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

State retirement defined contribution 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". These amounts are expensed when incurred.

Taxation

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

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.

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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, 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.

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

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

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

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

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

An item of property, plant, and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or disposal. Any gain or loss arising on de-recognition of the asset or write off of the property, plant, and equipment item (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is recognized in profit or loss.

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

Intangible assets

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

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

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

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

Intangible assets acquired in a business combination

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

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

Impairment of tangible and intangible assets, other than goodwill

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

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

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

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

Inventories

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

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

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

Contingent 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 statement of financial position when the Group becomes a party to the contractual provisions of a particular instrument.

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Financial assets and financial liabilities of the Group are represented by cash and cash equivalents, trade and other accounts receivable, other non-current assets (non-current accounts receivable), loans and borrowings, lease obligations, trade accounts payable. The accounting policies in respect of the initial recognition and subsequent measurement of financial instruments are disclosed in the respective accounting policies set out below.

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, correspondingly, 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.

Financial assets

All recognized financial assets are measured subsequently at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost (this category is the most relevant to the Group):

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss.

Financial assets at amortized cost are subsequently measured using the effective interest rate method and are subject to impairment.

The effective interest rate method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition less the principal repayments, plus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Impairment of financial assets

The Group recognizes an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. Expected credit losses are estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

For trade and other accounts receivable and contract assets, the Group applies a simplified approach in calculating expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime expected credit losses at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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For all other financial instruments, the Group recognizes lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

Lifetime expected credit losses represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 month expected credit losses represent the portion of lifetime expected credit losses that are expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward looking information that is available without undue cost or effort. Forward looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Low credit risk financial instruments

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (1) The financial instrument has a low risk of default;
- (2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- (3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

Default definition

The Group considers that default has occurred when a financial asset is more than 120 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit impaired financial assets

A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

- (a) Significant financial difficulty of the issuer or the borrower;
- (b) A breach of contract, such as a default or past due event;
- (c) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

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- (d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (e) The disappearance of an active market for that financial asset because of financial difficulties.

Write off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g., when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade accounts receivable, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Inputs, assumptions, and estimation techniques used by measurement and recognition of expected credit losses are disclosed in respective Notes 3 and 11 to financial assets.

Cash and cash equivalents

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

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

Trade and other accounts receivable

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

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.

In the transfer of a financial asset, the Group assesses to what extent it retains risks and rewards of ownership of the financial asset. Specifically:

- If the Group transfers substantially all risks and rewards incidental to ownership of a financial asset, it derecognizes the financial asset and separately recognizes as assets or liabilities all the rights and obligations created or retained in the course of the transfer;
- If the Group retains substantially all risks and rewards incidental to ownership of a financial asset, it continues to recognize the financial asset;
- If the Group neither transfers, nor retains substantially all risks and rewards incidental to ownership of a financial asset, then: (a) if the Group has not retained control over the financial asset, it derecognizes the financial asset and separately recognizes as assets or liabilities all the rights and obligations created or retained in the course of the transfer; (b) if the Group retains control, it continues to recognize the financial asset to the extent of its further involvement in the financial asset. If the Group continues to recognize the asset to the extent of its further involvement, it also recognizes a respective liability.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount (determined at the date of de-recognition) and the sum of the consideration (including all new assets received, less all accepted new liabilities) is recognized in profit or loss.

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Financial liabilities and equity instruments

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

Share capital

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

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

Financial liabilities

The Group classifies its financial liabilities as measured subsequently at amortized cost.

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 a financial liability (or a part of the financial liability) from its consolidated statement of financial position when, and only when, it is repaid, i.e. when the contractual obligations are discharged, cancelled, or they expire. The difference between the carrying amount of a financial liability (or a part of the financial liability) repaid or transferred to another party and the consideration paid, including any transferred non-cash assets or assumed liabilities is recognized in profit or loss.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, management 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 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 or future periods.

Critical judgments in applying accounting policies

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

Recognition of research and development costs

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

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Segment information

Management considers that the Group is operating as a single operating segment. In making this judgment, management has analyzed definition of operating segment under IFRS 8 *Operating Segments* and concluded that there are no business activities within the Group whose operating results are reviewed and analyzed separately for marginality by products or by geography. The Group does not distinguish operations of Nord Farm Group as a separate operating segment due to the fact that the share of revenue, profit/loss, and asset indicators does not meet the quantitative criteria of IFRS.

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

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

Key sources of estimation uncertainty

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

Impairment of goodwill

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

Impairment of property, plant, and equipment

IFRS require that an entity assess at the end of each reporting period whether there is any indication that assets may be impaired. If any such indication exists, the Group shall estimate the recoverable amount of the asset to determine the amount of impairment, if any. 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 varied assumptions. No impairment has been recognized by the Group in relation to property, plant, and equipment at the end of the reporting period.

Useful lives of property, plant, and equipment

The estimation of the useful life of an item of property, plant, and equipment is a matter of management's judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear, and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates which are accounted for prospectively.

Net realizable value of inventories

In accordance with IAS 2 *Inventories*, inventories are carried at the lower of cost and net realizable value. In assessing net realizable value of inventories, the Group applies different judgments in the determination of:

- Estimated selling prices of inventories in the normal course of business, less estimated costs of sales completion; and

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- Degree of the subsequent use of inventories.

At each reporting date, the Group assesses the inventories' carrying amounts and, if required, writes off the inventories to their net realizable value (Note 10).

Accounts receivable from related parties

As of 31 December 2018, other non-current assets and trade and other accounts receivable included the amounts due from the Group's shareholders totaling to UAH 68,821 thousand (2017: UAH 64,781 thousand) and UAH 62,670 thousand, respectively. Management believes that the Group will be able to recover in full their values within contractual maturities based on the business plans of owners and management of the Group.

Right-of-use assets and lease obligations

The amount of right-of-use assets and lease obligations depends on the estimation by management of lease periods and incremental borrowing rates applied. The lease period corresponds to a period of non-cancellable leases, except for the cases when it is reasonably certain that the lease contract will be extended. In estimating lease periods, the Group's management considers all facts and circumstances that may affect the economic expediency of leases' extension.

