JSC “FARMAK”

Consolidated Financial Statements
for the Year Ended 31 December 2019

JSC "FARMAK"

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JSC "FARMAK"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of Joint Stock Company ("JSC") "Farmak" (hereinafter, the "Company") and its subsidiaries (jointly, the "Group") as of 31 December 2019 and the consolidated results of its operations, cash flows, and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") and in accordance with 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 which are the responsibility of the Group's management, and ensuring the fulfillment of those requirements by those charged with governance of the Group.

The consolidated financial statements of the Group for the year ended 31 December 2019 were approved by management and authorized for issue on 29 April 2020.

On behalf of the Management of JSC "Farmak":

V. H. Kostiuk,
Chief Executive Officer

V. G. Smarodina,
Chief Financial Officer

LLC "Deloitte & Touche USC"
48, 50A, Zhylyanska Street
Kyiv, 01033, Ukraine

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Joint Stock Company "Farmak":

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of JSC "Farmak" (the "Company") and its subsidiaries (jointly, the "Group"), which comprise the consolidated statement of financial position as of 31 December 2019 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 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and the preparation of consolidated financial statements requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" (the "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 these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key audit matter	How the matter was addressed in the audit
Completeness of revenue recognition	
The Group produces and sells a wide variety of generic pharmaceutical drugs to different markets and regions. Sales volumes depend on the level of demand from end customers, accumulated stock at distributors' warehouses and regulatory restrictions. Revenue for 2019 amounted to UAH 6,541,750 thousand. Revenue is significant account balance and it is a key indicator of the Group's performance. As the Group's revenue in quantity terms decreased over the year at a faster rate than the market, we determined potential unrecorded sales to customers to be the key audit matter.	We have performed the following procedures: • Testing the design and implementation and operating effectiveness of the controls over production process and quantities produced. • With the involvement of internal IT specialists assessing the effectiveness of general IT controls and related IT systems, and implementation of internal controls over production process and flow of data from production module of IT system to accounting system. • Analytical recalculation of revenue based on the quantities produced adjusted for changes in the inventory balance, and selling prices per authorized price lists. We tested the quantities of the goods produced to the source documents and tested the existence of inventory balance through attending the stock count as of the year-end. We used prices per authorized price lists to develop independent expectation as to the likely level of estimated revenue by product types. • Testing on a sample basis the amounts of revenue recognized to the external confirmation letters from Group's main distributors. • Analysis of the terms of sales agreements, in particular in respect of the transfer of risks and rewards. Further, on a sample basis we checked that revenue is recognized on the dates of transfer of control over goods. • Testing of inventory write-offs. We traced the amounts and product types written-off to supporting documents and ensured that they were authorized by management. • We have checked the completeness and accuracy of relevant disclosures to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the management report, which also includes the corporate governance report, but is not the consolidated financial statements and our auditor's report thereon. The management report is expected to be made available to us after the date of this auditor's report. Our opinion on the consolidated financial statements does not cover the other information, and we will 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 when it becomes available 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.

When we read the management report, 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 the 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 entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 an 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 Joint Stock Company "Farmak" at the meeting of the Supervisory Board on 15 November 2019. 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 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 Auditing" were not provided, and that the audit engagement partner and audit firm remains independent of the Group in conducting the audit.

Basic Information About Audit Firm

Name: LIMITED LIABILITY COMPANY "DELOITTE & TOUCHE UKRAINIAN SERVICES COMPANY".

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

"Limited Liability Company "Deloitte & Touche Ukrainian Services Company" was 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".

LLC "Deloitte & Touche USC"

Engagement Partner
Certified Auditor

Olga Shamrytska

Auditor's Certificate # 007662
Issued by the Audit Chamber of Ukraine on 22 February 2018
on the basis of Resolution of the Audit Chamber of Ukraine # 355/2,
Registration Number in the Register of Auditors and Auditing Entities 102257

LLC "Deloitte & Touche Ukrainian Services Company"
48, 50a Zhylianska Str., Kyiv, 01033, Ukraine

29 April 2020

JSC "FARMAK"

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2019
In Ukrainian Hryvnias and in thousands

	Notes	2019	2018
Assets			
Non-current assets			
Property, plant, and equipment	6	2,441,983	2,361,157
Right-of-use assets	8	241,509	246,479
Advances for property, plant, and equipment	6	406,547	166,777
Intangible assets	7	136,793	115,297
Goodwill	9	35,803	42,602
Investments in associate		4,302	4,855
Deferred tax assets	19	16,551	14,829
Accounts receivable and other non-current assets	28	166,850	71,669
Total non-current assets		**3,450,338**	**3,023,665**
Current assets			
Inventories	10	1,579,162	1,165,550
Trade and other accounts receivable	11	1,202,829	1,487,344
Prepayments made	12	143,771	66,847
Taxes recoverable and prepaid, other than income taxes	13	101,400	30,130
Current income taxes prepaid		22	4,507
Other financial assets		1,092	40,970
Cash and cash equivalents	14	165,486	109,969
Total current assets		**3,193,762**	**2,905,317**
Total assets		**6,644,100**	**5,928,982**
Equity and liabilities			
Equity			
Share capital	15	54,352	54,352
Foreign currency translation reserve		33,775	26,261
Retained earnings		5,131,110	4,202,648
Total equity attributable to equity holders of the Group		**5,219,237**	**4,283,261**
Non-controlling interests		(7,668)	12
Total equity		**5,211,569**	**4,283,273**
Non-current liabilities			
Loans and borrowings	16	177,116	12,305
Lease liabilities	8	153,200	174,537
Defined benefit obligations	17	145,493	112,421
Total non-current liabilities		**475,809**	**299,263**
Current liabilities			
Loans and borrowings	16	140,250	441,971
Trade and other accounts payable	17, 18	733,108	760,405
Lease liabilities	8	60,701	59,573
Income taxes payable		1,500	61,863
Taxes payable, other than income taxes		21,163	22,634
Total current liabilities		**956,722**	**1,346,446**
Total liabilities		**1,432,531**	**1,645,709**
Total equity and liabilities		**6,644,100**	**5,928,982**

On behalf of the Management of JSC "Farmak":

V. H. Kostiuk,
Chief Executive Officer

V. G. Smarodina,
Chief Financial Officer

The accompanying notes on pages from 11 to 57 form an integral part of these consolidated financial statements.

JSC "FARMAK"

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

In Ukrainian Hryvnias and in thousands

	Notes	2019	2018
Revenue	20	6,541,750	6,618,911
Cost of sales	21	(2,826,842)	(2,933,774)
Gross profit		**3,714,908**	**3,685,137**
Selling and distribution expenses	22	(1,397,411)	(1,341,839)
General and administrative expenses	23	(746,520)	(681,292)
Research and development costs	24	(304,739)	(234,282)
Other operating income		31,082	19,009
Other operating expense	25	(64,548)	(86,635)
Operating profit		**1,232,772**	**1,360,098**
Finance income		20,880	14,377
Finance costs	26	(51,092)	(45,686)
Net foreign exchange gain/(loss)		73,258	(35,033)
Share in profit of an associate		3,363	3,680
Profit before income tax		**1,279,181**	**1,297,436**
Income tax expense	19	(209,013)	(247,230)
Profit for the year from continuing operations		**1,070,168**	**1,050,206**
Discontinued operations			
Loss on discontinued operations	1	(14,479)	-
NET PROFIT FOR THE YEAR		**1,055,689**	**1,050,206**
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of defined benefit obligations	17	(31,913)	(1,168)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations to presentation currency		7,514	(2,657)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,031,290**	**1,046,381**
Profit/(loss) for the year attributable to:			
Equity holders of the Group		1,056,970	1,050,229
Non-controlling interests		(1,281)	(23)
		1,055,689	**1,050,206**
Total comprehensive income/(loss) for the year attributable to:			
Equity holders of the Group		1,032,571	1,046,404
Non-controlling interests		(1,281)	(23)
		1,031,290	**1,046,381**

