PJSC "Pharmstandard"

Consolidated financial statements

for the year ended 31 December 2015

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Contents

Совершенствуя бизнес,
улучшаем мир

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Independent auditor's report

To the Shareholders and Management of
PJSC "Pharmstandard"

We have audited the accompanying consolidated financial statements of PJSC "Pharmstandard" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2015, and consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Совершенствуя бизнес,
улучшаем мир

Opinion

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

Important facts

Without qualifying our opinion, we draw attention to the fact that, as disclosed in Note 1 to the consolidated financial statements, in July 2015 Public Joint-Stock Company "Pharmstandard" changed its legal form from OJSC to Public Joint-Stock Company.

A.B. Khorovitch
Partner
Ernst & Young LLC

27 April 2016

Details of the audited entity

Name: PJSC "Pharmstandard"
Record made in the State Register of Legal Entities on 5 May 2006, State Registration Number 02№005162109.
Address: 141701, Russia, Moscow region, Dolgoprudny, Likhachevsky drive, 5 "b".

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulatory organization of auditors "Russian Audit Chamber" (Association) ("SRO APR"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

PJSC "Pharmstandard"

Consolidated statement of financial position

as at 31 December 2015

(in thousands of Russian rubles)

	Notes	2015	2014
Assets			
Non-current assets			
Property, plant and equipment	10	10,818,849	9,817,331
Intangible assets	11	3,554,506	3,122,597
Long-term financial assets	16	4,686,936	1,283,079
Investments in associates and joint venture	6, 7	6,230,297	6,319,310
Deferred tax asset	28	721,657	480,330
		26,012,245	**21,022,647**
Current assets			
Inventories	12	10,200,182	7,049,775
Trade and other receivables	13	17,187,541	19,432,066
VAT recoverable		143,515	116,304
Prepayments		618,548	319,287
Short-term financial assets	15	13,902,848	6,338,846
Income tax prepayments		168,163	-
Cash and short term deposits	14	14,388,575	8,541,548
		56,609,372	**41,797,826**
Total assets		**82,621,617**	**62,820,473**
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	21	37,793	37,793
Treasury shares		(1,437)	(1,437)
Foreign currency translation reserve		954,051	729,560
Revaluation reserve for investments available for sale		515,608	-
Retained earnings		52,157,943	38,408,477
		53,663,958	**39,174,393**
Non-controlling interests		1,764,555	1,645,947
Total equity		**55,428,513**	**40,820,340**
Non-current liabilities			
Deferred tax liability	28	315,268	606,773
Other non-current liabilities	20	84,813	92,472
		400,081	**699,245**
Current liabilities			
Trade and other payables	19	20,975,024	15,834,351
Short-term borrowings and loans	17	4,084,522	4,002,941
Income tax payable		375,169	807,972
Taxes payable other than income tax	18	1,358,308	655,624
		26,793,023	**21,300,888**
Total liabilities		**27,193,104**	**22,000,133**
Total equity and liabilities		**82,621,617**	**62,820,473**

Signed and authorized for release on behalf of the Board of Directors of PJSC "Pharmstandard"

Chief Executive Officer G.A. Potapov

Chief Financial Officer M.A. Markova

27 April 2016

The accompanying notes are an integral part of these consolidated financial statements.

PJSC "Pharmstandard"

Consolidated statement of comprehensive income

for the year ended 31 December 2015

(in thousands of Russian rubles)

	Notes	2015	2014
Revenue	22	47,194,938	41,223,435
Cost of sales	23	(29,397,598)	(23,007,040)
Gross profit		**17,797,340**	**18,216,395**
Selling and distribution costs	24	(2,534,272)	(4,133,517)
General and administrative expenses	25	(2,687,072)	(2,300,426)
Other income	26	7,185,802	2,943,445
Other expenses	27	(2,191,341)	(1,032,936)
Interest income		945,840	323,446
Interest expense		(466,942)	(431,739)
Share in (loss)/profit of a joint venture and associates, net	6, 7	(371,479)	235,062
Profit before income tax		**17,677,876**	**13,819,730**
Income tax expense	28	(3,746,776)	(2,724,267)
Profit for the year		**13,931,100**	**11,095,463**
Other comprehensive income			
To be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations		208,136	682,853
Revaluation of investments available for sale (no effect on the income tax)		515,608	-
Total other comprehensive income		**723,744**	**682,853**
Total comprehensive income for the year, net of tax		**14,654,844**	**11,778,316**
Profit for the year			
Attributable to:			
Equity holders of the parent		13,749,466	10,841,234
Non-controlling interests		181,634	254,229
Total comprehensive income for the year, net of tax		**13,931,100**	**11,095,463**
Attributable to:			
Equity holders of the parent		14,489,565	11,545,948
Non-controlling interests		165,279	232,368
		14,654,844	**11,778,316**
Earnings per share (in Russian rubles)			
- basic and diluted, based on profit for the year attributable to equity holders of the parent	21	378.2	298.2

Signed and authorized for release on behalf of the Board of Directors of PJSC "Pharmstandard"

Chief Executive Officer — G.A. Potapov

Chief Financial Officer — M.A. Markova

27 April 2016

The accompanying notes are an integral part of these consolidated financial statements.

PJSC "Pharmstandard"

Consolidated cash flow statement

for the year ended 31 December 2015

(in thousands of Russian rubles)

	Notes	2015	2014
Cash flows from operating activities			
Profit before income tax		17,677,876	13,819,730
Adjustments for:			
Depreciation and amortization	23, 24, 25	1,098,966	944,670
Charge/(reversal) of impairment – accounts receivable, net	13	808,054	(17,648)
Write-down of inventories to net realizable value, net	12	138,382	77,399
Charge of impairment– property, plant and equipment	10, 26, 27	120,327	53,250
Charge/(reversal) of impairment – loans issued, net	27	1,021,447	(61,213)
Loss on write-off of inventories		82,095	–
Gain on disposal of property, plant and equipment	10, 26	(64,967)	(39,418)
Share in loss/(profit) of a joint venture and associates		371,479	(235,062)
Unrealized foreign exchange differences		(3,396,962)	(1,913,390)
Gain from transactions with promissory notes	26	(10,639)	(80,112)
Income from restructuring of accounts payable	26	(1,712,681)	–
Interest income		(945,838)	(323,446)
Interest expense		466,942	431,739
Operating cash flows before working capital changes		**15,654,481**	**12,656,499**
Decrease in trade and other receivables	13	997,366	4,764,839
(Increase)/decrease in inventories	12	(3,358,793)	359,580
(Increase)/decrease in VAT recoverable		(27,211)	221,468
(Increase)/ decrease in prepayments		(299,261)	54,458
Increase/(decrease) in trade and other payables	19	6,881,580	(5,562,023)
Increase/(decrease) in taxes payable other than income tax	18	702,683	(252,659)
Cash generated from operations		**20,550,845**	**12,242,162**
Income tax paid	28	(4,880,527)	(2,308,015)
Interest paid		(464,707)	(456,799)
Interest received		419,577	138,587
Net cash from operating activities		**15,625,188**	**9,615,935**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(2,312,247)	(2,380,677)
Payments for development expenditures	11	(603,260)	(45,627)
Cash paid for acquisition of share in associates	6, 7	(112,926)	(3,858,103)
Acquisition of intangible assets	11	–	(48,065)
Cash received from sale property, plant and equipment		153,820	113,764
Cash paid for long-term bank deposits		–	(42,900)
Cash received from return of deposits		1,053,656	400,000
Cash paid for investments available for sale		(678,017)	(575,824)
Cash received from return of short-term loans issued to third parties		1,297,669	303,575
Short-term bank deposits placed		(200,000)	(66,166)
Short-term bank deposits placed with the related bank		(952,198)	–
Loans issued to third parties		(1,849,980)	(1,864,349)
Loans issued to related parties		(4,674,782)	(3,335,159)
Loans repaid by related parties		72,000	1,432,735
Cash paid for purchase of promissory notes from related bank		(2,489,169)	(3,420,978)
Cash received from transactions with promissory notes		1,399,416	3,501,090
Net cash used in investing activities		**(9,896,018)**	**(9,886,684)**
Cash flows from financing activities			
Proceeds from loans and borrowings	17	4,083,151	4,000,000
Repayment of loans and borrowings	17	(4,001,300)	(7,021,139)
Cash distribution to OTCpharm	9	–	(3,500,650)
Dividends paid by a subsidiary to non-controlling shareholders	31	(46,719)	(32,269)
Net cash from / (used in) financing activities		**35,132**	**(6,554,058)**
Net increase/(decrease) in cash and cash equivalents		**5,764,302**	**(6,824,807)**
Net foreign exchange differences		82,725	1,480
Cash and cash equivalents at the beginning of the year	14	8,541,548	15,364,875
Cash and cash equivalents at the end of the year	14	**14,388,575**	**8,541,548**

The accompanying notes are an integral part of these consolidated financial statements.