Incremental borrowing rates of a lessee are determined as interest rates that the Group would be required to pay under the borrowings obtained for similar periods and with similar collateral that are required to receive an asset of the value comparable to the value of a right-of-use asset in the similar environment (Note 8).

Defined benefit obligations

Retirement obligations are assessed on the basis of a range of expectations and projections (Note 17) used to estimate the obligation at the end of each reporting period. To determine staff turnover rates and assess payroll changes and inflation rates, management is required to make significant judgments. Changes in management's estimates may affect the amount of obligations recorded in the consolidated statement of financial position and respective charges in the consolidated statement of profit or loss and other comprehensive income.

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6. PROPERTY, PLANT, AND EQUIPMENT

As of 31 December 2018 and 2017, movements in property, plant, and equipment were as follows:

Cost	Land	Buildings and constructions	Machinery and equipment	Vehicles	Office equipment	Other depreciable assets	Capital construction in progress and uninstalled equipment	Total
As of 31 December 2016	5,461	763,354	1,493,987	182,289	90,067	6,880	286,867	2,828,905
Additions	-	34,487	139,231	43,739	29,650	1,059	141,587	389,753
Transfers to investment property	-	-	-	148	(540)	(214)	-	(606)
Internal transfers	-	89,254	109,537	636	3,493	214	(203,134)	-
Effect of translation differences	-	1,069	130	2,542	71	-	-	3,812
Disposals	-	(512)	(2,305)	(13,926)	(1,267)	(296)	-	(18,306)
As of 31 December 2017	5,461	887,652	1,740,580	215,428	121,474	7,643	225,320	3,203,558
Additions	-	43,491	390,017	26,093	41,594	1,097	67,343	569,635
Effect of IFRS 16 implementation	-	-	-	(32,814)	-	-	-	(32,814)
Transfers to investment property	-	112	-	(113)	-	-	(112)	(113)
Internal transfers	-	20,501	65,716	1,489	4,322	360	(92,388)	-
Effect of translation differences	-	(373)	(45)	(570)	(41)	(9)	1	(1,037)
Disposals	(88)	(1,653)	(2,178)	(13,336)	(3,010)	(205)	-	(20,470)
As of 31 December 2018	5,373	949,730	2,194,090	196,177	164,339	8,886	200,164	3,718,759

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Accumulated depreciation	Land	Buildings and constructions	Machinery and equipment	Vehicles	Office equipment	Other depreciable assets	Capital construction in progress and uninstalled equipment	Total
As of 31 December 2016	-	(137,782)	(647,531)	(78,049)	(53,811)	(2,912)	-	(920,085)
Depreciation charges	-	(29,089)	(143,845)	(30,256)	(20,668)	(1,022)	-	(224,880)
Transfers to investment property	-	-	-	(153)	-	-	-	(153)
Effect of translation differences	-	(483)	(75)	(1,458)	(20)	-	-	(2,036)
Disposals	-	107	2,173	11,126	1,158	268	-	14,832
As of 31 December 2017	-	(167,247)	(789,278)	(98,790)	(73,341)	(3,666)	-	(1,132,322)
Depreciation charges	-	(32,522)	(161,329)	(24,414)	(27,522)	(1,378)	-	(247,165)
Effect of IFRS 16 implementation	-	-	-	4,517	-	-	-	4,517
Transfers to investment property	-	-	-	4	-	-	-	4
Internal transfers	-	25	200	-	(33)	(192)	-	-
Effect of translation differences	-	174	30	378	15	5	-	602
Disposals	-	900	2,075	10,619	2,971	197	-	16,762
As of 31 December 2018	-	(198,670)	(948,302)	(107,686)	(97,910)	(5,034)	-	(1,357,602)
Net book value								
As of 31 December 2017	5,461	720,405	951,302	116,638	48,133	3,977	225,320	2,071,236
As of 31 December 2018	5,373	751,060	1,245,788	88,491	66,429	3,852	200,164	2,361,157

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As of 31 December 2018, included in capital construction in progress and uninstalled equipment were mainly works and equipment on improvement of the operating production facilities in the city of Kyiv, in particular, expanding facilities on manufacturing liquid drugs and storage facilities, a boiler's capital improvement.

Pledged assets

As of 31 December 2018 and 2017, the carrying amounts of the Group's property, plant, and equipment used as a collateral for loans and borrowings (Note 16) were as follows:

	2018	2017
Machinery and equipment	306,899	274,744
Buildings and constructions	3,282	163,471
Vehicles	1	5
Total	310,182	438,220

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 2018 at cost in the amount of UAH 212,494 thousand (2017: UAH 183,794 thousand) were fully depreciated but remained in use.

Prepayments for property, plant, and equipment

As of 31 December 2018 and 2017, prepayments for property, plant, and equipment were represented mainly by prepaid construction and design works and equipment to improve and expand the operating production facilities on manufacturing liquid drugs and tablets.

7. INTANGIBLE ASSETS

As of 31 December 2018 and 2017, movements in intangible assets were as follows:

	Software and licenses	Other intangible assets	Intangible assets in progress	Total
Cost				
As of 31 December 2016	53,427	34,087	30,215	117,729
Additions	4,998	11,754	32,966	49,718
Internal transfers	6,021	1,750	(7,771)	-
Effect of translation differences	-	175	-	175
Disposals	(182)	(3,957)	-	(4,139)
As of 31 December 2017	64,264	43,809	55,410	163,483
Additions	20,026	335	21,791	42,152
Internal transfers	38,300	5,104	(43,404)	-
Effect of translation differences	(129)	-	-	(129)
Disposals	(2,225)	(29,780)	-	(32,005)
As of 31 December 2018	120,236	19,468	33,797	173,501