On behalf of the Management of JSC "Farmak":

V. H. Kostiuk,
Chief Executive Officer

V. G. Smarodina,
Chief Financial Officer

The accompanying notes on pages from 11 to 57 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
In Ukrainian Hryvnias and in thousands

	Notes	2019	2018
Operating activities			
Profit before income tax		**1,279,181**	**1,297,436**
Adjustments for:			
Depreciation and amortization		396,897	324,600
Net gain on disposal of property, plant, and equipment and intangible assets	25	(8,217)	(4,337)
Share in profit of an associate		(3,363)	(3,680)
Loss on write off of raw materials and finished goods	10, 25	31,415	52,552
Changes in allowance for impairment and write off of accounts receivable	22, 25	(5,491)	31,977
Finance costs	26	51,092	45,686
Finance income		(20,880)	(14,377)
Net foreign exchange (gain)/loss		(72,273)	3,139
Operating profit before changes in working capital		**1,648,361**	**1,732,996**
Changes in working capital:			
Increase in inventories		(414,137)	(172,782)
Decrease/(increase) in trade and other accounts receivable		116,142	(462,012)
Increase in prepayments made		(77,812)	(7,842)
(Increase)/decrease in taxes recoverable and prepaid, other than income taxes		(73,684)	22,922
Decrease in trade and other accounts payable and other liabilities		(39,881)	(3,627)
Increase in taxes payable, other than income taxes		218	4,147
Cash generated from operating activities		**1,159,207**	**1,113,802**
Interest paid		(33,453)	(31,331)
Income taxes paid		(267,718)	(246,093)
Net cash generated from operating activities		**858,036**	**836,378**
Investing activities			
Acquisition of property, plant, and equipment and intangible assets		(713,743)	(622,831)
Short-term proceeds on/(placement) of free funds		40,970	(20,498)
Proceeds on disposal of property, plant, and equipment		11,122	8,131
Contingent compensation paid as a result of acquisition of a subsidiary		-	(7,746)
Dividends received from an associate		3,069	2,703
Interest received		11,028	7,278
Net cash used in investing activities		**(647,554)**	**(632,963)**

The accompanying notes on pages from 11 to 57 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
In Ukrainian Hryvnias and in thousands

	Notes	2019	2018
Financing activities			
Net proceeds on sale of interest in equity of the Group's subsidiary	15	26,952	-
Proceeds on loans and borrowings		263,733	233,587
Repayment of loans and borrowings		(334,698)	(267,486)
Repayment of lease liabilities		(63,051)	(73,149)
Dividends paid		(47,317)	(39,714)
Net cash used in financing activities		**(154,381)**	**(146,762)**
Net increase in cash and cash equivalents		**56,101**	**56,653**
Cash and cash equivalents as of 1 January	**14**	**109,969**	**53,947**
Effect of exchange rate changes on balances of cash and cash equivalents held in foreign currencies		(584)	(631)
Cash and cash equivalents as of 31 December	**14**	**165,486**	**109,969**

Non-cash transactions for the year ended 31 December 2019 were represented by right-of-use assets recognized under leases in the amount of UAH 73,770 thousand (2018: UAH 246,479 thousand).

On behalf of the Management of JSC "Farmak":

V. H. Kostiuk,
Chief Executive Officer

V. G. Smarodina,
Chief Financial Officer

JSC "FARMAK"

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
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 2018	**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/(loss) 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 (Note 28)	-	-	(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**
Correction of prior year errors	-	-	(226)	**(226)**	-	**(226)**
As of 31 December 2018, as restated	**54,352**	**26,261**	**4,202,422**	**4,283,035**	**12**	**4,283,047**
Profit/(loss) for the year	-	-	1,056,970	**1,056,970**	(1,281)	**1,055,689**
Other comprehensive income/(loss) for the year	-	7,514	(31,913)	**(24,399)**	-	**(24,399)**
Total comprehensive income/(loss) for the year	-	7,514	1,025,057	**1,032,571**	(1,281)	**1,031,290**
Change in non-controlling interests in a subsidiary	-	-	34,028	**34,028**	(6,399)	**27,629**
Effect on initial recognition of receivables from the Group's shareholder at fair value (Note 28)	-	-	(83,082)	**(83,082)**	-	**(83,082)**
Dividends declared (Note 15)	-	-	(47,315)	**(47,315)**	-	**(47,315)**
As of 31 December 2019	**54,352**	**33,775**	**5,131,110**	**5,219,237**	**(7,668)**	**5,211,569**

On behalf of the Management of JSC "Farmak":

V. H. Kostiuk,
Chief Executive Officer

V. G. Smarodina,
Chief Financial Officer

The accompanying notes on pages from 11 to 57 form an integral part of these consolidated financial statements.

In Ukrainian Hryvnias and in thousands

1. GENERAL INFORMATION

JSC "Farmak"[1] (hereinafter, the "Company") is a 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 (the 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	
			2019	**2018**
Subsidiaries:				
SE "Baza Vidpochynku "Smuhlianka"	Recreation center	Ukraine, Odesa	100%	100%
LLC "Farmakhim"	Property leasehold and operations with securities	Ukraine, Kyiv	100%	100%
SE "Berenika"[2]	Production and sales of drugs	Ukraine, Zhytomyr	-	100%
Farmak Invest Limited	Investments	Cyprus, Nicosia	100%	100%
Farmak International Sp. z o.o.	Investments	Poland, Warsaw	100%	100%
NORD FARM Sp. z o.o.[4]	Distribution of drugs	Poland, Warsaw	85%	100%
Consolidated structured entity[3]:				
LLC "Simpozium"	Business travel, conference services	Ukraine, Kyiv	-	-
Associate:				
LLC "Farmak SP"	Distribution of drugs	Poland, Warsaw	26%	26%

1 Effective from 8 July 2019, the Company's organization type was changed from Public Joint Stock Company "Farmak" to Joint Stock Company "Farmak".

2 On 27 May 2019, the Company entered into a sales agreement in respect of SE "Berenika" that was recorded in the consolidated financial statements as discontinued operations. The disposal was performed with the purpose of liquidating non-core assets of the Group. At the date of signing the agreement, control over SE "Berenika" was transferred to the buyer. Revenue of the disposed company for the period from 1 January 2019 to the disposal date amounted to UAH 6,389 thousand (2018: UAH 7,746 thousand), and net losses attributable to discontinued operations in 2019 amounted to UAH 14,479 thousand.

Net loss in the amount of UAH 4,748 thousand arose in the course of disposal of SE "Berenika" as a difference between revenues from sale and carrying amount of the subsidiary's net assets.

3 As discussed in Note 5, management has concluded that the Group has a practical ability to direct the relevant activities of the structured entity unilaterally and, hence, the Group has control over the entity. As such, the entity is consolidated in these consolidated financial statements.

4 In July 2019, the Group sold 14.99% shares in the contributed capital of its Poland-based subsidiary NORD FARM Sp. z o.o. recorded as non-controlling interest. Net proceeds on the sale of shares amounted to UAH 26,952 thousand, carrying value of the subsidiary's net liabilities amounted to UAH 84,398 thousand at the date of sale.

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

2. OPERATING ENVIRONMENT

Since 2016, the Ukrainian economy has demonstrated signs of stabilization after years of political and economic tension. In 2019, the Ukrainian economy continued its recovery and achieved real GDP growth of around 3.6% (2018: 3.3%), modest annual inflation of 4.1% (2018: 9.8%), and stabilization of the national currency (appreciation of the national currency by around 5% to USD and 11% to EUR comparing to previous year averages).