PJSC "Pharmstandard"

Consolidated statement of changes in equity

for the year ended 31 December 2015

(in thousands of Russian rubles)

	Equity attributable to equity holders of the parent							
	Share capital	**Treasury shares**	**Foreign currency translation reserve**	**Revaluation reserve for investments available for sale**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2014	**37,793**	**(1,437)**	**24,846**	**–**	**27,567,243**	**27,628,445**	**1,445,848**	**29,074,293**
Profit for the year	–	–	–	–	10,841,234	**10,841,234**	254,229	**11,095,463**
Other comprehensive income for the year	–	–	704,714	–	–	**704,714**	(21,861)	**682,853**
Total comprehensive income for the year	**–**	**–**	**704,714**	**–**	**10,841,234**	**11,545,948**	**232,368**	**11,778,316**
Dividends paid by a subsidiary (Note 34)	–	–	–	–	–	**–**	(32,269)	**(32,269)**
Balance at 31 December 2014	**37,793**	**(1,437)**	**729,560**	**–**	**38,408,477**	**39,174,393**	**1,645,947**	**40,820,340**
Profit for the year	–	–	–	–	13,749,466	**13,749,466**	181,634	**13,931,100**
Other comprehensive income for the year	–	–	224,491	515,608	–	**740,099**	(16,355)	**723,744**
Total comprehensive income for the year	**–**	**–**	**224,491**	**515,608**	**13,749,466**	**14,489,565**	**165,279**	**14,654,844**
Establishment of a subsidiary (Note 1)	–	–	–	–	–	**–**	48	**48**
Dividends paid by a subsidiary (Note 31)	–	–	–	–	–	**–**	(46,719)	**(46,719)**
Balance at 31 December 2015	**37,793**	**(1,437)**	**954,051**	**515,608**	**52,157,943**	**53,663,958**	**1,764,555**	**55,428,513**

The accompanying notes are an integral part of these consolidated financial statements.

(All amounts are in thousands of Russian rubles unless otherwise indicated)

1. Corporate information

The principal activities of PJSC "Pharmstandard" ("the Company") and its subsidiaries ("the Group") are production and wholesale distribution of pharmaceutical products and medical equipment. The Company was incorporated in the Russian Federation. Since May 2007, the Company's shares are publicly traded. The Company amended its charter documents and changed its legal form from open joint-stock company ("OJSC") to a public joint-stock company ("PJSC"). The new version of the Company's charter took effect since 9 July 2015. The Group's head office is registered at Likhachevsky proezd, 5B, Dolgoprudny, Moscow region, Russian Federation and its manufacturing facilities are based in Moscow region, Vladimir region, Kursk, Tomsk, Ufa, Tyumen (all Russian Federation) and Kharkov (Ukraine). The Company held interest in the following subsidiaries, associates and joint ventures as at 31 December 2015 and 2014:

Entity	Country of incorporation	Activity	2015 effective share	2014 effective share
Subsidiaries				
1. Pharmstandard LLC	Russian Federation	Central procurement	100	100
2. Pharmstandard-Leksredstva OJSC	Russian Federation	Manufacturing of pharmaceutical products	100	100
3. Pharmstandard-Tomskhimpharm OJSC	Russian Federation	Manufacturing of pharmaceutical products	90.78	90.78
4. Pharmstandard-Ufavita OJSC	Russian Federation	Manufacturing of pharmaceutical products	100	100
5. Pharmstandard-Biolik PJSC	Ukraine	Manufacturing of pharmaceutical products	96.93	96.93
6. TZMOI OJSC	Russian Federation	Manufacturing of medical equipment	100	100
7. MDR Pharmaceuticals	Cyprus	Finance and holding company	50.05	50.05
8. Bigpearl Trading Limited (d)	Cyprus	Intermediary holding company	50.005	50.005
9. Pharmapark LLC (d)	Russian Federation	Manufacturing of pharmaceutical products	50.005	50.005
10. Biomed named after I.I. Mechnikov JSC (d)	Russian Federation	Manufacturing of pharmaceutical products	49.845	49.845
11. Pharmatsevticheskiye innovatsii OJSC (d)	Russian Federation	Asset holder	50.005	50.005
12. EKK OJSC (d)	Russian Federation	Sundry activity	35.29	35.29
13. Lekko CJSC	Russian Federation	Manufacturing of pharmaceutical products	100	100
14. Moldildo Trading Limited	Cyprus	Intermediate holding company	75	75
15. Pharmstandard-Medtechnika LLC	Russian Federation	Sales of medical equipment	75	75
16. Pharmstandard International S.A.	Luxembourg	Venture investments	100	100
17. Sellthera Pharm LLC	Russian Federation	Development and manufacturing company	75	75
18.Pharmstandard-Plazma LLC (b)	Russian Federation	Manufacturing of pharmaceutical products	100	-
19. MasterPlazma LLC (c)	Russian Federation	Manufacturing of pharmaceutical products	52	-
Joint ventures and associates				
20. NauchTechStroy Plus LLC (NTS+)	Russian Federation	Research and development company	37.5	37.5
21. Argos Therapeutics Inc. (a)	USA	Research and development company	27.65	30.40
22. Biocad Holdings Limited	Cyprus	Research, development and manufacturing of pharmaceutical products	20	20

(a) The Group's share decreased due to dilution of interest (Note 7.1).

(b) On 19 February 2015, the Group incorporated the subsidiary for the purpose of future production of special high-tech pharmaceutical products based on the blood plasma.

(c) On 26 May 2015, the Group incorporated the subsidiary for the purpose of future production of special high-tech pharmaceutical products based on the blood plasma.

(d) These subsidiaries comprised "Bioprocess" group of companies acquired by the Company in July 2012. The Group exercises control over these entities through its controlling interest in Bigpearl Trading Limited.

These consolidated financial statements were authorized for issue by the Board of Directors of PJSC "Pharmstandard" on 27 April 2016.

2. Basis of preparation of the financial statements

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis of accounting

The Group's Russian entities maintain their accounting records in Russian rubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The Group's Ukrainian subsidiary maintains its accounting records in Ukrainian hryvnia ("UAH") and prepares its statutory financial statements in accordance with IFRS. The other Group's foreign entities located in the USA, Cyprus and Luxembourg primarily maintain their accounting records in US dollars and prepare their statutory accounting records in accordance with US GAAP, IFRS and the local regulations respectively. When necessary the local statutory financial statements have been adjusted to present these consolidated financial statements in accordance with IFRS. These adjustments principally relate to valuation and depreciation of property, plant and equipment, valuation and amortization of intangible assets, certain valuation allowances, using fair values for certain assets, acquisition accounting for business combinations and the resulting income tax effects, and also to consolidation of subsidiaries and equity accounting of associates and joint ventures.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the summary of significant accounting policies below. For example, certain short-term assets are recorded at fair value and non-current assets classified as held for sale are recorded at the lower of carrying amount and fair value less costs to sell.

3. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial period except that the Group has adopted the following new and amended IFRS and IFRIC interpretations as at 1 January 2015.

The nature and the impact of each new standard and amendment are described below:

Amendments to IAS 19 Defined Benefit Plans: Employee Contribution: These amendments become effective for annual reporting periods beginning on or after 1 July 2014 and clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. These amendments are not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

3. Changes in accounting policies (continued)

Annual improvements 2010-2012 cycle: These improvements become effective for reporting periods beginning on or after 1 July 2014. The exception is improvement to IFRS 2 *Share-based Payment*, which is applicable to share-based payments provided on 1 July 2014 or after that date. The Group has applied these improvements for the first time in these consolidated financial statements. They include:

- *IFRS 2 Share-based Payment*: The amendments are applied prospectively and clarify various issues relating to the definitions of performance and service conditions, which are vesting conditions. The Group did not provide any share-based remunerations, therefore, this improvement had no impact on the financial statements or accounting policy of the Group.

- *IFRS 3 Business Combinations*: The amendments are applied prospectively and clarify that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Group's current accounting policy and, thus, these amendments did not impact the Group's accounting policy.

- *IFRS 8 Operating Segments*: The amendments are applied retrospectively and clarify that:

  - An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8;

  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

  The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 8 to these financial statements, as the reconciliation is reported to the chief operating decision maker for the purpose of decision making.

- *IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*: The amendments are applied retrospectively and clarify that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying amount and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. These amendments did not have any impact to the indicators recorded by the Group during the current period.

- *IAS 24 Related Party Disclosures*: The amendments are applied retrospectively and clarify that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. These amendments are not relevant for the Group as it does not receive any management services from other entities.

3. Changes in accounting policies (continued)

Annual improvements 2011-2013 cycle: These improvements are effective for reporting periods beginning on or after 1 July 2014. The Group has applied these improvements for the first time in these consolidated financial statements. They include:

- *IFRS 3 Business Combinations*: The amendments are applied prospectively and clarify for the scope exceptions within IFRS 3 that:
  - Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
  - This scope exception applies only to the accounting in the financial statements of the joint arrangements themselves.

  The Group is not a joint arrangement, and thus these amendments are not relevant for the Group and its subsidiaries.

- *IFRS 13 Fair Value Measurement*: The amendments are applied prospectively and clarify that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Group does not apply the portfolio exception in IFRS 13.

- *IAS 40 Investment Property*: The amendments are applied prospectively and clarify that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, these amendments did not impact the accounting policy of the Group.

IFRSs and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) but are not yet effective

- *IFRS 9 Financial Instruments* (issued in July 2014 and effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted). Final version of IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three phases of the financial instruments accounting project: classification and measurement, impairment, and hedge accounting. Except for hedge accounting, this standard is applied retrospectively, although comparative information is not compulsory.

  The Group plans to adopt the new standard on the required effective date. The Group is currently evaluating the impact of IFRS 9 on the consolidated financial statements.

- *IFRS 14 Regulatory Deferral Accounts* (issued in January 2014 and effective for annual reporting periods beginning on or after 1 January 2016). IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Since the Group is an existing IFRS preparer, this standard would not apply.

3. Changes in accounting policies (continued)

- *IFRS 15 Revenue from Contracts with Customers* (issued in May 2014 and effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted). The new standards will supersede all current IFRS requirements to revenue recognition. Either a full or modified retrospective application is required, with early adoption permitted. IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Currently, the Group plans to choose a full retrospective application of the new standard on the required effective date. The Group is analyzing existing contracts for the purpose of the impact of IFRS 15 and is assessing its impact on the consolidated financial statements.