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	Software and licenses	Other intangible assets	Intangible assets in progress	Total
Accumulated amortization				
As of 31 December 2016	(25,446)	(20,005)	-	(45,451)
Amortization charges	(9,652)	(17,667)	-	(27,319)
Effect of translation differences	-	(34)	-	(34)
Disposals	182	3,957	-	4,139
As of 31 December 2017	(34,916)	(33,749)	-	(68,665)
Amortization charges	(18,418)	(3,067)	-	(21,485)
Effect of translation differences	31	-	-	31
Disposals	2,222	29,693	-	31,915
As of 31 December 2018	(51,081)	(7,123)	-	(58,204)
Net book value				
As of 31 December 2017	29,348	10,060	55,410	94,818
As of 31 December 2018	69,155	12,345	33,797	115,297

Intangible assets in progress for the year ended 31 December 2018 comprised costs directly related to acquisition and development of items of intangible assets, including software development in the amount of UAH 15,181 thousand and purchase of product specification files in the process of registration in the amount of UAH 18,616 thousand. Intangible assets in progress are neither amortized nor transferred to software and licenses or other intangible assets until they are ready for intended use.

Fully amortized assets

Items of intangible assets recorded as of 31 December 2018 at cost in the amount of UAH 17,839 thousand (2017: UAH 32,110 thousand) were fully amortized but remained in use.

8. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

The Group's leases relate mainly to the lease of municipally and state-owned warehouse facilities and land plots (land plots under manufacturing and warehouse facilities) and vehicles. Lease obligations are repayable in UAH at the commercial exchange rate of UAH against USD at the date of payment.

As of 31 December 2018, the carrying amounts of the Group's right-of-use assets were as follows:

	2018
Land	6,633
Buildings and constructions	181,241
Vehicles	58,605
Total	246,479

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Depreciation of the right-of-use assets for the year ended 31 December 2018 included in depreciation charges in the consolidated statement of profit or loss and other comprehensive income was as follows:

	2018
Land	9,415
Buildings and constructions	37,815
Vehicles	8,517
Total	55,747

Additions to the right-of-use assets for the year ended 31 December 2018 amounted to UAH 228,141 thousand.

Interest expense accrued on lease obligations for the year ended 31 December 2018 amounted to UAH 11,942 thousand and was included in finance costs in the consolidated statement of profit or loss and other comprehensive income (Note 26).

For the year ended 31 December 2018, the expenses related to variable lease payments and short-term leases amounted to UAH 9,862 thousand and UAH 10,934 thousand, respectively.

Minimum lease payments and present value of minimum lease payments as of 31 December 2018 were as follows:

	2018
Minimum lease payments, including:	
Current part (less than 1 year)	73,206
From 1 to 5 years	164,300
Over 5 years	34,328
Total minimum lease payments	271,834
Less: Future cost of funding	(37,724)
Present value of minimum lease payments, including:	
Current part (less than 1 year)	59,573
From 1 to 5 years	141,112
Over 5 years	33,425
Total present value of minimum lease payments	234,110
Less: Current part of lease obligations	(59,573)
Total non-current part lease obligations	174,537

Total cash outflow under leases for the year ended 31 December 2018 amounted to UAH 73,149 thousand.

The Group's leases contain standard restrictions and liabilities that are common to local business practice, such as the Group's responsibility for regular maintenance, repairs of leased assets and their insurance, re-planning and consistent improvements only upon the lessor's consent, using lease items in compliance with the effective legislation.

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9. GOODWILL

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

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

As of 31 December 2018 and 2017, goodwill was as follows:

	2018	2017
Cost	186,955	203,217
Accumulated impairment losses	(144,353)	(156,909)
	42,602	46,308
Cost	2018	2017
As of 1 January	203,217	186,090
Effect of foreign exchange differences	(16,262)	17,127
As of 31 December	186,955	203,217

Foreign exchange differences arose as a result of translation of the functional currency (PLZ) to the presentation currency (UAH).

Accumulated impairment losses	2018	2017
As of 1 January	(156,909)	-
Impairment losses recognized during the year (Note 25)	-	(161,630)
Effect of foreign exchange differences	12,556	4,721
As of 31 December	(144,353)	(156,909)

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

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

Negative financial results and failure to fulfill sales plans were related to overestimated expectations from the synergy effect of combination of the Group's working capacity, and the methods selected for promoting new products in the market of Poland by Nord Farm Group turned out to be unjustified.

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The recoverable amount of Nord Farm Group, based on the assessment for impairment as of 31 December 2018, has been calculated based on the estimated cash flows in accordance with the five-year plan approved by management and the discount rate of 13.31% per annum. Cash flows upon expiration of this period have been extrapolated on the basis of the consistent growth rate of 2.50%. The said growth rate does not exceed the average estimated long-term growth rate of the pharmaceutical market of Poland. Management believes that any estimated change in key assumptions regarding estimation of the recoverable amount will not lead to the excess of the carrying value of the cash-generating unit over its recoverable amount.

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

Planned revenue	Management estimates that the planned average annual revenue growth rate in comparison with the actual average revenue for 2017-2018 against the planning period will amount to 6.8%.
Planned gross profit	Average gross profit for the period immediately preceding the planning period is increased with reference to estimated changes in sales structure. Management estimates that the average annual gross profit growth rate of 3.5% is achievable.
Change in procurement prices and inflation rates	Projected consumer price indices in Poland and Ukraine during the planning period. Indices are estimated by management based on the actual data for the period immediately preceding the planning period and forecasts obtained from external sources for the relevant period.

No impairment of goodwill based on the assessment performed as of 31 December 2018 was identified.

10. INVENTORIES

As of 31 December 2018 and 2017, inventories were as follows:

	2018	2017
Finished goods	451,655	398,524
Raw materials	400,464	329,061
Packaging materials	148,203	145,601
Work in progress	125,216	85,175
Merchandise for resale	21,372	74,502
Other inventories	18,640	18,458
Total	1,165,550	1,051,321

Cost of inventories recognized as expense and included in cost of sales (Note 21) for the year ended 31 December 2018 amounted to UAH 1,803,739 thousand (2017: UAH 1,615,206 thousand).