Ukraine continues to limit its political and economic ties with Russia, given annexation of Crimea, an autonomous republic of Ukraine, and an armed conflict with separatists continued in certain parts of Luhanska and Donetska regions. As a result of this, the Ukrainian economy is refocusing on the European Union (the "EU") market by realizing potentials of established Deep and Comprehensive Free Trade Area with the EU.

To further facilitate business activities in Ukraine, the National bank of Ukraine (the "NBU") starting from 20 June 2019 has lifted the surrender requirement for foreign currency proceeds, cancelled all limits on repatriation of dividends since July 2019, and has gradually decreased its discount rate for the first time during the recent two years, from 18.0% in April 2019 to 10.0% in March 2020.

The degree of macroeconomic uncertainty in Ukraine in 2019 still remains high due to a significant amount of public debt scheduled for repayment in 2019-2020, which requires mobilizing substantial domestic and external financing in an increasingly challenging financing environment for emerging markets. At the same time, Ukraine has passed through the period of presidential and parliamentary elections. All newly elected authorities have demonstrated their commitment to introduce reforms in order to boost economic growth, while maintaining macro-fiscal stability and liberalizing economic environment. These changes have resulted in, inter alia, improved Fitch's rating of Ukraine's Long-Term Foreign- and Local-Currency Issuer Default Ratings from 'B-' to 'B', with a positive outlook.

Further economic growth depends, to a large extent, upon success of the Ukrainian government in realization of planned structural reforms and effective cooperation with the International Monetary Fund (the "IMF").

In addition to that, starting from early 2020, a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Ukrainian economy.

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

Adoption of new and revised International Financial Reporting Standards

In 2019, the Group adopted a range of revised Standards issued by International Accounting Standards Board (the "IASB") and Interpretations issued by International Financial Reporting Standards Interpretation Committee ("IFRIC") that are relevant to its operations and mandatorily effective for annual accounting periods that begin on or after 1 January 2019:

- Amendments to IFRS 9 "Financial Instruments" – Prepayment features with negative compensation;
- Amendments to IAS 19 "Employee Benefits" – Plan amendment, curtailment, or settlement;
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term shares in associates and joint ventures;
- Interpretation of IFRIC 23 "Uncertainty over Income Tax Treatments";
- Annual Improvements to IFRS for the period 2015-2017;
- IFRS 16 "Leases"*.

* As of 1 January 2018, the Group has early applied IFRS 16 "Leases" that is mandatorily effective for annual reporting periods beginning on or after 1 January 2019. In 2019, the Group continued to apply IFRS 16 in accordance with the approach determined for 2018 and did not change its judgments regarding interpretation of the Standard in accounting records and consolidated financial statements for 2019.

Amendments to IAS 19 "Employee Benefits" – Plan amendment, curtailment, or settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). Under amendments to IAS 19, it is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. The Group will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as re-measured under IAS 19:99 with the discount rate used in the re-measurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The application of the amendments have not had a material effect on the consolidated performance and consolidated financial position of the Group.

The adoption of other new and revised Standards and Interpretations has not had any material 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 these consolidated financial statements were authorized for issue, 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 venture[4];
- Conceptual Framework – Amendments to References in IFRS Standards[1];
- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates, and Errors" – Definition of material[1];
- IFRS 17 "Insurance Contracts" [2];
- Amendments to IFRS 3 "Business Combinations"[1];
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", and IFRS 7 "Financial Instruments: Disclosures" – Interest Rate Benchmark Reform and its impact on financial reporting[1];
- Annual Improvements to IFRS (2010-2012 Cycle), Amendments to IAS 1 "Presentation of Financial Statements" – Classification of liabilities as current and non-current[3].

[1] Effective for annual periods beginning on or after 1 January 2020, 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 1 January 2022, with earlier application permitted.
[4] 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 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 ("IFRS").

Basis of preparation

The consolidated financial statements have been prepared on a going concern basis, which stipulates that the Group will be able to realize assets and settle 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.

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.

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.

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.

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.

Investments 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 customer, 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.

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 terms of 12 months or less) and leases of underlying assets with a low value. For those lease transactions, the Group recognizes lease payments as operating expense on the straight-line basis over the lease term. 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 liabilities 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 option if the Group is reasonably certain that it will get use of such an option, and payment of termination penalty fees, except for the cases when the Group is reasonably 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 term. The lease term is a non-cancelable period, except for the cases when the Group is reasonably certain in exercising a possible option to extend the lease. In estimating a lease term, the Group considers all relevant facts and circumstances that create an economic incentive for the Group to get use of the option to extend the lease, e.g., the useful life of the asset located in leased premises, statistics of changes in location, trends in technology changes, profitability of leased assets, and costs on termination of or entering into lease contracts.

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.

In Ukrainian Hryvnias and in thousands

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, 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 transaction dates are used. Exchange differences arising, if any (foreign currency translation reserve), are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

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

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

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

Currency	As of 31 December 2019	Average exchange rate for 2019	As of 31 December 2018	Average exchange rate for 2018
UAH/USD	23.6862	25.8456	27.6883	27.2005
UAH/EUR	26.4220	28.9518	31.7141	32.1429
UAH/PLZ	6.1943	6.7374	7.3706	7.5502

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.

Post-employment 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 an employee's service period with the Group and represents 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 are 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 with reference to average expected inflation rate.

Defined benefit costs are categorized as follows:

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

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.

Capitalized costs include major expenditures on 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	4-16 years
Office equipment	2-15 years
Other depreciable assets	3-25 years

The residual value, the useful lives, 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 lives and amortization methods 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).

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 includes 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 a weighted average method.

Inventories are recorded 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 in marketing, selling and distribution.

Contingent assets and liabilities

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

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

Financial instruments

Financial assets and financial liabilities are recognized in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of a particular instrument.

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 liabilities, trade accounts payable. The accounting policies in respect of the initial recognition and subsequent measurement of financial instruments are disclosed in the respective sections of 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, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

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.

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 a low credit risk at the reporting date. A financial instrument is determined to have a 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.

Definition of default

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;
(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 and other 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 valuation techniques used by management for measurement and recognition of expected credit losses are disclosed in respective Notes 3 and 11 relating 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 of up to three months or less.

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.

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 those 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 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).

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.

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 of cash flows.

Useful lives of property, plant, and equipment

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

Net realizable value of inventories

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

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

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

Classification of balances on transactions with shareholders

As of 31 December 2019, the Group accounted for accounts receivable on transactions with legal entities-shareholders in the amount of UAH 171,276 thousand (2018: UAH 131,421 thousand). The Group recorded those balances in the consolidated financial statements in accounts receivable and other non-current assets and in other accounts receivable.

Management believes that, considering the historical data on similar transactions, the amounts due will be repaid in cash and within the terms established in relevant contracts. According to the terms and conditions of such contracts, shareholders have no unconditional right to defer repayments. Management believes that, based on the business plans of equity holders, reasonable evidence exists as to ability and intention of legal entities-shareholders to repay the amounts due.

Right-of-use assets and lease liabilities

The amount of right-of-use assets and lease liabilities 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 terms, 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

Defined benefit 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.