- *IFRS 16 Leases* (issued in January 2016 and becomes effective for annual periods beginning on or after 1 January 2019. The standard has not been approved to apply in the Russian Federation yet). IFRS 16 replaces existing IFRS requirement in respect of lease accounting and requires a lessee to recognize assets and liabilities for major part of its leases. The new standard's requirements to lessees are significantly different from those contained in the existing IFRS. Except for certain cases, the lessees will have to apply a single lessee accounting model for all leases. Currently, the Group evaluates possible effect of this standard on its financial position and performance.

- *Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests* (issued in May 2014 and become effective for annual periods beginning on or after 1 January 2016, with early adoption permitted). The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. These amendments are not expected to have any impact on the Group.

- *Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization* (issued in May 2014 and become effective for annual periods beginning on or after 1 January 2016, with early adoption permitted). The amendments clarify that a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. These amendments are not expected to have any impact on the Group since the Group does not use a revenue-based method to depreciate its non-current assets.

3. Changes in accounting policies (continued)

IFRSs and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) but are not yet effective (continued)

- *Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants* (issued in June 2014 and become effective for annual periods beginning on or after 1 January 2016, with early adoption permitted). The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. These amendments are not expected to have any impact on the Group, as the Group does not have any bearer plants.

- *Amendments to IAS 27 Equity Method in Separate Financial Statements* (issued in August 2014 and become effective for annual periods beginning on or after 1 January 2016, with early adoption permitted). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. The amendments will have no impact on the Group's consolidated financial statements.

- *Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued in September 2014 and become effective for annual periods beginning on or after 1 January 2016, with early adoption permitted). The amendments clarify that gains or losses arising as a result of the sale or contribution of assets that constitute a business, as defined in IFRS 3, in a transaction between an investor and its associate or joint venture are recognized in full. However, gains or losses arising as a result of the sale or contribution of assets that do not constitute a business are recognized only to the extent of interests of investors, other than the entity, in an associate or a joint venture. These amendments are not expected to have any impact on the Group.

- *Amendments to IAS 1 Disclosure Initiative* (issued in December 2014 and become effective for annual periods beginning on or after 1 January 2016, with early adoption permitted). The amendments clarify:

  - The materiality requirements in IAS 1;
  - That specific line items in the statement of profit or loss and other comprehensive income (OCI) and the statement of financial position may be disaggregated;
  - That entities have flexibility as to the order in which they present the notes to financial statements;
  - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

  Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and OCI. The Group is analyzing effect of the amendments on its consolidated financial statements.

3. Changes in accounting policies (continued)

IFRSs and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) but are not yet effective (continued)

- *Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception* (issued in December 2014 and become effective for annual periods beginning on or after 1 January 2016, with early adoption permitted). The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments must be applied retrospectively. These amendments are not expected to have any impact on the Group as none of its subsidiaries, associates or joint ventures is an investment entity.

- *Amendments to IAS 12 Recognition of Deferred Tax Assets on the Unrealized Loss* (issued in February 2016 and become effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The amendments have not been approved to apply in the Russian Federation yet). The amendments clarify that deductible temporary differences may arise on the basis of unrecognized loss from debt instruments recorded at fair value that are carried at cost for the taxation purposes. The Group is analyzing effect of the amendments on its consolidated financial statements.

- *Amendments to IAS 7 Disclosure Initiative* (issued in January 2016 and become effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The amendments have not been approved to apply in the Russian Federation yet). The amendments require to disclose changes in the financial liabilities. The Group is analyzing effect of the amendments on its consolidated financial statements.

- *Annual improvements 2012-2014 cycle* (effective for annual periods beginning on or after 1 January 2016). These amendments are not expected to have any impact on the Group:

  - *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.* Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

  - *IFRS 7 Financial Instruments: Disclosures*

    (i) Servicing contracts: The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendment.

    (ii) Application of amendments to IFRS 7 in the condensed interim financial statements: The offsetting disclosure requirements are not applicable to the condensed interim financial statements unless the respective information is significantly updated in the last annual report. This amendment must be applied retrospectively.

3. Changes in accounting policies (continued)

IFRSs and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) but are not yet effective (continued)

- *IAS 19 Employee Benefits.* The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. This amendment must be applied prospectively.
- *IAS 34 Interim Financial Reporting.* The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms and at the same time as the interim financial statements. This amendment must be applied retrospectively.

4.1 Basis of consolidation

Subsidiaries

Subsidiaries are fully consolidated at the date of acquisition, being the date on which the Group obtains control over a subsidiary, and continue to be consolidated until the date when such control ceases. All intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to the Group. The interests of non-controlling shareholders are initially measured at the non-controlling interests’ proportionate share of the fair value of the acquiree’s identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition adjusted for the non-controlling interests’ share of subsequent changes in equity. Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

Non-controlling interest is presented as an equity item, separately from the equity of the owners of the parent.

Business combinations

The acquisition method of accounting is used to account for business combinations by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. For each business combination, the Group measures the non-controlling interest in the acquired subsidiary at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

The excess of purchase consideration over the Group’s share of the fair value of identifiable net assets is recorded as goodwill (Note 4.6). If the cost of the acquisition is less than the Group’s share of the fair value of identifiable net assets of the subsidiary acquired the difference is recognized directly in profit or loss.

4.1 Basis of consolidation (continued)

Investments in associates and joint ventures

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 joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and liabilities of associates and joint ventures are included in these consolidated financial statements from the date on which the investee becomes an associate or a joint venture, using the equity method of accounting.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture. Investments in associates and joint ventures are carried in the consolidated statement of financial position at cost and adjusted for by post-acquisition changes in the Group's share of net assets of the associate or joint venture, less any impairment in the value of individual investments resulting from revaluation. Losses of an associate or joint venture in excess of the Group's interest in that associate or joint venture (which includes any long-term interests, that in substance form part of the Group's net investment in the associate or joint venture) are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognized immediately in profit or loss in the period in which the investment is acquired.

4.2 Cash and short-term deposits

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and in hand, short-term deposits with an original maturity of three months or less and cash deposits placed to secure participation in the open public tenders with an original maturity of three months or less.

4.3 Value added tax

The Russian and Ukrainian tax legislation permits settlement of value added tax ("VAT") on a net basis within one legal entity.

VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the reporting date, is deducted from the amount of VAT payable.

Where allowance has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

4.4 Inventories

Inventories are recorded at the lower of cost and net realizable value. The cost of inventories is determined on a first in, first out basis. The cost of finished goods and work in progress comprises raw material, direct labor, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. The cost of third parties' products comprises expenditures directly attributable to purchase of these products Net realizable value is the estimated selling price set in the ordinary course of business, less estimated costs necessary to manufacture finished goods and sell them.

4.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis. The depreciation periods, which represent the estimated useful economic lives of the respective assets, are as follows:

	Number of years
Buildings	10 to 50
Plant and machinery	5 to 30
Equipment, motor vehicles and other	2 to 7

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted as appropriate, at each financial year-end. Land is not depreciated.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalized, and replaced assets are derecognized. Gains and losses arising from the retirement of property, plant and equipment are included in profit or loss as incurred.

4.6 Goodwill

Goodwill on an acquisition of a subsidiary is included in intangible assets. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if any events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

4.7 Intangible assets other than goodwill

Intangible assets acquired separately from business combinations are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with a finite life are amortized on a straight-line basis over the useful economic lives (for trademarks useful economic life is estimated between 15 and 20 years; for patents useful economic life is estimated accordingly to period which is reflected in patent, but not more than 20 years) and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

Development is the application of research findings or other knowledge to a plan or design for the production of a new product before commercial production or use of the product has begun. Development costs are all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Development costs are capitalized as an intangible asset if all of the following criteria are met:

a) The technical feasibility of completing the asset so that it will be available for use or sale;

b) The intention to complete the asset and use or sell it;

c) The ability to use or sell the asset;

d) The asset will generate probable future economic benefits and demonstrate the existence of a market or the usefulness of the asset if it is to be used internally;

e) The availability of adequate technical, financial and other resources to complete the development and to use or sell it; and

e) The ability to measure reliably the expenditure attributable to the intangible asset.

Amortization of development costs starts upon receipt of regulatory approval when the asset becomes available for use and is transferred to the designated category of intangible assets other than goodwill.

Expenditure on an intangible item that was initially recognized as an expense shall not be recognized as part of the cost of an intangible asset at a later date.

4.8 Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. The Group does not have held-to-maturity investments or financial assets at fair value through profit or loss.

4.8 Investments and other financial assets (continued)

When financial assets are recognized initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest receivable on deposits is classified as other receivables.

Available-for-sale financial investments

Available-for-sale ("AFS") financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any other categories. After initial measurement available-for-sale investments are measured at fair value with changes in fair value recognized in other comprehensive income. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the profit or loss, is transferred from other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized.

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

Amortized cost

Loans and receivables are measured at amortized cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

4.8 Investments and other financial assets (continued)

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Available-for-sale financial investments

For AFS financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is reclassified from OCI to the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

4.9 Borrowings

Borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed.

4.10 Income taxes

Income tax expense comprises current and deferred tax. Current tax is calculated based on the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, including any adjustment to income tax payable for previous years.

Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred income taxes arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities can be offset only if: (a) a Group entity has a legally enforceable right to set off current tax assets against current tax liabilities; and (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority (c) on either: (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred income tax liabilities are provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The effect from a change in tax rates is recognized in profit or loss except to the extent that it relates to items previously charged to other comprehensive income.