The amount of inventory write offs recognized in other operating expense (Note 25) for the year ended 31 December 2018 was UAH 52,552 thousand (2017: UAH 22,444 thousand). Such write offs relate to raw materials and finished goods and are recognized based on results of stock counts and quality inspections performed by the Group.

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11. TRADE AND OTHER ACCOUNTS RECEIVABLE

As of 31 December 2018 and 2017, trade and other accounts receivable were as follows:

	2018	2017
Trade accounts receivable	1,453,836	1,185,461
Other accounts receivable	77,585	25,250
	1,531,421	1,210,711
Allowance for impairment of accounts receivable	(44,077)	(49,925)
Total trade and other accounts receivable	1,487,344	1,160,786

As of 31 December 2018, trade and other accounts receivable included balances due from related parties in the amount of UAH 76,979 thousand (2017: UAH 14,752 thousand) (Note 28).

No interest is charged on trade accounts receivable. The credit period on sales of goods was generally 30–120 days in 2018 (2017: 30–120 days).

The Group regularly assesses the allowance for trade and other accounts receivable in the amount that is equal to their lifetime expected credit losses. Expected credit losses on trade and other accounts receivable are measured using the estimated allowance matrix based on the previous experience of default and analysis of the debtor's current financial position adjusted for the debtor-specific factors, general economic conditions in the industry in which the debtors operate, assessment of both current and forward-looking development of conditions as of the reporting date.

The Group regularly assesses on an individual basis certain significant debtors with credit risk characteristics that differ from others.

The Group recognized a loss allowance in full for all trade and other accounts receivable past due for more than 120 days, since the historical experience evidences that such amounts due are commonly irrecoverable.

The Group writes off trade and other accounts receivable when information is available that a debtor has significant financial difficulties and no probable recoveries are expected, e.g., when a debtor is in the process of liquidation or bankruptcy, or, for trade accounts receivable, when the amounts are past due for more than three years (depending on what event comes earlier). In respect of written-off trade and other accounts receivable, no enforced recovery procedures are undertaken.

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The table below summarizes a risk profile of trade accounts receivable on the basis of the Group estimated allowance matrix. Previous experience of the Group related to credit losses evidences of different characteristics of losses for different customer segments distinguished by a country of sales. The relevant loss allowance based on the status of past due payments is distinguished on the basis of the country of sales. No significant changes occurred in macroeconomic indicators of the countries in which the Group's major customers operate that might significantly affect the risks of credit losses in the reporting period.

As of 31 December 2018	Trade accounts receivable – days past due					Total
	Not past due	<30	31-60	61-90	>90	
Ukraine						
Rate of expected credit losses	0.05%	0.10%	0.76%	5.13%	15.26%	
Estimated total loss given default	796,540	193,707	34,848	63,796	-	1,088,891
Lifetime expected credit losses	398	194	265	3,273	-	4,130
Uzbekistan						
Rate of expected credit losses	1.68%	4.32%	16.32%	26.05%	29.58%	
Estimated total loss given default	15,710	17,465	-	-	-	33,175
Lifetime expected credit losses	264	755	-	-	-	1,019
Kazakhstan						
Rate of expected credit losses	0.71%	1.10%	13.33%	36.00%	39.18%	
Estimated total loss given default	58,978	9,213	1,009	-	-	69,200
Lifetime expected credit losses	419	101	135	-	-	655
Total lifetime expected credit losses						5,804

In accordance with the analysis of balances of trade and other accounts receivable on sales in other countries in the total amount of UAH 296,078 thousand based on the estimated allowance matrix, the Group does not expect any material credit losses.

Movements in lifetime expected credit losses on trade and other accounts receivable under a simplified approach as discussed in IFRS 9 for the years ended 31 December 2018 and 2017 were as follows:

	Collectively estimated	Individually estimated	Total
As of 1 January 2017	-	34,152	34,152
Impairment losses recognized on accounts receivable	-	12,868	12,868
Amounts written off during the year as irrecoverable	-	-	-
(Gains)/losses on translation differences	-	2,905	2,905
Accounts receivable reimbursed	-	-	-
As of 31 December 2017	-	49,925	49,925
Impairment losses recognized on accounts receivable	5,804	27,525	33,329
Amounts written off during the year as irrecoverable	-	(28,683)	(28,683)
(Gains)/losses on translation differences	-	(8,516)	(8,516)
Accounts receivable reimbursed	-	(1,978)	(1,978)
As of 31 December 2018	5,804	38,273	44,077

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Application of the model of expected credit losses under IFRS 9 at the cost of early recognition of credit losses has not resulted in creation of a significant additional allowance for expected credit losses as of 31 December 2017, thus, no comparative information is provided.

12. PREPAYMENTS MADE

As of 31 December 2018 and 2017, prepayments made were as follows:

	2018	2017
Prepayments to suppliers for services	36,585	37,005
Prepayments to suppliers for raw materials	22,777	18,657
Deferred expense	8,159	6,339
	67,521	62,001
Allowance for impairment of prepayments made	(674)	(329)
Total	66,847	61,672

As of 31 December 2018, included in prepayments made were balances with related parties in the amount of UAH 3,796 thousand (2017: UAH 736 thousand) (Note 28).

13. TAXES RECOVERABLE AND PREPAID, OTHER THAN INCOME TAXES

As of 31 December 2018 and 2017, taxes recoverable and prepaid were as follows:

	2018	2017
VAT recoverable	11,131	38,539
Other taxes	18,999	15,498
Total	30,130	54,037

14. CASH AND CASH EQUIVALENTS

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

As of 31 December 2018 and 2017, cash and cash equivalents were as follows:

	2018	2017
Cash on hand and with banks	49,969	41,947
Short-term bank deposits	60,000	12,000
Total	109,969	53,947

Balances of cash with banks earned interest income at floating rates based on daily bank deposit rates. As of 31 December 2018 and 2017, short-term bank deposits were represented by deposits on demand and overnight.