In Ukrainian Hryvnias and in thousands

6. PROPERTY, PLANT, AND EQUIPMENT

As of 31 December 2019 and 2018, movements in property, plant, and equipment were as follows:

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Office equipment	Other depreciable assets	Capital construction in progress and uninstalled equipment	Total
Cost								
As of 31 December 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/(withdrawal from) 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**
Additions	-	6,405	114,753	41,494	37,411	28,506	192,995	**421,564**
Title of ownership acquired under leases	-	-	-	33,100	-	-	-	**33,100**
Withdrawals from investment property	-	-	-	(809)	-	-	-	**(809)**
Internal transfers	-	(34,262)	57,704	5,661	1,941	61,392	(92,436)	**-**
Effect of translation differences	-	(391)	(60)	(602)	(88)	(56)	-	**(1,197)**
Disposal of the Group's entity	-	(3,383)	(2,712)	(194)	-	(69)	(180)	**(6,538)**
Disposals	-	(15,155)	(3,205)	(18,451)	(9,888)	(571)	(2,038)	**(49,308)**
As of 31 December 2019	**5,373**	**902,944**	**2,360,570**	**256,376**	**193,715**	**98,088**	**298,505**	**4,115,571**

In Ukrainian Hryvnias and in thousands

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Office equipment	Other depreciable assets	Capital construction in progress and uninstalled equipment	Total
Accumulated depreciation								
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**
Withdrawals from 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)**
Depreciation charges	-	(41,949)	(228,649)	(30,943)	(39,532)	(3,064)	-	**(344,137)**
Transfers from the right-of-use assets		-	-	(12,995)	-	-	-	**(12,995)**
Withdrawals from investment property	-	-	-	377	-	-	-	**377**
Internal transfers	-	13,870	407	-	(407)	(13,870)	-	**-**
Effect of translation differences	-	159	42	536	60	35	-	**832**
Disposal of the Group's entity	-	148	644	36	-	3	-	**831**
Disposals	-	10,360	3,205	15,295	9,737	509	-	**39,106**
As of 31 December 2019	**-**	**(216,082)**	**(1,172,653)**	**(135,380)**	**(128,052)**	**(21,421)**	**-**	**(1,673,588)**
Net book value								
As of 31 December 2018	**5,373**	**751,060**	**1,245,788**	**88,491**	**66,429**	**3,852**	**200,164**	**2,361,157**
As of 31 December 2019	**5,373**	**686,862**	**1,187,917**	**120,996**	**65,663**	**76,667**	**298,505**	**2,441,983**

In Ukrainian Hryvnias and in thousands

As of 31 December 2019, 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.

Pledged assets

As of 31 December 2019 and 2018, the carrying amounts of the Group's property, plant, and equipment used as a collateral to secure for loans and borrowings (Note 16) were as follows:

	2019	2018
Machinery and equipment	537,653	306,900
Buildings and constructions	195,054	3,282
Other depreciable assets	2,049	-
Total	**734,756**	**310,182**

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 2019 at cost in the amount of UAH 278,233 thousand (2018: UAH 212,494 thousand) were fully depreciated but remained in use.

Advances for property, plant, and equipment

As of 31 December 2019 and 2018, advances for property, plant, and equipment were mainly represented by prepaid construction and design works and equipment to improve and expand the operating production facilities on manufacturing liquid drugs.

7. INTANGIBLE ASSETS

As of 31 December 2019 and 2018, movements in intangible assets were as follows:

	Software and licenses	Other intangible assets	Intangible assets not put into operation	Total
Cost				
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**
Additions	22,574	2,884	28,380	**53,838**
Internal transfers	17,324	134	(17,458)	**-**
Effect of translation differences	(305)	(4)	-	**(309)**
Disposals	-	(25)	-	**(25)**
As of 31 December 2019	**159,829**	**22,457**	**44,719**	**227,005**

In Ukrainian Hryvnias and in thousands

	Software and licenses	Other intangible assets	Intangible assets not put into operation	Total
Accumulated amortization				
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)**
Amortization charges	(28,528)	(3,644)	-	**(32,172)**
Effect of translation differences	138	4	-	**142**
Disposals	-	22	-	**22**
As of 31 December 2019	**(79,471)**	**(10,741)**	**-**	**(90,212)**
Net book value				
As of 31 December 2018	**69,155**	**12,345**	**33,797**	**115,297**
As of 31 December 2019	**80,358**	**11,716**	**44,719**	**136,793**

Intangible assets not put into operation for the year ended 31 December 2019 comprise costs directly related to acquisition and development of items of intangible assets, including software development in the amount of UAH 28,520 thousand and purchase of product specification files in the process of registration in the amount of UAH 16,199 thousand. Intangible assets at development stage 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 2019 at cost in the amount of UAH 19,178 thousand (2018: UAH 17,839 thousand) were fully amortized but remained in use.

8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

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 liabilities are repayable in UAH at the commercial exchange rate of UAH against USD at the date of payment.

As of 31 December 2019 and 2018, the carrying amounts of the Group's right-of-use assets were as follows:

	2019	2018
Buildings and constructions	169,149	181,241
Vehicles	65,340	58,605
Land	7,020	6,633
Total	**241,509**	**246,479**

In Ukrainian Hryvnias and in thousands

Depreciation of the right-of-use assets for the years ended 31 December 2019 and 2018 included in depreciation charges in the consolidated statement of profit or loss and other comprehensive income was as follows:

	2019	**2018**
Land	6,633	9,415
Buildings and constructions	34,142	37,815
Vehicles	15,483	8,517
Total	**56,258**	**55,747**

Additions to the right-of-use assets for the year ended 31 December 2019 amounted to UAH 73,772 thousand (2018: UAH 228,141 thousand).

Interest expense accrued on lease liabilities for the year ended 31 December 2019 amounted to UAH 14,553 thousand (2018: UAH 11,942 thousand) and was included in finance costs in the consolidated statement of profit or loss and other comprehensive income (Note 31).

For the year ended 31 December 2019, the expenses related to variable lease payments not included in the estimation of lease liabilities and short-term leases amounted to UAH 10,195 thousand and UAH 10,390 thousand, respectively (2018: UAH 9,862 thousand and UAH 10,934 thousand).

Future minimum lease payments and present value of net minimum lease payments as of 31 December 2019 and 2018 were as follows:

	2019	**2018**
Minimum lease payments, including:		
Current portion (less than 1 year)	74,290	73,206
From 1 to 5 years	170,312	164,300
Over 5 years	2,658	34,328
Total minimum lease payments	**247,260**	**271,834**
Less: Future cost of funding	(33,359)	(37,724)
Present value of minimum lease payments, including:		
Current portion (less than 1 year)	60,701	59,573
From 1 to 5 years	150,553	141,112
Over 5 years	2,647	33,425
Total minimum lease payments	**213,901**	**234,110**
Less: Current portion of lease liabilities	(60,701)	(59,573)
Total non-current portion of lease liabilities	**153,200**	**174,537**

Total cash payments under leases for the year ended 31 December 2019 amounted to UAH 63,051 thousand (2018: UAH 73,149 thousand).

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

In Ukrainian Hryvnias and in thousands

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 2019 and 2018, goodwill was as follows:

	2019	2018
Cost	157,119	186,955
Accumulated impairment losses	(121,316)	(144,353)
	35,803	**42,602**

Cost	**2019**	**2018**
As of 1 January	**186,955**	**203,217**
Effect of foreign exchange differences	(29,836)	(16,262)
As of 31 December	**157,119**	**186,955**

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

Accumulated impairment losses	**2019**	**2018**
As of 1 January	**(144,353)**	**(156,909)**
Effect of foreign exchange differences	23,037	12,556
As of 31 December	**(121,316)**	**(144,353)**

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

The recoverable amount of Nord Farm Group, based on the assessment for impairment as of 31 December 2019, 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.