4.11 Leases

Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

4.12 Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the asset have expired.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

4.13 Provisions

Provisions are recognized when the Group has a legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

Expense relating to any provision is presented in profit or loss. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

4.14 Equity

Share capital

Ordinary shares are classified as equity.

Dividends

Dividends declared by the Group are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Such dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

Treasury shares

Own equity instruments that are reacquired are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the face value of shares and the consideration paid for treasury shares is recognized in retained earnings.

4.15 Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts and rebates, taking into account contractually defined terms of payment and excluding taxes or duties.

4.16 Employee benefits

In 2015, under provision of the Russian legislation, social contributions are made through a social tax ("ST") allocated among state non-budgetary funds as follows:

- Contributions to the Pension Fund to form the retirement pension at the rate of 22%; the regressive rate of 10% was applied to payments for the insured persons, which are over RR 711 calculated as a cumulative total from the beginning of the year;
- Contributions for compulsory medical insurance were calculated at the rate of 5.1%;
- Social insurance contributions (for temporary disability) were calculated at the rate of 2.9%, there were no social insurance contributions from payments for insured persons over RR 670 calculated as a cumulative total from the beginning of the year;
- Social insurance contributions (for industrial accidents) were paid depending on the professional risk class at the Group's entity and ranged from 0.2%-0.7%.

The Group's contributions relating to ST are expensed in the year to which they relate.

ST which was accrued during the year ended 31 December 2015 amounted to RR 857,129 (2014: RR 869,928) and was classified as labor costs in these consolidated financial statements.

4.17 Foreign currency transactions

The consolidated financial statements are presented in Russian rubles, which is the functional currency of the Company and its Russian subsidiaries. Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the reporting date. All resulting differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

At 31 December 2015, the exchange rates used for the translation of foreign currency balances were 1 United States dollar = 72.88 rubles; 1 euro = 79.70 rubles; 1 Ukrainian hryvnia = 3.05 rubles (2014: 1 United States dollar = 56.26 rubles; 1 euro = 68.34 rubles; 1 Ukrainian hryvnia = 3.56 rubles).

The functional currency of the Ukrainian subsidiary is the Ukrainian hryvnia. The functional currencies of the other foreign operations is the United States dollar (US$). As at the reporting date, the assets and liabilities of those subsidiaries having functional currency different from the Russian ruble are translated into the presentation currency of the Group (the Russian ruble) at the rate of exchange ruling at the reporting date and its statement of comprehensive income and cash flow statement are translated at the exchange rate prevailing at the date of transaction. The exchange differences arising on the translation are taken to a separate component of equity through other comprehensive income.

4.18 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is any indication that an asset or a cash-generating unit (CGU) may be impaired. The assets or CGUs subject to such assessment are primarily property, plant and equipment and trade marks. If any such indication exists, the Group makes an estimate of the asset's or CGU's recoverable amount. An asset's or CGU's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. 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 assessment of the time value of money and the risks specific to the assets or CGUs.

4.19 Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all the attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in accordance with amortization of the related asset.

4.20 Share-based payments

For equity-settled share-based payment transactions, the Group measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the goods or services received, the Group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

5. Significant accounting judgments and estimates

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

Impairment of non-financial assets other than goodwill

The determination of any impairment involves the use of estimates that include, but are not limited to, the cause, timing and amount of a cash flow. The determination of the recoverable amount of an asset or a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the asset or cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and, ultimately, the amount of any asset impairment.

5. Significant accounting judgments and estimates (continued)

Impairment of non-financial assets, except for goodwill (continued)

The following factors are considered in assessing impairment of major specific assets of the Group:

- *Property, plant and equipment:* changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists.
- *Trademarks, patents, licenses and development costs:* changes in current competitive conditions, changes in the regulations, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, introduction of alternative products on the market and other changes in circumstances indicating that impairment exists.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2015 is RR 1,681,531 (2014: RR 1,730,040). More details are provided in Note 11.

Allowance for doubtful accounts receivable

The Group maintains an allowance for doubtful accounts receivable to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts receivable, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial conditions of customers were to deteriorate, actual write-offs might be higher than expected. As at 31 December 2015, allowances for doubtful accounts receivable amounted to RR 1,031,541 (2014: RR 225,186). More details are provided in Note 13.

Write-down of inventories to net realizable value

The Group determines the adjustments for write-down of inventories to net realizable value based on their expected future value in use and realizable value. The net realizable value is the estimated selling price in the ordinary course of business less estimated costs of sale or distribution. Selling prices and costs of sale are subject to change as new information becomes available. Revisions to the estimates may significantly affect future operating results.

Current tax liabilities

Russian and Ukrainian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result tax authorities may challenge transactions and the Group's entities may be assessed additional taxes penalties and interest, which can be significant.

(All amounts are in thousands of Russian rubles unless otherwise indicated)

5. Significant accounting judgments and estimates (continued)

Current tax liabilities (continued)

In Russia and Ukraine the periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. As at 31 December 2015, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. More details are provided in Note 29.

Leases

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

6. Investments in joint venture NTS+

Main purpose of NTS+ is to participate in building of a research and development center in the Vladimir Region of the Russian Federation specialized in bioengineering of pharmaceutical products and universal diagnostic researches.

Movements in the carrying amount of investments were as follows:

	2015	2014
At 1 January	349,452	314,612
Contribution to the share capital (without dilution of share)	112,926	–
Group's share of (loss)/profit for the year	(25,740)	34,840
At 31 December	**436,638**	**349,452**

Summarized financial information of this joint venture and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2015	2014
Current assets including cash and cash equivalents of RR 37,413 (2014: RR 39,205)	222,189	83,299
Property, plant and equipment, and other non-current assets	2,089,307	1,371,115
Current liabilities	(1,147,128)	(193,173)
Long-term loans and other non-current liabilities	–	(329,368)
Equity	**1,164,368**	**931,873**
Share of the Group's ownership	37.5%	37.5%
Carrying amount of the investment	**436,638**	**349,452**

(All amounts are in thousands of Russian rubles unless otherwise indicated)

6. Investments in joint venture NTS+ (continued)

Summarized statement of profit or loss of NTS+ is detailed below:

	2015	2014
General and administrative expenses	(147,885)	(123,600)
Financial expenses, net	(81,832)	(30,064)
Other income, including income from non-core operations and rent of RR 130,960 (2014: RR 128,667)	193,341	262,512
Other expenses	(7,840)	(70,648)
(Loss)/profit before income tax	**(44,216)**	**38,200**
Income tax (expense)/benefit	(24,424)	54,707
(Loss)/profit and total comprehensive income for the year	**(68,640)**	**92,907**
Group's share of (loss)/profit and total comprehensive income for the year	**(25,740)**	**34,840**

The Group has no any commitments in respect of the joint venture's operations.

7. Investments in associates

7.1 Investments in Argos Therapeutics, Inc

In 2013, Pharmstandard International S.A. invested US$ 36.8 million (RR 1,206,457) to purchase about 35% of voting preferred shares of Argos Therapeutics, Inc. ("Argos") incorporated in the USA, Delaware.

In February 2014, Pharmstandard International S.A. additionally invested US$ 10.2 million (RR 354,233). In February 2014, Argos converted voting preferred shares to voting ordinary shares and issued certain additional number of voting ordinary shares. As a result of these transactions the Group's interest in Argos was diluted to 30.44%. Dilution was accounted for as deemed disposal which resulted in a loss of RR 1,669 including RR 9,382 accumulated foreign exchange gains reclassified to profit for the year. On 7 February 2014, Argos became listed on NASDAQ and all preferred shares were converted to the ordinary shares.

In April and December 2015, Argos issued additional ordinary shares. As a result of these transactions the Group's interest in Argos was diluted to 27.65%. Dilution was accounted for as deemed disposal which resulted in a gain of RR 184,194 including accumulated foreign exchange gains of RR 3,276 reclassified to profit for the year.

Argos is a biopharmaceutical company focused on the development and commercialization of fully personalized immunotherapies for the treatment of cancer and infectious diseases based on its Arcelis™ technology platform. In accordance with the purchase agreement the Company received the right to appoint two members of the Board of Directors. Therefore the Company received a significant influence over Argos and recognized it as an associate, applying the equity method for its accounting.

(All amounts are in thousands of Russian rubles unless otherwise indicated)

7. Investments in associates (continued)

7.1 Investments in Argos Therapeutics, Inc (continued)

Movements in the carrying amount of investments were as follows:

	2015	2014
At 1 January	1,629,895	1,163,949
Acquisition of shares	–	354,233
Group's share of loss for the year	(1,332,834)	(634,202)
Gain/(loss) from dilution of the Group's share	184,194	(1,669)
Foreign exchange differences in OCI	243,509	747,584
At 31 December	**724,764**	**1,629,895**

Summarized financial information about assets and liabilities of this associate is set out below:

	2015	2014
Cash and cash equivalents	449,187	2,094,140
Other current assets	193,186	1,141,691
Property, plant and equipment, and other non-current assets	1,626,553	385,346
Current liabilities	(594,928)	(185,470)
Non-current liabilities	(3,729,395)	(1,671,905)
(Equity deficit)/equity	**(2,055,397)**	**1,763,802**
Share of the Group's ownership as at 31 December	27.65%	30.44%
Carrying (deficit)/net assets	**(568,284)**	**536,196**
Goodwill arising from acquisition of the associate	1,293,048	1,093,699
Carrying amount of investments	**724,764**	**1,629,895**

Summarized statement of comprehensive income of Argos is detailed below:

	2015	2014
Revenue	31,596	75,814
Research and development expenses	(3,782,732)	(1,747,436)
General and administrative expenses	(671,208)	(330,268)
Other expenses	(136,607)	(84,301)
Loss and total comprehensive income for the year	**(4,558,951)**	**(2,086,191)**
The Group's share of loss for the year (before April 2015: 30.44%; before December 2015: 28.97%; after December 2015: 27.65%)	(1,332,834)	(634,202)
Result of a deemed disposal	184,194	(1,669)
Total recognized in loss for the year	**(1,148,640)**	**(635,871)**

(All amounts are in thousands of Russian rubles unless otherwise indicated)

7. Investments in associates (continued)

7.2 Investments in Biocad Holding Limited

On 30 April 2014, the Company signed contract with shareholders of Biocad Holdings Limited ("Biocad"), a company registered under the law of Cyprus with the purpose of acquiring 20% of the outstanding Biocad shares for the total cash consideration of US$ 100 million (RR 3,503,870).