The banks in which the Group held its main cash balances as of 31 December 2018 (UAH 102,211 thousand) had the long-term national scale rating of "AAA (ukr)", stable outlook, under which a borrower or individual debt instruments are characterized as enjoying the highest credit quality compared to other domestic borrowers or debt instruments.

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15. SHARE CAPITAL

As of 31 December 2018 and 2017, 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 the Annual General Shareholders' Meetings.

As of 31 December 2018, the carrying amount of the Group's share capital amounted to UAH 54,352 thousand (31 December 2017: UAH 54,352 thousand), being the original share capital amount adjusted for the effect of historical hyperinflation under IAS 29 *Financial Reporting in Hyperinflationary Economies* in the amount of UAH 21,284 thousand, less a holding of shares in the amount of UAH 3,298 thousand repurchased by the Group's subsidiary, LLC "Farmakhim".

As of 31 December 2018 and 2017, the ownership structure of the Group's share capital was as follows:

	2018		2017	
	Number of shares	Ownership interest, %	Number of shares	Ownership interest, %
<i>Immediate shareholders:</i>				
FARMAK GROUP N.V.	4,945,090	67.99%	4,945,090	67.99%
Individuals (< 2% individually)	615,084	8.45%	768,635	10.57%
Foyil Capital Limited	508,552	6.99%	508,552	6.99%
Farmak International Holding GmbH	420,364	5.78%	420,364	5.78%
LLC "Farmakhim"	415,946	5.72%	415,946	5.72%
Legal entities (< 2% individually)	193,238	2.66%	137,590	1.89%
F.I. & P. Holdings Limited	174,926	2.41%	77,023	1.06%
Total	7,273,200	100.00%	7,273,200	100.00%

Dividends

In April 2018, the General Shareholders' Meeting approved distribution of dividends for the year ended 31 December 2017 of UAH 5.75 per share for the total amount of UAH 41,821 thousand. In accordance with distribution of ownership interests in the share capital as of 31 December 2018, the amount of UAH 2,392 thousand of total dividends declared was payable to LLC "Farmakhim" (2017: UAH 1,914 thousand), a subsidiary of PJSC "Farmak".

In April 2017, the General Shareholders' Meeting approved distribution of dividends for the year ended 31 December 2016 of UAH 4.60 per share for the total amount of UAH 33,457 thousand. In accordance with distribution of ownership interests in the share capital as of 31 December 2017, the amount of UAH 1,914 thousand of total dividends declared was payable to LLC "Farmakhim".

Treasury shares repurchased

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

Total number of shares in PJSC "Farmak" repurchased by LLC "Farmakhim" amounted to 415,946 shares, which constituted 5.72% of the Group's share capital.

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16. LOANS AND BORROWINGS

As of 31 December 2018 and 2017, outstanding loans and borrowings were as follows:

Secured loans and borrowings:	Currency	2018	2017
Credit line facilities from Ukrainian banks	EUR	334,669	133,967
Borrowing from a related party	EUR	93,814	15,199
Borrowing from a foreign bank	PLZ	25,793	16,148
Credit line facilities from Ukrainian banks	USD	-	190,609
Borrowings from the EBRD ¹⁾	EUR	-	143,968
Total loans and borrowings		454,276	499,891
<i>Less:</i>			
Short-term loans and borrowings and current portion of long-term loans and borrowings		(441,971)	(497,627)
Long-term loans and borrowings		12,305	2,264

¹⁾ During the year ended 31 December 2018, the Group repaid a final part of the borrowing under the loan agreement with the European Bank for Reconstruction and Development (the "EBRD") in the amount of EUR 4,286 thousand, as a result, the total amounts due to the EBRD as of 31 December 2018 were fully repaid.

In 2018, average weighted interest rates on foreign currency denominated borrowings of the Group were as follows: USD-denominated borrowings – 5.71%, EUR-denominated borrowings – 3.9%, and PLZ-denominated borrowings – 3.64%. The similar information for 2017 was as follows: USD-denominated borrowings – 5.72%, EUR-denominated borrowings – 4.4%, and PLZ-denominated borrowings – 3.71%. The table below summarizes the Group's loans and borrowings raised at fixed and floating interest rates as of 31 December 2018 and 2017:

	2018	2017
Floating interest rates	360,462	350,725
Fixed interest rates	93,814	149,166
Total	454,276	499,891

As of 31 December 2018 and 2017, the loans and borrowings were secured by the following types of assets pledged:

	2018	2017
Property, plant, and equipment (Note 6)	310,182	438,220
Investment property	-	17
Total	310,182	438,237

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 2018 and 2017, 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.

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17. DEFINED BENEFIT OBLIGATIONS

Reconciliation of the present value of defined benefit obligations for the years ended 31 December 2018 and 2017 was as follows:

	2018	2017
Balance at the beginning of the year	106,857	31,846
Including:		
Non-current obligations	91,777	28,566
Current obligations	15,080	3,280
Current service cost	724	2,970
Interest expense	14,960	5,732
Past service cost	23,413	50,551
Actuarial losses recognized in other comprehensive income	1,168	24,085
Benefits paid during the year	(15,891)	(8,327)
Balance at the end of the year	131,231	106,857
Including:		
Non-current obligations	112,421	91,777
Current obligations (Note 18)	18,810	15,080

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

	2018	2017
Interest expense	14,960	5,732
Current service cost	724	2,970
Past service cost	23,413	50,551
Total	39,097	59,253

During the year ended 31 December 2018, the Group included in other comprehensive income actuarial losses in the amount of UAH 1,168 thousand (2017: UAH 24,085 thousand).