In Ukrainian Hryvnias and in thousands

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 2017-2019 against the planning period will amount to 9.9%.
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 2.8% is achievable.
Change in procurement prices and inflation rates	Projected consumer price indices in Poland and Ukraine during the planning period. Index figures are estimated by management based on the actual data for the period immediately preceding the 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 2019 was identified.

10. INVENTORIES

As of 31 December 2019 and 2018, inventories were as follows:

	2019	2018
Finished goods	730,139	451,655
Raw materials	513,564	400,464
Packaging materials	167,573	148,203
Work in progress	110,067	125,216
Merchandise for resale	37,189	21,372
Other inventories	20,630	18,640
Total	**1,579,162**	**1,165,550**

Cost of inventories in the amount of UAH 1,739,882 thousand (2018: UAH 1,803,739 thousand) was included in cost of sales (Note 21) for the year ended 31 December 2019.

The amount of losses on inventory write-downs recognized in other operating expense (Note 25) for the year ended 31 December 2019 comprised UAH 31,415 thousand (2018: UAH 52,552 thousand). Such write-downs related to raw materials and finished goods and are recognized based on the results of stock counts and quality inspections performed by the Group.

11. TRADE AND OTHER ACCOUNTS RECEIVABLE

As of 31 December 2019 and 2018, trade and other accounts receivable were as follows:

	2019	2018
Trade accounts receivable	1,189,662	1,391,166
Other accounts receivable	46,908	140,255
	1,236,570	**1,531,421**
Allowance for impairment of accounts receivable	(33,741)	(44,077)
Total trade and other accounts receivable	**1,202,829**	**1,487,344**

In Ukrainian Hryvnias and in thousands

As of 31 December 2019, trade and other accounts receivable included balances due from related parties in the amount of UAH 46,416 thousand (2018: UAH 76,979 thousand) (Note 28).

No interest is charged on trade accounts receivable. The credit period on sales of goods was generally 30-120 days in 2019 (2018: 30-120 days).

The Group regularly assesses the loss 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 provision 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 developments 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 down 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.

The table below summarizes a risk profile of trade accounts receivable on the basis of the Group's estimated provision 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. Correspondingly, 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 operated that might significantly affect the risks of credit losses in the reporting period.

	Trade accounts receivable – days past due					
As of 31 December 2019	**Not past due**	**<30**	**31-60**	**61-90**	**>90**	**Total**
Ukraine						
Rate of expected credit losses	0.03%	0.05%	0.14%	0.36%	23.25%	
Estimated total loss given default	459,794	172,535	72,847	185,649	188	**891,013**
Lifetime expected credit losses	138	86	102	668	44	**1,038**
Uzbekistan						
Rate of expected credit losses	1.06%	3.43%	14.37%	26.05%	29.58%	
Estimated total loss given default	8,531	-	-	-	-	**8,531**
Lifetime expected credit losses	90	-	-	-	-	**90**
Kazakhstan						
Rate of expected credit losses	0.22%	0.34%	2.27%	9.48%	16.02%	
Estimated total loss given default	38,152	6,922	3,373	-	-	**48,447**
Lifetime expected credit losses	84	24	77	-	-	**185**

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	Trade accounts receivable – days past due					
As of 31 December 2019	**Not past due**	**<30**	**31-60**	**61-90**	**>90**	**Total**
Poland						
Rate of expected credit losses	1.02%	1.60%	4.78%	20.04%	100.00%	
Estimated total loss given default	31,554	5,131	306	402	4,485	**41,878**
Lifetime expected credit losses	322	82	15	81	4,485	**4,985**
Total lifetime expected credit losses						**6,298**

	Trade accounts receivable – days past due					
As of 31 December 2018	**Not past due**	**<30**	**31-60**	**61-90**	**>90**	**Total**
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 212,960 thousand (2018: UAH 296,078 thousand) based on the estimated provision matrix, the Group did not expect any significant credit losses as of 31 December 2019.

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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 2019 and 2018 were as follows:

	Collectively estimated	**Individually estimated**	**Total**
As of 1 January 2018	-	**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**
Impairment losses recognized on accounts receivable	7,948	247	**8,195**
Amounts written off during the year as irrecoverable	(850)	(2)	**(852)**
(Gains)/losses on translation differences	(1,043)	(2,741)	**(3,784)**
Repayment of earlier impaired receivables	(5,561)	(8,334)	**(13,895)**
As of 31 December 2019	**6,298**	**27,443**	**33,741**

12. PREPAYMENTS MADE

As of 31 December 2019 and 2018, prepayments made were as follows:

	2019	**2018**
Advances issued to suppliers for raw materials	102,792	22,777
Advances issued to suppliers for services	33,283	36,585
Prepaid expenses	8,137	8,159
	144,212	**67,521**
Allowance for impairment of prepayments made	(441)	(674)
Total	**143,771**	**66,847**

As of 31 December 2019, included in prepayments made were balances on transactions with related parties in the amount of UAH 2,227 thousand (2018: UAH 3,796 thousand) (Note 28).

13. TAXES RECOVERABLE AND PREPAID, OTHER THAN INCOME TAXES

As of 31 December 2019 and 2018, taxes recoverable and prepaid were as follows:

	2019	**2018**
VAT recoverable	85,397	11,131
Other taxes	16,003	18,999
Total	**101,400**	**30,130**

Subsequent to the reporting period, the Group recovered VAT in the amount of UAH 72,863 thousand.

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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 2019 and 2018, cash and cash equivalents were as follows:

	2019	2018
Cash on hand and with banks	129,850	49,969
Short-term bank deposits	35,624	60,000
Restricted cash	12	-
Total	**165,486**	**109,969**

Balances of cash with banks earned interest income at floating rates based on daily bank deposit rates. As of 31 December 2019 and 2018, short-term bank deposits were represented by deposits on demand and overnight deposits.

Cash balances held by the Group with major banks as of 31 December 2019 and 2018 which were assigned with long-term national scale ratings of not lower than "A" amounted to UAH 35,206 thousand (2018: UAH 107,979 thousand), and cash balances held with the banks assigned with long-term national scale ratings of not lower than "B" amounted to UAH 128,005 thousand (2018: nil). The banks had a stable outlook, under which a borrower or individual debt instruments were characterized as having the high credit quality compared to other domestic borrowers or debt instruments.

15. SHARE CAPITAL

As of 31 December 2019 and 2018, 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 2019 and 2018, the carrying amount of the Group's share capital amounted to 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 2019 and 2018, the ownership structure of the Group's share capital was as follows:

	2019		2018	
	Number of shares	**Ownership interest, %**	**Number of shares**	**Ownership interest, %**
Immediate shareholders:				
Farmak Group Limited*	5,768,788	79.32%	174,926	2.41%
Individuals (< 2% individually)	550,713	7.57%	615,084	8.45%
Farmak International Holding GmbH	473,660	6.51%	420,364	5.78%
LLC "Farmakhim"	415,946	5.72%	415,946	5.72%
Legal entities (< 2% individually)	64,093	0.88%	193,238	2.66%
FARMAK GROUP N.V.	-	-	4,945,090	67.99%
Foyil Capital Limited	-	-	508,552	6.99%
Total	**7,273,200**	**100.00%**	**7,273,200**	**100.00%**

* Effective from 19 December 2019, the name was changed from F.I.&P. Holdings Limited to Farmak Group Limited.

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Dividends

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. In accordance with distribution of ownership interests in the share capital as of 31 December 2019, the amount of UAH 2,870 thousand of total dividends declared was payable to LLC "Farmakhim", a subsidiary of JSC "Farmak".

Treasury shares repurchased

Total number of shares in JSC "Farmak" repurchased by LLC "Farmakhim", the Group's subsidiary, as of 31 December 2019 and 2018 amounted to 415,946 shares, which constituted 5.72% of the Group's share capital.