Biocad is the controlling shareholder in several companies involved in the research and development, production and distributing of various pharmaceutical and biopharmaceutical products, primarily in the Russian Federation. These major subsidiaries are Russian legal entities: Biocad CJSC, Biocad Pharm LLC, I-Mab LLC. Biocad has also several insignificant subsidiaries registered in other jurisdictions.

The Company completed the acquisition on 27 July 2014. In accordance with the shareholder's agreement the Company obtained significant influence over strategic and operating policies of the Biocad and recognized it as associate applying the equity method of accounting.

Movements in the carrying amount of investments were as follows:

	2015	2014
At 1 January	4,339,963	–
Acquisition of shares	–	3,503,870
Group's share of profit for the year	802,901	836,093
Effect of the pre-acquisition profit distribution (a)	(73,969)	–
At 31 December	**5,068,895**	**4,339,963**

(a) According to agreement the Company was not entitled to receive dividends from the pre-acquisition profit.

Summarized financial information of assets and liabilities of Biocad is set out below:

	2015	2014
Cash and cash equivalents	3,903,375	6,806,030
Other current assets	6,967,355	2,199,192
Property, plant and equipment	1,560,173	1,041,489
Intangible assets	4,042,122	4,116,858
Trade and other payables	(825,416)	(2,913,790)
Other current liabilities	(206,947)	(349,693)
Non-current liabilities	(1,618,069)	(722,149)
Equity	**13,822,593**	**10,177,937**
Share of the Group's ownership	20%	20%
Carrying value of net assets	**2,764,519**	**2,035,587**
Goodwill arising from acquisition of the associate	2,304,376	2,304,376
Carrying amount of investments	**5,068,895**	**4,339,963**

(All amounts are in thousands of Russian rubles unless otherwise indicated)

7. Investments in associates (continued)

7.2 Investments in Biocad Holding Limited (continued)

Summarized consolidated statement of profit or loss of Biocad is detailed below:

	2015	27 July – 31 December 2014
Revenue	9,048,736	7,303,972
Cost of sales	(1,096,119)	(1,074,982)
Research and development expenses	(1,081,565)	(149,446)
General and administrative expenses	(2,431,745)	(1,204,130)
Other income, net	171,755	263,989
Income tax expense	(596,557)	(958,936)
Profit for the period	**4,014,505**	**4,180,467**
Group's share of profit for the period	**802,901**	**836,093**

8. Segment information

For the management purposes, the Group is divided into two reportable operating segments: (1) production and wholesale of pharmaceutical products and (2) production and wholesale of medical equipment.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the segments' assets, liabilities, sales, gross profit, segments' results and budgets of these business segments separately for the purpose of making decisions about resource allocation and performance assessment. For the management purposes, budgets of income and expense are planned and analyzed for each of operating segments separately.

Segment result is segment revenue less segment expenses. Segment expenses consist of cost of sales, selling and distribution costs, general and administrative expenses and other income and expenses that can be directly attributed to the segment on a reasonable basis.

Segment assets consist primarily of property, plant and equipment, intangible assets including goodwill allocated to specified segment, inventories, financial assets, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate liabilities. Capital expenditures comprise additions to property, plant and equipment.

There were no significant intercompany transactions between these operating segments.

(All amounts are in thousands of Russian rubles unless otherwise indicated)

8. Segment information (continued)

The following tables present revenue and profit information regarding the Group's operating segments:

Year ended 31 December 2015	Production and wholesale of pharmaceutical products (Pharmaceutical products)	Production and wholesale of medical equipment	Group
Sales to external customers	45,619,799	1,575,139	47,194,938
Total revenue	**45,619,799**	**1,575,139**	**47,194,938**
Gross profit	17,398,803	398,537	17,797,340
Segment result	**17,666,051**	**(95,594)**	**17,570,457**
Interest income, net			478,898
Share in loss of a joint venture and associates, net			(371,479)
Profit before income tax			**17,677,876**
Income tax expense			(3,746,776)
Profit for the year			**13,931,100**
Segment assets	79,908,489	1,823,308	81,731,797
Unallocated assets			889,820
Total assets			**82,621,617**
Segment liabilities	21,925,485	575,268	22,500,753
Unallocated liabilities			4,692,351
Total liabilities			**27,193,104**
Acquisition of property, plant and equipment (Note 10)	2,232,838	17,960	2,250,798
Depreciation and amortization (Notes 10 and 11)	1,114,500	28,999	1,143,499
Loss from impairment of property, plant and equipment (Note 10)	(27,850)	(92,477)	(120,327)

As at 31 December 2015, net unallocated liabilities of RR 3,802,531 include loans and borrowings of RR 4,001,914, income tax payable of RR 207,006 and net deferred tax asset of RR 406,389.

(All amounts are in thousands of Russian rubles unless otherwise indicated)

8. Segment information (continued)

Year ended 31 December 2014	Production and wholesale of pharmaceutical products (Pharmaceutical products)	Production and wholesale of medical equipment	Group
Sales to external customers	40,103,232	1,120,203	41,223,435
Total revenue	**40,103,232**	**1,120,203**	**41,223,435**
Gross profit	17,798,480	417,915	18,216,395
Segment result	**13,699,491**	**(6,530)**	**13,692,961**
Interest expense, net			(108,293)
Share in profit of a joint venture and associates, net			235,062
Profit before income tax			**13,819,730**
Income tax expense			(2,724,267)
Profit for the year			**11,095,463**
Segment assets	60,689,995	1,650,148	62,340,143
Unallocated assets			480,330
Total assets			**62,820,473**
Segment liabilities	16,293,365	289,082	16,582,447
Unallocated liabilities			5,417,686
Total liabilities			**22,000,133**
Acquisition of property, plant and equipment (Note 13)	2,382,508	8,880	2,391,388
Depreciation and amortization (Notes 13 and 14)	907,267	37,403	944,670
Property, plant and equipment impairment (charge)/reversal (Note 13)	(63,841)	10,591	(53,250)

As at 31 December 2014, net unallocated liabilities of RR 4,937,356 include loans and borrowings of RR 4,002,941, income tax payable of RR 807,972 and net deferred tax liability of RR 126,443.

The main assets of the Group are located in the Russian Federation, and revenue is mainly generated from transactions in the Russian Federation.

Revenue from sales to certain customers in the Pharmaceutical products segment individually approximated or amounted to more than 10% of the Group's total revenue in this segment.

The table below shows the revenue from these customers:

Customer	2015	2014
Ministry of Health of the Russian Federation and its regional branches (open public tenders only)	13,615,890	5,979,790
Customer 1	3,145,201	3,661,399
Customer 2*	2,598,469	2,639,325
Customer 3**	1,741,061	2,320,332

* In 2014, more than 93% of total revenue from this customer was attributed to Velcade® medicine.

** In 2015, 100% of total revenue from this customer was attributed to Rebif® medicine.

(All amounts are in thousands of Russian rubles unless otherwise indicated)

8. Segment information (continued)

The Group's revenue from sales to the Ministry of Health of the Russian Federation, its regional branches and departments approximate 29% of the total Group's revenue in 2015 (2014: 15%).

9. Balances and transactions with related parties

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into transactions in 2015 and 2014 or had balances outstanding at 31 December 2015 and 2014 are detailed below.

Balances with related parties

2015	Short-term financial assets – (a), Note 15	Long-term financial assets – (b)	Cash and short-term deposits placed with the related bank – Note 14	Trade and other receivables and prepayments – (c) Note 13	Trade and other payables – (d) Note 19
Parent	10,320,190	–	–	583,757	–
Other related parties[1]	1,273,411	–	12,342,164	2,890,623	3,167,863
Joint venture	758,850	–	–	174,645	704
Total	**12,352,451**	**–**	**12,342,164**	**3,649,025**	**3,168,567**

2014	Short-term financial assets – (a), Note 15	Long-term financial assets – (b), Note 16	Cash and short term deposits placed with the related bank – Note 14	Trade and other receivables and prepayments – (c) Note 13	Trade and other payables – (d) Note 19
Parent	4,050,605	–	–	152,904	–
Other related parties[2]	172,000	42,900	6,455,195	5,939,141	2,509,714
Joint venture	37,000	–	–	79,540	–
Total	**4,259,605**	**42,900**	**6,455,195**	**6,171,585**	**2,509,714**

(a) This item is detailed in sub-sections "Loans provided to parent", "Loans provided to other related parties" and "Promissory notes of related parties" below.

(b) This item was primarily comprised of long-term deposits placed with the related bank bearing interest rates of 6.5% to 8% p.a. As at 31 December 2015, the deposits were transferred to cash equivalents.