Key assumptions used for actuarial valuation as of 31 December 2018 and 2017 were as follows:

	31 December 2018	31 December 2017
Discount rate	14%	14%
Estimated payroll growth rate	5%	8%

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

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18. TRADE AND OTHER ACCOUNTS PAYABLE

As of 31 December 2018 and 2017, trade and other accounts payable were as follows:

	2018	2017
Trade accounts payable for:		
Raw materials	317,172	371,663
Services	92,672	116,938
Property, plant, and equipment and intangible assets	50,451	42,190
	460,295	530,791
Other accounts payable:		
Payables to employees	216,660	168,998
Accrued liabilities	32,580	27,016
Factoring	5,983	16,573
Current portion of defined benefit obligations (Note 17)	18,810	15,080
Prepayments received	16,402	4,550
Other accounts payable	9,675	8,072
	300,110	240,289
Total	760,405	771,080

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

As of 31 December 2018, included in trade accounts payable of the Group for raw materials and services were balances with related parties in the amount of UAH 134,538 thousand (2017: UAH 115,081 thousand) (Note 28).

As of 31 December 2018, included in the Group's payables to employees were balances with the Group's key management personnel in the amount of UAH 20,997 thousand (2017: UAH 12,461 thousand) (Note 28).

As of 31 December 2018, included in accrued liabilities were royalties payable to related parties (key management personnel) in the amount of UAH 6,486 thousand (2017: UAH 6,681 thousand) (Note 28).

19. INCOME TAX EXPENSE

Components of income tax expense for the reporting years ended 31 December 2018 and 2017 comprised the following:

	2018	2017
Current income tax		
Current income tax expense	238,999	235,981
Deferred income tax		
Deferred income tax expense	8,231	7,105
Total income tax expense	247,230	243,086

The Group's profit was subject to taxation in Ukraine and Poland. During the year ended 31 December 2018, the Group was subject to corporate income tax at the rate of 18% in Ukraine and 19% in Poland (2017: 18% in Ukraine and 19% in Poland).

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Profit before income tax multiplied by the statutory tax rate and actual income tax expense for the years ended 31 December can be reconciled as follows:

	2018	2017
Profit before income tax	1,297,436	1,082,176
Income tax expense at the statutory tax rate of 18%	233,539	194,792
Effect of non-deductible expenses, net	14,121	39,562
Effect of differences in tax rates in different countries	(430)	8,732
Total income tax expense	247,230	243,086

As of 31 December 2018 and 2017, deferred tax assets and liabilities related to the following:

	At the end of the year	Reported in profit or loss	At the beginning of the year
31 December 2018			
Trade and other accounts receivable	10,786	2,341	8,445
Trade and other accounts payable, other non-current liabilities	4,906	(890)	5,796
Inventories	3,294	1,824	1,470
Property, plant, and equipment	(4,197)	(11,487)	7,290
Prepayments made	40	(19)	59
Deferred income tax expense		(8,231)	
Net deferred tax assets	14,829		23,060
	At the end of the year	Reported in consolidated profit or loss	At the beginning of the year
31 December 2017			
Trade and other accounts receivable	8,445	1,963	6,482
Trade and other accounts payable, other non-current liabilities	5,796	783	5,013
Inventories	1,470	(146)	1,616
Property, plant, and equipment	7,290	(9,906)	17,196
Prepayments made	59	201	(142)
Deferred income tax expense		(7,105)	
Net deferred tax assets	23,060		30,165

20. REVENUE

Revenue for the years ended 31 December 2018 and 2017 was as follows:

	2018	2017
Revenue from sales of finished goods	6,310,442	5,557,629
Revenue from sales of merchandise for resale	283,035	484,959
Other revenue	25,434	42,093
Total	6,618,911	6,084,681

For the year ended 31 December 2018, included in revenue from sales of finished goods were sales to related parties in the amount of UAH 25,042 thousand (2017: UAH 23,727 thousand) (Note 28).

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Revenue by geographical regions for the years ended 31 December 2018 and 2017 was as follows:

	2018	2017
Ukraine	4,909,484	4,222,029
CIS	1,150,104	1,116,998
European Union	392,696	637,055
Asia	145,072	105,078
Australia	18,833	3,521
Africa	2,722	-
Total	6,618,911	6,084,681

21. COST OF SALES

Cost of sales for the years ended 31 December 2018 and 2017 was as follows:

	2018	2017
Raw materials and supplies (Note 10)	1,803,739	1,615,206
Staff costs	379,932	279,612
Cost of merchandise for resale	158,237	355,570
Royalties	174,891	137,691
Depreciation and amortization	149,474	134,917
Repairs and maintenance of property, plant, and equipment	129,302	90,720
Energy, water, and other utilities	116,351	89,364
Other expense	21,848	20,583
Total	2,933,774	2,723,663

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 2018, royalties to the Group's key management personnel amounted to UAH 44,758 thousand (2017: UAH 43,835 thousand) (Note 28).

22. SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses for the years ended 31 December 2018 and 2017 were as follows:

	2018	2017
Marketing and advertising expenses	499,604	520,551
Staff costs	354,152	315,301
Representative office costs	200,166	166,373
Transportation and storage	110,787	111,182
Depreciation and amortization	69,060	43,025
Registration fees	37,017	37,079
Changes in allowance for impairment and write offs of trade accounts receivable	31,350	11,693
Maintenance of property, plant, and equipment	20,736	23,047
Other expense	18,967	9,437
Total	1,341,839	1,237,688

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Representative office costs for the year ended 31 December 2018 included staff costs related to employees of such representative offices in the amount of UAH 139,971 thousand (2017: UAH 123,719 thousand).

Marketing and advertising expenses for the year ended 31 December 2018 included income taxes of non-residents providing advertising services in the amount of UAH 22,824 thousand (2017: UAH 14,082 thousand).

23. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December 2018 and 2017 were as follows:

	2018	2017
Staff costs	442,227	386,504
Depreciation and amortization	67,294	38,271
Maintenance of property, plant, and equipment	60,657	42,998
Consulting and other professional services	44,303	25,612
Transportation	8,302	7,394
Bank charges	8,578	6,069
Taxes, other than income tax	6,135	17,426
Communication services	3,155	3,186
Other expense	40,641	18,715
Total	681,292	546,175

24. RESEARCH AND DEVELOPMENT COSTS

Research and development costs of the Group for the years ended 31 December 2018 and 2017 were represented by: preclinical and clinical trials related to generic drugs; and preclinical and clinical trials in respect of self-developed drugs.