16. LOANS AND BORROWINGS

As of 31 December 2019 and 2018, outstanding loans and borrowings were as follows:

Secured loans and borrowings:	**Currency**	**2019**	**2018**
Borrowings from the EBRD[1)]	EUR	217,271	-
Credit lines from Ukrainian banks	EUR	-	334,669
Loan from a related party (Note 28)	EUR	86,475	93,814
Borrowing from a foreign bank	PLN	13,620	25,793
Total loans and borrowings		**317,366**	**454,276**
Less:			
Short-term loans and borrowings and current portion of long-term loans and borrowings		(140,250)	(441,971)
Long-term loans and borrowings		**177,116**	**12,305**

1) During the year ended 31 December 2019, the Group signed an agreement with the European Bank for Reconstruction and Development (the "EBRD") on obtaining a borrowing in the amount of EUR 15,000 thousand for the period of five years. As of 31 December 2019, the Group received a tranche in the amount of EUR 9,000 thousand and made a planned repayment of a part of the borrowing in the amount of EUR 687 thousand, as a result of which the total amounts due under the borrowing agreement with the EBRD amounted to EUR 8,313 thousand.

Borrowings of the EBRD impose restrictions on disposal of the Group's assets and payment of dividends by the Group, as well as certain other restrictions on the Group's operations. In addition, terms and conditions of those borrowings set certain financial covenants. Thus, the Group has to maintain the sufficient levels of coverage ratio, debt servicing ratio, financial debt to equity ratio, and liquidity ratio. For the year ended 31 December 2019, the Group complied with those requirements.

As of 31 December 2019, average weighted interest rates on foreign currency denominated borrowings of the Group were as follows: EUR-denominated borrowings – 3.82% and PLZ-denominated borrowings – 3.13%. The similar information for 2018 was as follows: EUR-denominated borrowings – 3.9% and PLZ-denominated borrowings – 3.64%. The table below summarizes the Group's loans and borrowings raised at fixed and floating interest rates as of 31 December 2019 and 2018:

	2019	**2018**
Floating interest rates	230,891	360,462
Fixed interest rates	86,475	93,814
Total	**317,366**	**454,276**

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As of 31 December 2019 and 2018, the loans and borrowings were secured by property, plant, and equipment pledged in the amount of UAH 734,756 thousand and UAH 310,182 thousand, respectively.

Credit line agreements entered into with domestic banks also establish requirements to certain financial ratios and contain the conditions 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 2019 and 2018, 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 loans and borrowings, are disclosed in Note 30.

17. DEFINED BENEFIT OBLIGATIONS

Reconciliation of the present value of defined benefit obligations for the years ended 31 December 2019 and 2018 was as follows:

	2019	2018
Balance at the beginning of the year	**131,231**	**106,857**
Including:		
Non-current liabilities	112,421	91,777
Current liabilities	18,810	15,080
Current service cost	449	724
Interest expense	18,372	14,960
Past service cost	618	23,413
Actuarial losses recognized in other comprehensive income	31,913	1,168
Benefits paid during the year	(18,997)	(15,891)
Balance at the end of the year	**163,586**	**131,231**
Including:		
Non-current liabilities	145,493	112,421
Current liabilities (Note 18)	18,093	18,810

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

	2019	2018
Interest expense	18,372	14,960
Current service cost	449	724
Past service cost	618	23,413
Total	**19,439**	**39,097**

During the year ended 31 December 2019, the Group included in other comprehensive income actuarial losses in the amount of UAH 31,913 thousand (2018: UAH 1,168 thousand).

Key assumptions used for actuarial valuation as of 31 December 2019 and 2018 were as follows:

	31 December 2019	31 December 2018
Discount rate	10.3%	14.0%
Estimated payroll growth rate	6.0%	5.0%

In Ukrainian Hryvnias and in thousands

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.

18. TRADE AND OTHER ACCOUNTS PAYABLE

As of 31 December 2019 and 2018, trade and other accounts payable were as follows:

	2019	2018
Trade accounts payable for:		
Raw materials and merchandise	250,881	317,172
Services	178,856	92,672
Property, plant, and equipment and intangible assets	49,023	50,451
	478,760	**460,295**
Other accounts payable:		
Payables to employees	172,790	216,660
Accrued liabilities	18,658	32,580
Current portion of defined benefit obligations (Note 17)	18,093	18,810
Advances received	13,994	16,402
Factoring	10,659	5,983
Other accounts payable	20,154	9,675
	254,348	**300,110**
Total	**733,108**	**760,405**

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

As of 31 December 2019, included in trade accounts payable of the Group for raw materials and services were balances on transactions with related parties in the amount of UAH 77,122 thousand (2018: UAH 135,960 thousand) (Note 28).

As of 31 December 2019, included in the Group's payables to employees were balances with the Group's key management personnel in the amount of UAH 16,746 thousand (2018: UAH 20,997 thousand) (Note 28).

As of 31 December 2019, included in accrued liabilities were royalties payable to related parties (key management personnel) in the amount of UAH 3,641 thousand (2018: UAH 6,486 thousand) (Note 28).

19. INCOME TAX EXPENSE

Components of income tax expense for the reporting years ended 31 December 2019 and 2018 comprised the following:

	2019	2018
Current income tax		
Current income tax expense	210,735	238,999
Deferred income tax		
Deferred income tax (benefit)/expense	(1,722)	8,231
Total income tax expense	**209,013**	**247,230**

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The Group's profit was subject to taxation in Ukraine and Poland. During the year ended 31 December 2019, the Group was subject to corporate income tax at the rate of 18% in Ukraine and 19% in Poland (2018: 18% in Ukraine and 19% in Poland).

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:

	2019	2018
Profit before income tax	**1,279,181**	**1,297,436**
Income tax expense at the statutory tax rate of 18%	227,646	233,539
Unused deferred tax assets recognized as temporary differences in the reporting period	(28,579)	-
Effect of non-deductible expenses, net	9,600	14,121
Effect of differences in tax rates in different countries	346	(430)
Total income tax expense	**209,013**	**247,230**

As of 31 December 2019 and 2018, deferred tax assets and liabilities related to the following:

31 December 2019	At the end of the year	Reported in profit or loss	At the beginning of the year
Trade and other accounts receivable	7,494	(3,292)	10,786
Trade and other accounts payable, other non-current liabilities	6,827	1,921	4,906
Inventories	3,817	523	3,294
Property, plant, and equipment	(3,591)	606	(4,197)
Prepayments made	2,004	1,964	40
Deferred income tax benefit		**1,722**	
Net deferred tax assets	**16,551**		**14,829**

31 December 2018	At the end of the year	Reported in profit or loss	At the beginning of the year
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**

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20. REVENUE

Revenue for the years ended 31 December 2019 and 2018 was as follows:

	2019	2018
Revenue from sales of finished goods	6,329,902	6,310,442
Revenue from sales of merchandise for resale	180,828	283,035
Other revenue	31,020	25,434
Total	**6,541,750**	**6,618,911**

For the year ended 31 December 2019, included in revenue from sales of finished goods were sales to related parties in the amount of UAH 39,391 thousand (2018: UAH 25,042 thousand) (Note 28).