(c) This item is primarily comprised of receivables from OTCpharm for sale of raw materials, finished products and contract manufacturing services, interest receivable from Augment, agency fee receivables from sale of certain related party products and prepayments for rent and other services.

(d) This item primarily comprised (i) payables to OTCpharm for sales of branded OTC medicines in accordance with the agency agreement in the amount of RR 2,380,642 and (ii) payables to Bever for purchase of API in the amount of RR 775,414.

[1] Other related parties represent entities under control of the Company's parent and key management personnel.
[2] Other related parties represent entities under control of the Company's parent and key management personnel.

(All amounts are in thousands of Russian rubles unless otherwise indicated)

9. Related party disclosures (continued)

Significant transactions with related parties

Statement of comprehensive income item	Relationship	2015	2014
Agency fee income (included in revenue) (A)	Other related parties	1,177,419	888,638
Contract manufacturing revenue from OTCpharm (included in revenue) (B)	Other related parties	2,437,685	1,373,268
Revenue from sale of active pharmaceutical ingredients to OTCpharm (included in revenue) (C)	Other related parties	877,481	1,586,941
Revenue from sale of finished products to OTCpharm (included in revenue) (C)	Other related parties	56,131	2,355,984
Revenue from sale of third-parties products (included in revenue)	Associate	34,401	620,020
Revenue from sale of third-parties products to OTCpharm (included in revenue) (C)	Other related parties	183,023	55,076
Interest income from deposits placed with the related bank	Other related parties	10,604	19,225
Interest income from loans provided to the parent and other related parties	Parent and other related parties	603,372	110,766
License fees (included in selling and distribution cost)	Other related parties	(1,429)	(123,783)
Warehouse rental expenses (included in selling and distribution cost)	Other related parties	(65,992)	(127,670)
Office rental expenses (included in general and administrative expenses)	Other related parties	(140,455)	(69,419)
Cost of sales (D)	Other related parties	(213,112)	(2,608,314)
Consulting on venture investments (included in general and administrative expenses) (E)	Other related parties	(97,908)	(106,099)
Other income (F)	Other related parties	658,280	274,859
Other income	Joint venture	–	70,159
Other expenses	Other related parties	(11,246)	–
Advertising	Other related parties	(8,157)	–
Research and development expenditures	Other related parties	(4,708)	(31,454)
Cession of rights for loan issued to a third party (G)	Other related parties	–	727,882
Purchase of promissory notes from the related bank (H)	Other related parties	5,063,068	3,420,978
Sale of promissory notes to the related bank (H)	Other related parties	786,698	
Purchase of land, buildings and other property, plant and equipment	Other related parties	39,962	–
Purchase of R&D	Other related parties	14,222	–

9. Balances and transactions with related parties (continued)

Significant transactions with related parties (continued)

(A) Agency fee income

The Company entered into agency contracts with related parties for distribution and sales of certain medicines owned by those related parties (see Note 22).

(B) Contract manufacturing revenue

The Group entered into a number of contract manufacturing agreements with OTCpharm for production of over-the-counter medicines (Note 22).

(C) Revenue from sales to OTCpharm

Starting from 1 April 2014, the Group supplies certain APIs and finished products to OTCpharm in accordance with the standard distribution agreements (Note 22).

(D) Cost of sales

The Group entered into purchase agreements for supply of third-party products (mainly Koagil VII and Diaskintest) manufactured by a related party. Total cost of sales in the amount of RR 213,112 (2014: RR 2,608,314) comprises the cost of the above medicines of RR 195,862 (2014: RR 1,776,376), which the Group mainly sold at open public tenders. The remaining amount included in cost of sales primarily represents cost of raw materials and third-party products purchased from other related parties.

As at 31 December 2015, outstanding inventories of these products amounted to RR 62,278 (31 December 2014: RR 50,569).

(E) Consulting on venture investments

This item primarily comprises expenses on venture investments consulting incurred by a related party in the course of search, analysis and monitoring of operations of R&D startups, which may be potential investment targets of Pharmstandard International S.A.

(F) Other income

Other income primarily includes income from operating lease of cars and warehouses to OTCpharm, income from royalty, utilities, sale of materials and other income from transactions with other related parties (Note 26).

(G) Cession of rights for loan issued to a third party

On 24 December 2014, the Company entered into a cession agreement with a related party in respect of the loan issued to a third party. In accordance with the agreement, the Company paid RR 727,882 to a related party for the right of claim of a short-term loan of US$ 12,500 thousand (RR 689,165) bearing interest rate of 6.5% p.a. (Note 15) and interest receivable of RR 61,255 from a third party.

9. Balances and transactions with related parties (continued)

Significant transactions with related parties (continued)

(H) *Purchase of promissory notes*

In 2014, the Group purchased from the related bank promissory notes of RR 3,420,978 at their par value. Further the Group sold those promissory notes to a third party for cash consideration of RR 3,501,090 and recognized income from this transaction in the amount of RR 80,112 (Note 26).

In December 2015, the Group purchased short-term promissory notes from the related bank for RR 2,479,668. The par value of the promissory notes is RR 2,500,000. The maturity date is January 2016. As at 31 December 2015, the Group recognized the promissory notes as cash and short-term deposits. Further, the Group sold them back to the related bank in January 2016.

In 2015, the Group purchased promissory notes of the third parties for cash consideration of RR 780,817 from the related bank and then sold them back to the related bank for cash consideration in the amount RR 633,930. Income from this transaction was recognized in the amount of RR 5,881 (Note 26).

In 2015, the Group purchased promissory notes of RR 629,172 from the related bank. Further the Group sold those promissory notes to a third party for cash consideration of RR 633,930 and recognized income from this transaction in the amount of RR 4,758 (Note 26).

In 2015, the Company purchased ordinary promissory notes of the related bank, which were recorded as short-term financial assets of RR 1,173,411 as at 31 December 2015 (refer to Promissory notes of related parties section below).

Loans issued to the parent

Before 2015, the Company's parent, Augment Investments Limited (“Augment”) registered under the laws of Cyprus, asked the Company to issue short-term interest-bearing loans for financing Augment's current business operations not related to the activities of the Group.

As at 31 December 2014, the outstanding amount of unsecured short-term loans issued to Augment amounted to US$ 72,000 thousand (RR 4,050,605). The loans matured 2015 and bore fixed interest rates of 2.75% and 5.25% p.a. In 2015, the Company signed the addenda to extend the maturity of loans until 2016.

In 2015, the Group issued additional unsecured short-term loans denominated in US dollars to Augment. The total amount of loans is US$ 69,600 thousand (RR 3,952,932 at the exchange rate as at the issuance date) and the interest rate is 5%-5.25% p.a. The loans mature in 2016.

As at 31 December 2015, the outstanding principal amount under the above loans is US$ 141,600 thousand (RR 10,320,190).

Loans issued to other related parties

In 2014, the Company issued to a joint venture several unsecured short-term loans in Rubles bearing interest rates of 10% to 15% p.a. As of 31 December 2015 outstanding amount of principal debt of these loans was RR 758,850. The maturity date is January-February 2016.

In October 2014, the Company issued to another related party an unsecured short-term loan of RR 700,000 bearing a fixed interest rate of 10% p.a. The maturity date is 31 December. In 2014, part of the loan (RR 600,000) was repaid. In 2015, the maturity was extended until 31 December 2016.

(All amounts are in thousands of Russian rubles unless otherwise indicated)

9. Balances and transactions with related parties (continued)

Promissory notes of related parties

In 2015, the Company purchased ordinary promissory notes of the related bank with par value of US$ 10,500 thousand and US$ 5,600 thousand, bearing an interest rate of 4% p.a. The promissory notes are payable on demand, but not earlier that 7 August 2017 and not later than 9 August 2017. The acquisition price amounted to 100% of the par value of the promissory notes. The promissory notes were pledged to the related bank as collateral for a third party's bank guarantee. In December 2015, the collateral agreements were early terminated. These promissory notes were early repaid on 19 January 2016.

As at 31 December 2015, the promissory notes in the amount of RR 1,173,441 were recorded as short-term financial assets.

Compensation to key management personnel

For the year ended 31 December 2015, total compensation to key management personnel amounted to RR 71,551 (2014: RR 55,599). Such compensation represents payroll and bonuses included in general and administrative expenses.

Repayment of the debt to OTCpharm arose during spin-off

In July-September 2013, the Board of Directors and the shareholders of the Company approved a plan of spin-off of the Group's branded over-the-counter (OTC) business into a newly founded separate legal entity OTCpharm PJSC ("OTCpharm") with the purpose to increase the combined value of the Group and OTCpharm.

On 23 December 2013, OTCpharm was registered; its shares were proportionally distributed among the shareholders of the Company and the Group distributed to OTCpharm the assets related to Branded OTC business and also recognized liability on cash distribution to OTCpharm in the amount of RR 3,500,650. In January 2014, this liability was settled in full.