Research and development costs for the year ended 31 December 2018 included staff costs in the amount of UAH 103,239 thousand (2017: UAH 80,424 thousand).

25. OTHER OPERATING EXPENSE

Other operating expense for the years ended 31 December 2018 and 2017 was as follows:

	2018	2017
Loss on write off of raw materials and finished goods (Note 10)	52,552	22,444
Charity and donations	32,033	34,982
Net gain on disposal of property, plant, and equipment and intangible assets, net	(4,337)	(4,155)
Changes in allowance for impairment and write offs of other accounts receivable	627	1,175
Fines and penalties	187	1,189
Loss on impairment of goodwill (Note 9)	-	161,630
Other expense	5,573	2,354
Total	86,635	219,619

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26. FINANCE COSTS

Finance costs for the years ended 31 December 2018 and 2017 were as follows:

	2018	2017
Interest expense on loans and borrowings	19,137	40,155
Lease costs	11,942	2,651
Other expense	16,405	9,276
Less: Amounts included in initial cost of qualifying assets	(1,798)	(654)
Total	45,686	51,428

For qualifying assets, the average weighted capitalization rate of the funds borrowed during the year ended 31 December 2018 amounted to 5.2% (2017: 5.8%).

27. CONTRIBUTIONS TO THE STATE PENSION FUND OF UKRAINE

The absolute majority of the Group's employees receive pensions from the state in accordance with the pension legislation of Ukraine. Contributions to the State Pension Fund of Ukraine are recorded in the consolidated statement of profit or loss and other comprehensive income using the accrual method. Total contributions to the State Pension Fund of Ukraine recorded in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2018 and 2017 amounted to UAH 170,977 thousand and UAH 128,274 thousand, respectively, and was included in cost of sales, selling and distribution costs, general and administrative expenses, and research and development costs.

28. RELATED PARTY DISCLOSURES

Related parties are represented by entities under common control, an associate, and other related parties. Terms and conditions of operations with related parties are determined based on arrangements specific to each contract or transaction that are not necessarily available to third parties.

The Group's transactions with its related parties for the years ended 31 December 2018 and 2017 were as follows:

	Revenue from sales of finished goods	Other income	Purchase of raw materials and supplies	Purchase of services
2018				
Entities under common control	-	3,568	(719,677)	(117,482)
Associate	23,462	-	-	-
Other related parties (family members of ultimate controlling party)	1,580	707	(16,550)	(12,966)
Total	25,042	4,275	(736,227)	(130,448)

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	Revenue from sales of finished goods	Other income	Purchase of raw materials and supplies	Purchase of services
2017				
Entities under common control	-	770	(555,031)	(81,155)
Associate	22,127	-	-	-
Other related parties (family members of ultimate controlling party)	1,600	521	(12,031)	(10,082)
Total	23,727	1,291	(567,062)	(91,237)

Other revenue for the year ended 31 December 2018 included revenue from sales of securities, materials, and services, as well as rental income. Sales to related parties were performed on market terms and conditions.

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 2018 amounted to UAH 29,350 thousand (2017: UAH 32,850 thousand).

As of 31 December 2018 and 2017, the Group's outstanding balances with its related parties were as follows:

	Trade and other accounts receivable	Prepayments made	Trade and other accounts payable	Loans and borrowings obtained
2018				
Entities under common control	131,837	3,689	134,538	93,814
Associate	7,638	-	-	-
Other related parties (family members of ultimate controlling party)	6,326	107	1,422	-
Total	145,801	3,796	135,960	93,814
2017				
Entities under common control	65,021	-	113,586	15,199
Associate	8,231	-	-	-
Other related parties (family members of ultimate controlling party)	6,281	736	1,495	-
Total	79,533	736	115,081	15,199

As of 31 December 2018, trade and other accounts receivable from entities under common control included the amount of UAH 131,491 thousand due from the Group's shareholders (2017: UAH 64,780 thousand).

Balances and transactions with the Group's key management personnel

Key management personnel of the Group consists of the Company's Chief Executive Officer, members of the Board of Directors, and members of the Supervisory Board. As of 31 December 2018, key management personnel totaled to 15 persons (2017: 14 persons).

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Current benefits to key management personnel for the year ended 31 December 2018 amounted to UAH 155,424 thousand (2017: UAH 164,880 thousand).

As of 31 December 2018, balances of the Group's liabilities to key management personnel amounted to UAH 27,466 thousand (2017: UAH 19,110 thousand).

As of 31 December 2018, 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 2018 in the amount of UAH 121,108 thousand were included in defined benefit obligations (2017: UAH 96,220 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. Management believes that the Group has been in compliance with all requirements of the effective tax legislation.

According to the Group's management, future tax audits 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 assessed the amount of potential contingent tax liabilities in respect of tax accounting of deductible expenses as of 31 December 2018 and 2017 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

The Group imports goods and purchases services which may potentially be in the scope of the new Ukrainian transfer pricing ("TP") regulations. The Group submitted the controlled transaction report for the year ended 31 December 2017 within the required deadline. Management believes that the Group prepared all necessary documentation on controlled transactions for the year ended 31 December 2017 as required by the legislation and continues preparing them for the year ended 31 December 2018. The report on controlled transactions for the year ended 31 December 2018 shall be prepared by the Group by 1 October 2019.

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 consolidated results of future operations of the Group.

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Capital expenditure commitments

As of 31 December 2018, the Group had outstanding commitments in respect of purchases of property, plant, and equipment for the total amount of UAH 344,533 thousand (2017: UAH 249,081 thousand).