Revenue by geographical regions for the years ended 31 December 2019 and 2018 was as follows:

	2019	2018
Ukraine	4,953,912	4,909,484
CIS	1,112,736	1,150,104
European Union	245,887	392,696
Asia	211,183	145,072
Australia	18,032	18,833
Africa	-	2,722
Total	**6,541,750**	**6,618,911**

21. COST OF SALES

Cost of sales for the years ended 31 December 2019 and 2018 was as follows:

	2019	2018
Raw materials and supplies (Note 10)	1,739,882	1,803,739
Staff costs	401,167	379,932
Depreciation and amortization	185,504	149,474
Royalties	167,864	174,891
Repair and maintenance of property, plant, and equipment	133,955	129,302
Energy, water, and other utilities	108,425	116,351
Cost of merchandise for resale	71,662	158,237
Other expense	18,383	21,848
Total	**2,826,842**	**2,933,774**

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 2019, royalties to the Group's key management personnel amounted to UAH 41,968 thousand (2018: UAH 44,758 thousand) (Note 28).

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22. SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses for the years ended 31 December 2019 and 2018 were as follows:

	2019	2018
Marketing and advertising expenses	587,443	499,604
Staff costs	353,861	354,152
Representative office costs	183,826	200,166
Transportation and storage	118,357	110,787
Depreciation and amortization	88,780	69,060
Registration fees	31,326	37,017
Maintenance of property, plant, and equipment	23,914	20,736
Other expense	15,595	18,967
Changes in allowance for impairment and write-offs of trade accounts receivable	(5,691)	31,350
Total	**1,397,411**	**1,341,839**

Representative office costs for the year ended 31 December 2019 included staff costs related to employees of such representative offices in the amount of UAH 108,613 thousand (2018: UAH 139,971 thousand).

Marketing and advertising expenses for the year ended 31 December 2019 included income taxes of non-residents providing advertising services in the amount of UAH 6,034 thousand (2018: UAH 22,824 thousand).

23. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December 2019 and 2018 were as follows:

	2019	2018
Staff costs	444,096	423,975
Depreciation and amortization	90,998	67,294
Maintenance of property, plant, and equipment	65,017	60,657
Consulting and other professional services	46,801	41,285
Business trips	20,575	18,291
Security services	8,898	1,807
Transportation	7,320	7,253
Taxes, other than income tax	6,214	6,135
Bank charges	5,826	8,302
Communication services	3,482	3,155
Audit services	2,921	3,018
Other expense	44,372	40,120
Total	**746,520**	**681,292**

Audit services include statutory audit of standalone and consolidated financial statements of the Company with the total statutory fees of UAH 2,704 thousand and UAH 2,602 thousand for the audit of 2019 and 2018, respectively.

24. RESEARCH AND DEVELOPMENT COSTS

Research and development costs of the Group for the years ended 31 December 2019 and 2018 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 2019 included staff costs in the amount of UAH 115,568 thousand (2018: UAH 103,239 thousand).

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25. OTHER OPERATING EXPENSE

Other operating expense for the years ended 31 December 2019 and 2018 was as follows:

	2019	2018
Charity and donations	40,071	32,033
Loss on write down of raw materials and finished goods (Note 10)	31,415	52,552
Changes in allowance for impairment and write-offs of other accounts receivable	200	627
Fines and penalties	(62)	187
Net gain on disposal of property, plant, and equipment and intangible assets, net	(8,217)	(4,337)
Other expense	1,141	5,573
Total	**64,548**	**86,635**

26. FINANCE COSTS

Finance costs for the years ended 31 December 2019 and 2018 were as follows:

	2019	2018
Interest expense on retirement benefit obligations	18,372	14,960
Interest expense on loans and borrowings	17,075	19,137
Lease costs	14,553	11,942
Other expense	1,652	1,445
Less: Amounts included in initial cost of qualifying assets	(560)	(1,798)
Total	**51,092**	**45,686**

For qualifying assets, the average weighted capitalization rate of the funds borrowed during the year ended 31 December 2019 amounted to 4.86% (2018: 5.2%).

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 2019 and 2018 amounted to UAH 199,030 thousand and UAH 170,977 thousand, respectively, and were included in cost of sales, selling and distribution expenses, general and administrative expenses, and research and development costs.

28. RELATED PARTY DISCLOSURES

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

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The Group's transactions with its related parties for the years ended 31 December 2019 and 2018 were as follows:

	Revenue from sales of finished goods	Other revenue	Purchase of raw materials and supplies	Royalties and purchases of other services
2019				
Entities under common control	-	6,606	(632,051)	(114,986)
Associate	37,285	-	-	(286)
Other related parties (family members of ultimate controlling party)	2,106	817	(15,587)	(15,794)
Total	**39,391**	**7,423**	**(647,638)**	**(131,066)**

	Revenue from sales of finished goods	Other revenue	Purchase of raw materials and supplies	Royalties and purchases of other 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)**

Other revenue for the year ended 31 December 2019 included revenue from sales of materials and services, as well as rental income.

Purchases of raw materials and supplies from related parties comprised mainly purchases of raw and packaging materials. Purchases of services from related parties comprised mainly royalties and purchases of repair and construction services.

Charities and donations to other related parties for the year ended 31 December 2019 amounted to UAH 35,000 thousand (2018: UAH 29,350 thousand).

As of 31 December 2019 and 2018, the Group's outstanding balances on transactions with its related parties were as follows:

	Non-current accounts receivable and other non-current assets	Trade and other accounts receivable	Prepayments made	Trade and other accounts payable	Loans and borrowings received
2019					
Entities under common control	160,015	36,567	-	76,397	86,475
Associate	-	8,242	-	-	-
Other related parties (family members of ultimate controlling party)	-	1,607	2,227	725	-
Total	**160,015**	**46,416**	**2,227**	**77,122**	**86,475**

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	Non-current accounts receivable and other non-current assets	Trade and other accounts receivable	Prepayments made	Trade and other accounts payable	Loans and borrowings received
2018					
Entities under common control	68,822	63,015	3,689	134,538	93,814
Associate	-	7,638	-	-	-
Other related parties (family members of ultimate controlling party)	-	6,326	107	1,422	-
Total	**68,822**	**76,979**	**3,796**	**135,960**	**93,814**

As of 31 December 2019, non-current accounts receivable and other non-current assets, as well as other accounts receivable from entities under common control included the amount of UAH 171,726 thousand due from the Group's shareholders (2018: UAH 131,491 thousand). The respective nominal value of these receivable balances as of 31 December 2019 was UAH 348,226 thousand (2018: UAH 244,340 thousand).

The Group records the amounts due in its consolidated statement of financial position with reference to the effect of discounting for the period of 10 years using the discount rate that was effective at the date of entering into an agreement and determined in accordance with the official rates recommended by the National Bank of Ukraine to the value of term deposits. For the agreements entered into during the year ended 31 December 2019, the average interest rate was 13.95% (2018: 15.6%). The agreements do not envisage that these accounts receivable should be covered by collateral. In accordance with the agreements and the Group's business plan, those receivables will be settled by 2029.

Loans and borrowings received from related parties were represented by short-term borrowings repayable by July 2020 and a long-term borrowing repayable in 2022 denominated in EUR and bearing interest rates ranging from 4.5% to 6.5%, respectively. In 2019, the Group incurred UAH 747 thousand of interest expenses on these loans and borrowings.

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 2019, key management personnel totaled to 17 persons (2018: 15 persons).

Short-term benefits to key management personnel for the year ended 31 December 2019 amounted to UAH 171,563 thousand (2018: UAH 155,424 thousand).

As of 31 December 2019, balances of the Group's liabilities to key management personnel amounted to UAH 19,399 thousand (2018: UAH 27,466 thousand).