10. Property, plant and equipment

Property, plant and equipment consist of the following:

Balance at 31 December 2015	Land	Buildings	Plant and machinery	Equipment, motor vehicles and other	Assets under construction	Total
Cost						
Balance at 1 January 2015	**442,564**	**5,025,080**	**5,939,127**	**920,834**	**2,012,973**	**14,340,578**
Additions	9,156	35,974	155,585	284,256	1,765,827	**2,250,798**
Transfers	–	436,637	1,231,139	4,437	(1,672,213)	**-**
Disposals	–	(1,657)	(130,631)	(125,746)	(13,516)	**(271,550)**
Foreign exchange differences	–	(20,171)	(24,253)	(1,635)	(20,782)	**(66,841)**
Balance at 31 December 2015	**451,720**	**5,475,863**	**7,170,967**	**1,082,146**	**2,072,289**	**16,252,985**
Accumulated depreciation and impairment						
Balance at 1 January 2015	–	**807,136**	**3,199,550**	**417,051**	**99,510**	**4,523,247**
Depreciation charge	–	162,486	654,988	170,743	–	**988,217**
Disposals	–	(1,025)	(66,499)	(115,173)	–	**(182,697)**
Impairment charge, net (Notes 26, 27)	–	77,540	15,222	226	27,339	**120,327**
Foreign exchange differences	–	(3,534)	(9,821)	(1,094)	(509)	**(14,958)**
Balance at 31 December 2015	–	**1,042,603**	**3,793,440**	**471,753**	**126,340**	**5,434,136**
Net book value						
Balance at 1 January 2015	**442,564**	**4,217,944**	**2,739,577**	**503,783**	**1,913,463**	**9,817,331**
Balance at 31 December 2015	**451,720**	**4,433,260**	**3,377,527**	**610,393**	**1,945,949**	**10,818,849**

(All amounts are in thousands of Russian rubles unless otherwise indicated)

10. Property, plant and equipment (continued)

Balance at 31 December 2014	Land	Buildings	Plant and machinery	Equipment, motor vehicles and other	Assets under construction	Total
Cost						
Balance at 1 January 2014	**442,564**	**4,804,039**	**4,562,537**	**811,079**	**1,553,569**	**12,173,788**
Additions	–	3,508	43,964	187,619	2,156,297	**2,391,388**
Transfers	–	234,246	1,389,863	13,267	(1,637,376)	**–**
Disposals	–	(1,322)	(38,204)	(89,658)	(47,279)	**(176,463)**
Foreign exchange differences	–	(15,391)	(19,033)	(1,473)	(12,238)	**(48,135)**
Balance at 31 December 2014	**442,564**	**5,025,080**	**5,939,127**	**920,834**	**2,012,973**	**14,340,578**
Accumulated depreciation and impairment						
Balance at 1 January 2014	**–**	**664,019**	**2,707,851**	**359,364**	**39,316**	**3,770,550**
Depreciation charge	–	152,441	521,803	136,330	–	**810,574**
Disposals	–	(763)	(21,565)	(78,069)	(1,720)	**(102,117)**
Impairment charge/(reversal)	–	(6,724)	(3,945)	–	63,919	**53,250**
Foreign exchange differences	–	(1,837)	(4,594)	(574)	(2,005)	**(9,010)**
Balance at 31 December 2014	**–**	**807,136**	**3,199,550**	**417,051**	**99,510**	**4,523,247**
Net book value						
Balance at 1 January 2014	**442,564**	**4,140,020**	**1,854,686**	**451,715**	**1,514,253**	**8,403,238**
Balance at 31 December 2014	**442,564**	**4,217,944**	**2,739,577**	**503,783**	**1,913,463**	**9,817,331**

In 2015, the Group made an allowance for impairment of property, plant and equipment due to their conservation and uncertain plans for the further use.

In 2015 and 2014, the Group did not receive any loans for capital construction and had no new qualifying assets, therefore no borrowing costs were capitalized.

The Group assets include only a minor portion of land on which the Group's factories and buildings, comprising the Group's principal manufacturing facilities, are located, whilst the major portion of the land is held under operating lease agreements with the state municipal bodies. The lease agreements specify lease terms between 1 and 20 years. Long-term agreements have an option to extend the lease term for another 10 years and include a land purchase option after termination of the lease. Purchase price will be determined based on fair value of the land as determined by the municipal authorities. The total amount of rental payments for the use of the land during 2015 was RR 32,182 (2014: RR 32,105). Such payments are reassessed by the state authorities on an annual basis. No such reassessment has been completed for 2016 and beyond as at the date of approval of these consolidated financial statements for issue.

In 2014, the Group entered into a number of operating lease agreements with OTCpharm, a related party. In accordance with agreements the Group leased out to OTCpharm cars and warehouses with net book value of RR 194,766 as at 31 December 2015 (2014: RR 144,669). Income from operating lease in the amount of RR 128,261 is recognized as other income (2014: RR 77,161) (Notes 9 and 26).

(All amounts are in thousands of Russian rubles unless otherwise indicated)

11. Intangible assets

31 December 2015	Goodwill	Trademarks, patents and licenses	Development costs	Total
Cost				
Balance at 1 January 2015	**1,730,040**	**1,478,483**	**180,882**	**3,389,405**
Additions	–	–	635,700	**635,700**
Foreign exchange differences	(48,509)	–	–	**(48,509)**
Balance at 31 December 2015	**1,681,531**	**1,478,483**	**816,582**	**3,976,596**
Accumulated amortization and impairment				
Balance at 1 January 2015	–	**266,808**	–	**266,808**
Amortization charge	–	155,282	–	**155,282**
Balance at 31 December 2015	**–**	**422,090**	**–**	**422,090**
Net book value				
Balance at 1 January 2015	**1,730,040**	**1,211,675**	**180,882**	**3,122,597**
Balance at 31 December 2015	**1,681,531**	**1,056,393**	**816,582**	**3,554,506**

Balance at 31 December 2014	Goodwill	Trademarks, patents and licenses	Development costs	Total
Cost				
Balance at 1 January 2014	**1,769,556**	**1,286,573**	**279,100**	**3,335,229**
Additions	–	48,065	45,627	**93,692**
Transfers	–	143,845	(143,845)	–
Foreign exchange differences	(39,516)	–	–	**(39,516)**
Balance at 31 December 2014	**1,730,040**	**1,478,483**	**180,882**	**3,389,405**
Accumulated amortization and impairment				
Balance at 1 January 2014	–	**132,712**	–	**132,712**
Amortization charge	–	134,096	–	**134,096**
Balance at 31 December 2014	**–**	**266,808**	**–**	**266,808**
Net book value				
Balance at 1 January 2014	**1,769,556**	**1,153,861**	**279,100**	**3,202,517**
Balance at 31 December 2014	**1,730,040**	**1,211,675**	**180,882**	**3,122,597**

Carrying amount and remaining amortization period of major trademarks and patents as at 31 December are as follows:

	Carrying amount		**Remaining amortization period (years)**	
Name	**2015**	**2014**	**2015**	**2014**
Sirturo®	690,987	767,763	8	9
Epostim®	124,383	143,519	7	8
Pegaltevir ®	105,487	134,256	4	5

(All amounts are in thousands of Russian rubles unless otherwise indicated)

11. Intangible assets (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated for impairment testing purposes to the following groups of cash-generating units, which are also reportable segments of the Group:

- Production and wholesale of pharmaceutical products unit (Pharmaceutical products); and
- Production and wholesale of medical equipment unit (Equipment).

Carrying amount of goodwill allocated to each cash generating unit:

	Pharmaceutical products		Equipment		Total	
	2015	2014	2015	2014	2015	2014
Carrying amount of goodwill	1,462,677	1,511,186	218,854	218,854	**1,681,531**	**1,730,040**

Decrease of carrying amount of goodwill in the Pharmaceutical products segment resulted from foreign exchange differences arising from translation of the subsidiaries' results into the Russian rubles.

The recoverable amount of the cash-generating units was based on a value-in-use calculation using actual cash flow projections obtained from the five-year financial budgets approved by management (average growth rate of 8.8%); the cash flow projections beyond the five-year period were conservative. They were calculated using the extrapolation method and did not account for the potential market growth. The discount rate applied to cash flow projections is 17.05% (2014: 18%).

Key assumptions used in value-in-use calculations

The calculation of value-in-use for both Pharmaceutical products and Equipment cash-generating units is most sensitive to the following assumptions:

- Discount rates;
- Raw materials price inflation;
- Currency rates changes;
- Growth rates used to extrapolate cash flows beyond the budget period.

Discount rates – discount rates reflect management's estimate of the risks specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for each unit, regard has been given to the Capital Assets Pricing Model calculation at the reporting date.

Raw material price inflation – past actual raw materials price movements, including the effect of the devaluation of the Russian ruble for US dollar denominated raw materials, have been used as an indicator of future price movements.

Currency exchange rates changes – estimated values based on current values on the foreign exchange market.

Growth rate estimates – rates are based on published industry research.

(All amounts are in thousands of Russian rubles unless otherwise indicated)

11. Intangible assets (continued)

Sensitivity to changes in assumptions

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the each cash-generating unit to materially exceed its recoverable amount.

12. Inventories

Inventories consist of the following:

	2015	2014
Raw materials – at cost	3,187,204	2,124,480
Work in progress – at cost	936,366	474,208
Finished products – at net realizable value	6,076,612	4,451,087
	10,200,182	**7,049,775**

The write-downs of inventories to net realizable value and reversal of write-downs were as follows:

	2015	2014
Balance at 1 January	**136,209**	**216,842**
Additional write-downs	154,699	99,257
Unused amounts reversed	(16,317)	(21,858)
Utilized during the year	(100,843)	(152,755)
Foreign exchange differences	1,741	(5,277)
Balance at 31 December	**175,489**	**136,209**

13. Trade and other receivables

	2015	2014
Trade receivables (net of allowance for impairment of RR 985,450 (2014: RR 225,186))	13,454,573	13,236,008
Trade receivables – related parties (Note 9)	2,516,872	5,863,421
Interest receivable – third parties (net of allowance for impairment of RR 46 091 (2014: RR 0))	158,944	33,519
Interest receivable – related parties (Note 9)	696,453	181,221
Other receivables – related parties (Note 9) (a)	360,699	117,897
	17,187,541	**19,432,066**

(a) Major part of other receivables comprises the royalties payable.