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments as of the reporting dates were as follows:

	Carrying value	
	2018	2017
Financial assets (current and non-current)		
Trade and other accounts receivable	1,487,344	1,160,786
Other non-current assets (non-current accounts receivable)	70,237	65,660
Other financial assets	40,970	20,472
Cash and cash equivalents	109,969	53,947
Total financial assets	1,708,520	1,300,865
Financial liabilities (current and non-current)		
Loans and borrowings	454,276	499,891
Lease obligations	234,110	25,295
Liabilities as a result of business combination	-	10,049
Trade and other accounts payable	725,193	751,450
Total financial liabilities	1,413,579	1,286,685

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, EUR, and PLZ experienced by Ukraine-based entities of the Group.

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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	PLZ
As of 31 December 2018	31.7141	27.6883	7.3706
As of 31 December 2017	33.4954	28.0672	8.0117

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		EUR	
	2018	2017	2018	2017
Financial assets				
Cash and cash equivalents	12,795	6,291	1,384	10,321
Trade and other accounts receivable	189,259	197,142	45,287	15,642
Total financial assets	202,054	203,433	46,671	25,963
Financial liabilities				
Loans and borrowings	-	190,609	430,321	293,134
Lease obligations	187,829	23,557	-	-
Trade and other accounts payable	157,469	122,098	104,372	114,171
Liabilities as a result of business combination	-	-	-	10,049
Total financial liabilities	345,298	336,264	534,693	417,354
Total net position	(143,244)	(132,831)	(488,022)	(391,391)

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

The following table details the Group's sensitivity to a 15% increase in UAH exchange rate against relevant foreign currencies, with all other variables remaining unchanged. 15% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 15% change in foreign currency exchange rates. A positive value below indicates an increase in profit or equity where UAH devaluates by 15% against the relevant currency. A negative value below indicates a decrease in profit or equity where UAH devaluates by 15% against the relevant currency. For a 15% appreciation of UAH against the relevant currency, there would be an equal and opposite impact on profit or equity as the amounts noted per the devaluation.

	Devaluation of UAH	Effect on profit before income tax
2018		
UAH/EUR	15.00%	(73,203)
UAH/USD	15.00%	(21,487)
UAH/RUB	15.00%	8,156
2017		
UAH/EUR	15.00%	(56,813)
UAH/USD	15.00%	(19,925)
UAH/RUB	15.00%	18,157

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

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

	Increase/ (decrease) in basis points	Effect on profit before income tax
2018		
Change in interest rate (EURIBOR)	100	(3,347)
Change in interest rate (EURIBOR)	(25)	837
2017		
Change in interest rate (EURIBOR)	100	(1,440)
Change in interest rate (EURIBOR)	(25)	360
Change in interest rate (LIBOR)	100	(1,906)
Change in interest rate (LIBOR)	(25)	477

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 the event 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.

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The table below summarizes the original contractual maturity profile of the Group's financial liabilities as of 31 December 2018 and 2017 based on undiscounted payments:

2018	Average weighted effective interest rate	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 7 years	Total
Loans and borrowings	3.85%	-	3,176	49,619	404,874	13,210	470,879
Lease obligations	8.25%	-	24,280	19,224	29,702	198,628	271,834
Trade and other accounts payable	N/a	203,709	498,522	7,482	15,480	-	725,193
Guarantees issued	N/a	-	750	-	-	-	750
Total		203,709	526,728	76,325	450,056	211,838	1,468,656

2017	Average weighted 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
Loans and borrowings	4.88%	-	241,359	199,261	61,527	2,578	504,725
Lease obligations	26.47%	-	5,195	5,171	10,285	10,157	30,808
Trade and other accounts payable	N/a	156,456	527,465	22,368	45,161	-	751,450
Liabilities as a result of business combination	N/a	-	-	-	-	10,049	10,049
Guarantees issued	N/a	-	609	35	71	1,521	2,236
Total		156,456	774,628	226,835	117,044	24,305	1,299,268

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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 359,520 thousand were undrawn as of 31 December 2018 (2017: UAH 509,420 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 2018 amounted to UAH 1,662,708 thousand (2017: UAH 1,235,205 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.

The Group mainly trades with reputable and solvent customers both in the domestic and foreign 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 an 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 2018 amounted to UAH 4,136,069 thousand (2017: UAH 3,389,253 thousand), with the balances on settlements with those customers as of 31 December 2018 amounting to UAH 999,005 thousand (2017: UAH 611,557 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 24% 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 funding. 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.

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	2018	2017
Loans and borrowings (Note 16)	454,276	499,891
Lease obligations (Note 8)	234,110	25,295
Cash and cash equivalents (Note 14)	(109,969)	(53,947)
Net debt	578,417	471,239
Total equity	4,283,261	3,375,726
Equity and net debt	4,861,678	3,846,965
Gearing ratio	11.9%	12.2%

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

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

	Carrying amounts		Fair value	
	2018	2017	2018	2017
Loans and borrowings	454,276	499,891	454,719	499,451

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.

Fair values of loans and borrowings as of 31 December 2018 were measured by discounting the estimated future cash outflows at the average weighted interest rate of 4.13% (2017: 5.41%).

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Reconciliation of liabilities arising from financing activities

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

	Loans and borrowings	Lease obligations	Dividends accrued payable	Total
As of 1 January	499,891	25,295	737	525,923
Cash proceeds/Purchase of property, plant, and equipment/Accrual of dividends	233,587	272,845	39,429	545,861
Cash payments	(267,486)	(73,149)	(37,569)	(378,204)
Interest expense	19,137	11,942	-	31,079
Interest paid	(19,390)	(11,941)	-	(31,331)
Taxes paid	-	-	(2,145)	(2,145)
Translation difference expense, net	(11,464)	9,118	-	(2,346)
As of 31 December	454,275	234,110	452	688,837

32. EVENTS AFTER THE REPORTING PERIOD

In February 2019, the Group's parent, F.I. & P. Holdings Limited, bought out shares of PJSC "Farmak" from one of its minority shareholders in the number of 508,552 shares, which amounted to 6.99% of share capital of PJSC "Farmak".

In April 2019, the General Shareholders' Meeting approved distribution of dividends for the year ended 31 December 2018 of UAH 6.90 per share for the total amount of UAH 50,185 thousand.

33. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by management and authorized for issue on 26 April 2019.