As of 31 December 2019, some members of key management personnel were entitled to post-employment defined benefit plans upon retirement. Such benefits as of 31 December 2019 in the amount of UAH 125,652 thousand were included in defined benefit obligations (2018: UAH 121,108 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 may raise issues or assessments, which are contrary to the Group's tax filings and may 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 2019 and 2018 to be immaterial for the purposes of these consolidated financial statements. Most tax returns of the Group for the period ended 30 June 2019 were examined by tax authorities in the course of a comprehensive tax inspection for the period of three years 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 2018 within the required timeframes. Management believes that the Group prepared all necessary documentation on controlled transactions for the year ended 31 December 2018 as required by the legislation and continues preparing it for the year ended 31 December 2019. The report on controlled transactions for the year ended 31 December 2019 shall be filed by the Group by 1 October 2020.

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.

Capital expenditure commitments

As of 31 December 2019, the Group had outstanding commitments in respect of purchases of property, plant, and equipment for the total amount of UAH 1,392,091 thousand (2018: UAH 344,533 thousand).

In Ukrainian Hryvnias and in thousands

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

	Carrying value	
	2019	**2018**
Financial assets (current and non-current)		
Trade and other accounts receivable	1,202,829	1,487,344
Accounts receivable and other non-current assets	165,244	70,237
Other financial assets	1,092	40,970
Cash and cash equivalents	165,486	109,969
Total financial assets	**1,534,651**	**1,708,520**
Financial liabilities (current and non-current)		
Loans and borrowings	317,366	454,276
Lease liabilities	213,901	234,110
Trade and other accounts payable	701,021	725,193
Total financial liabilities	**1,232,288**	**1,413,579**

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

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

	EUR	**USD**
As of 31 December 2019	26.4220	23.6862
As of 31 December 2018	31.7141	27.6883

In Ukrainian Hryvnias and in thousands

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

	USD		EUR	
	2019	**2018**	**2019**	**2018**
Financial assets				
Cash and cash equivalents	40,975	12,795	25,725	1,384
Trade and other accounts receivable	184,415	189,259	16,582	45,287
Total financial assets	**225,390**	**202,054**	**42,307**	**46,671**
Financial liabilities				
Loans and borrowings	-	-	306,837	430,321
Lease liabilities	194,246	187,829	-	-
Trade and other accounts payable	98,909	157,469	66,304	104,372
Total financial liabilities	**293,155**	**345,298**	**373,141**	**534,693**
Total net position	**(67,765)**	**(143,244)**	**(330,834)**	**(488,022)**

Foreign currency denominated short-term and long-term loans and borrowings, cash and cash equivalents, trade and other accounts receivable and payable, and finance lease liabilities 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 25% increase in UAH exchange rate against relevant foreign currencies, with all other variables remaining unchanged. 25% 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 25% change in foreign currency exchange rates. A positive value below indicates an increase in profit before tax where UAH devaluates by 25% against the relevant currency. A negative value below indicates a decrease in profit before tax where UAH devaluates by 25% against the relevant currency. For a 25% 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.

2019	**Devaluation of UAH**	**Effect on profit after income tax**
UAH/EUR	25.00%	(67,925)
UAH/USD	25.00%	(13,893)

2018	**Devaluation of UAH**	**Effect on profit after income tax**
UAH/EUR	15.00%	(73,203)
UAH/USD	15.00%	(21,487)

In Ukrainian Hryvnias and in thousands

Interest rate risk

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

To perform a sensitivity analysis, assumptions are commonly used regarding a potential change in 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. Also, for the purposes of the sensitivity analysis, assumptions are used that interest rates change whereas other variables remain unchanged. Based on the analysis for the year ended 31 December 2019, the Group has concluded that:

- Due to the fact that EURIBOR in 2019 had a negative value and on average amounted to -0.34%, its increase by 100 basis points will not have an impact on profit before income tax, since it will remain negative; also, there are no substantial reasons to state that the rate will increase by more than 100 basis points;
- Considering that EURIBOR in 2019 had a negative value, its decrease will not have an impact on profit before income tax, since the borrowing rate is determined as the sum of the margin rate fixed under the agreement and EURIBOR at the date of payment, but, in any case, it may not be decreased at the cost of negative value of EURIBOR.

2018	**Increase/ (decrease) in basis points**	**Effect on profit after income tax**
Change in interest rate (EURIBOR)	100	(2,745)
Change in interest rate (EURIBOR)	(25)	686

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's entities to achieve optimal financing of the business needs of each entity.

In Ukrainian Hryvnias and in thousands

The table below summarizes the original contractual maturity profile of the Group's financial liabilities as of 31 December 2019 and 2018 based on undiscounted payments:

2019	**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	4.33%	-	16,674	31,019	104,436	192,011	**344,140**
Lease liabilities	9.39%	48	18,557	18,556	37,129	172,970	**247,260**
Trade and other accounts payable	n/a	181,565	476,145	23,974	40,432	-	**722,116**
Guarantees issued	n/a	-	674	-	-	-	**674**
Total		**181,613**	**512,050**	**73,549**	**181,997**	**364,981**	**1,314,190**

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 5 years**	**Total**
Loans and borrowings	3.85%	-	3,176	49,619	404,874	13,210	**470,879**
Lease liabilities	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**

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 761,844 thousand were undrawn as of 31 December 2019 (2018: UAH 359,520 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 expose the Group to significant concentrations of credit risk consist principally of cash and cash equivalents and trade and other accounts receivable. The Group's maximum exposure to credit risk as of 31 December 2019 amounted to UAH 1,368,315 thousand (2018: UAH 1,662,708 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 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 2019 amounted to UAH 4,228,562 thousand (2018: UAH 4,136,069 thousand), with the balances on settlements with those customers as of 31 December 2019 amounting to UAH 778,226 thousand (2018: UAH 999,005 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 23% 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.

In Ukrainian Hryvnias and in thousands

	2019	2018
Loans and borrowings (Note 16)	317,366	454,276
Lease liabilities (Note 8)	213,901	234,110
Cash and cash equivalents (Note 14)	(165,486)	(109,969)
Net debt	**365,781**	**578,417**
Total equity	5,219,237	4,283,261
Equity and net debt	**5,585,018**	**4,861,678**
Gearing ratio	**6.5%**	**11.9%**

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	
	2019	2018	2019	2018
Loans and borrowings	317,366	454,276	311,266	454,719

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 2019 were measured by discounting the estimated future cash outflows at the average weighted interest rate of 5.24% (2018: 4.13%).

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.

In Ukrainian Hryvnias and in thousands

	Loans and borrowings	Lease liabilities	Dividends accrued payable	Total
As of 1 January	**454,276**	**234,110**	**452**	**688,838**
Cash proceeds/acquisition of property, plant, and equipment/accrual of dividends	263,733	73,772	47,315	**384,820**
Cash payments	(334,698)	(63,051)	(44,718)	**(442,467)**
Interest expense	17,075	14,553	-	**31,628**
Interest paid	(18,901)	(14,552)	-	**(33,453)**
Taxes paid	-	-	(2,600)	**(2,600)**
Reclassifications	1,092	-	-	**1,092**
Foreign exchange expense, net	(65,211)	(30,931)	-	**(96,142)**
As of 31 December	**317,366**	**213,901**	**449**	**531,716**

32. EVENTS AFTER THE REPORTING PERIOD

The outbreak of a new coronavirus disease (COVID-19) in January 2020 and its recent global spread among different countries resulted in announcement of the pandemic status by the World Health Organization (the "WHO").

Considering a potential impact of the above situation on the financial information of the Group as of 31 December 2019, the Group's management have performed an in-depth assessment of possible consequences based on the best information available to date. Hence, it has been concluded that the pandemics has no material effect on the Group's operations, and it is not necessary to make any adjustments in the consolidated financial statements.

On 28 April 2020, the General Shareholders' Meeting approved distribution of dividends for the year ended 31 December 2019 of UAH 13.75 per share for the total amount of UAH 100,006 thousand.

33. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by management and authorized for issue on 29 April 2020.