As at 31 December 2015, RR 3,434,555 of trade and other receivables were denominated in currencies other than Russian ruble (primarily in US dollars) (2014: RR 3,108,066).

Movements in the allowance for impairment of trade receivables were as follows:

	2015	2014
Balance at 1 January	**225,186**	**244,764**
Additional allowance	937,041	160,158
Unused amounts reversed	(128,987)	(177,806)
Utilized during the year	(1,146)	(1,642)
Foreign exchange differences	(553)	(288)
Balance at 31 December	**1,031,541**	**225,186**

(All amounts are in thousands of Russian rubles unless otherwise indicated)

14. Cash and short term deposits

Cash and short-term deposits consist of the following:

	2015	2014
Cash in bank – Russian rubles	2,052,124	499,072
Cash in bank – US dollars and euro	2,953,997	4,537,243
Cash at bank – Ukrainian hryvnia	1,285	33,147
Short-term trade promissory notes with the maturity of less than 90 days (Note 9)	2,479,668	-
Short-term bank deposits – Russian rubles (a)	550,500	500,000
Short-term bank deposits – US dollars and euro (a)	1,039,307	1,128,389
Short-term bank deposits placed with the related bank, provided as collateral – euro (c) (Note 9)	996,215	-
Short-term bank deposits – Ukrainian hryvnia	72,198	10,670
Short-term bank deposits placed with the related bank – Russian ruble (a) (Note 9)	2,600,140	1,635,300
Short-term bank deposits placed with the related bank – US dollars (a) (Note 9)	1,513,688	71,364
Short-term deposits to secure participation in open public tenders – Russian rubles (b)	129,453	126,363
	14,388,575	**8,541,548**

(a) Deposits denominated in Russian rubles bear interest rates of 6.5% to 10.65% p.a. (2014: 1.5% to 20% p.a.). Deposits denominated in US dollars and euro bear interest rates of 0.2% to 1.17% p.a. (2014: 3.6% p.a.)

(b) These cash deposits are restricted for use and are placed to secure the Group's participation in open public tenders.

(c) As at the reporting date, these deposits denominated in euro were provided as collateral to the related bank. The interest rate was 0.6%. In February 2016, the deposits were released from pledge; the deposits were early terminated (Note 32).

Substantially all cash and short-term deposits of the Group are placed in the related bank (Note 9). Cash balances with the related bank carry no interest.

15. Short-term financial assets

	2015	2014
Short-term loans and deposits		
Short-term loan issued to the parent – US dollars (Note 9)	10,320,190	4,050,605
Short-term loans issued to third parties – Russian rubles (a)	-	887,669
Short-term loans issued to third parties – US dollars (a)	1,021,447	689,165
Promissory notes – Russian rubles	1,337,136	427,580
Promissory notes in the related bank – US dollars(Note 9)	1,173,411	-
Short-term loans issued to related parties – Russian rubles (Note 9)	858,850	209,000
Short-term bank deposits – US dollars	-	66,166
Short-term bank deposits – Russian rubles	200,000	-
Allowance for impairment of loans issued	(1,021,447)	-
Investments available for sale		
Securities and other	13,261	8,661
	13,902,848	**6,338,846**

(a) In 2015 the Company provided secured short-term loan to a third party in amount RR 1,021,447 bearing a fixed interest rate of 9% p.a. for financing of the certain investment project of potential future interest for the Group. In 2015 due to breach of the loan repayment schedule the Group accrued allowance for impairment in amount RR1,021,447. In April 2016 this loan was restructured (Note 32).

In 2014, the Company provided unsecured short-term loans to third parties with maturity in 2015 and fixed interest rate of 6.5% to 18% p.a.

(All amounts are in thousands of Russian rubles unless otherwise indicated)

16. Long-term financial assets

	2015	2014
Long-term loans and deposits		
Long-term loans issued to third party – Russian rubles (a)	30,000	40,000
Long-term bank deposits placed with the related bank – Russian rubles (Note 9)	–	42,900
Long-term loan issued to third party – US dollars (b)	2,051,648	253,163
Other long-term assets	8,076	–
Investments available for sale		
Unquoted equity shares (c)	1,279,895	328,174
Quoted equity shares (c)	1,317,317	618,842
	4,686,936	**1,283,079**

(a) On 9 June 2014 the Company issued unsecured long-term loan to third party with maturity on 27 December 2017 and fixed interest rate of 15% p.a.

(b) In 2014-2015 the Company issued unsecured long-term loans to third party with maturity on 31 December 2017 and fixed interest rate of 9% p.a. for financing of certain investment project of potential future interest for the Group, recoverability of this loan is guaranteed by future economic benefits from this project assessed by Group management based on long-term business plans.

(c) As at 31 December 2015, financial investments available for sale include:

(i) RR 343,291 (2014: RR 225,034) investments in preferred shares of Protagonist Therapeutics, Inc. ("Protagonist") located in the USA, Delaware. Protagonist is a peptide and peptidomimetic therapeutics company pursuing technology platform driven discovery and development of disulfide rich peptides (DRPs);

(ii) RR 1,317,317 (2014: RR 618,842) investments in ordinary shares of Proteon Therapeutics, Inc. ("Proteon") located in the USA, Delaware. Proteon is a biopharmaceutical company developing novel, first-in-class pharmaceuticals for patients with renal and vascular diseases; Proteon is listed on NASDAQ, fair value of investment in Proteon is determined by reference to published price quotations on active market;

(iii) RR 516,054 (2014: RR 103,140) investments in preferred shares of Allena Pharmaceuticals ("Allena") located in the USA, Massachusetts. Allena is a company developing and commercializing non-systemic protein therapeutics to treat metabolic and orphan diseases;

(iv) RR 56,136 investments in preferred shares of Engene Inc. ("Engene"), located in Canada, Montreal. Engene works with a highly flexible nucleotide delivery technology targeting mucosal tissues to treat numerous prevalent and chronic diseases via the induction or suppression of protein expression levels.

(v) RR 364,414 investments in preferred shares of Jounce Therapeutics Inc ("Jounce"), located in the USA, Massachusetts. Jounce is working on creation of cancer treatment mechanisms that ensure an optimal involvement of the immune system.

The Group has no control or significant influence over these entities.

17. Short-term borrowings and loans

	2015	2014
Short-term loan – Russian rubles (a)	4,082,608	4,000,000
Other loans	1,914	2,941
	4,084,522	**4,002,941**

(a) As at 31 December 2015, this item included RR 4,000,000 unsecured loan issued by Sberbank, with an interest rate of 11.85% p.a., and RR 82,608 unsecured loan with an interest rate of 7.5% p.a. (2014: RR 4,000,000, issued by Citibank, with an interest rate of 11.39% p.a.).

(All amounts are in thousands of Russian rubles unless otherwise indicated)

18. Taxes payable other than income tax

Taxes payable, other than income tax, consist of the following:

	2015	2014
Value-added tax	1,213,297	533,505
Social taxes	87,356	72,205
Property tax	19,965	24,648
Other taxes	37,690	25,266
	1,358,308	**655,624**

19. Trade and other payables

	2015	2014
Trade payables	6,826,871	4,658,904
Payables for products procurement – third parties (a)	9,402,620	7,032,004
Payables for products procurement, raw materials and other payables – related parties (Note 9)	787,925	1,863,212
Issued promissory notes – US dollars and euro (b)	542,454	431,401
Payables to employees	590,034	517,065
Payables to OTCpharm (agency contract) – related party (Note 9)	2,380,642	646,502
Other payables (c)	444,478	685,263
	20,975,024	**15,834,351**

(a) These balances represent payables for products of third parties manufactured by other pharmaceutical companies.

(b) This balance primarily represents interest free promissory notes issued by the Company's Ukrainian subsidiary Pharmstandard-Biolik before the date of acquisition. The promissory notes are payable to the companies affiliated with the former shareholders of Pharmstandard-Biolik. These promissory notes are payable on demand.

(c) These balances primarily represent payables to third parties for services and equipment.

As at 31 December 2015, RR 2,519,263 (2014: RR 3,760,587) of trade payables were denominated in currencies other than Russian ruble, primarily in US dollars and euro.

20. Other non-current liabilities

	2015	2014
Deferred income	69,000	69,000
Other	15,813	23,472
	84,813	**92,472**

The subsidiary of the Group (Pharmapark LLC) received government grants to finance certain development costs. This amount represents cash proceeds from government grants and it will be credited to profit or loss over useful life of the intangible asset recognized upon completion of the development stage.

21. Share capital

In accordance with its charter documents the share capital of the Company is RR 37,793. The authorized number of ordinary shares is 37,792,603 with par value of 1 (one) Russian ruble. All authorized shares have been issued and fully paid. The Company holds 3.8% of issued shares as treasury shares.

As at 31 December 2015 and 31 December 2014, Victor Kharitonin, a Russian citizen, was the ultimate controlling shareholder of the Group.

(All amounts are in thousands of Russian rubles unless otherwise indicated)

21. Share capital (continued)

Earnings per share are calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

Earnings per share

Earnings per share are as follows:

	2015	2014
Weighted average number of ordinary shares outstanding	36,355,683	36,355,683
Profit for the year attributable to the ordinary shareholders	13,749,466	10,841,234
Basic and diluted earnings per share, Russian rubles	378.2	298.2

22. Revenue

Revenue breakdown by product groups comprised the following:

	2015	2014
Pharmaceutical products		
Over the Counter ("OTC") – (a)	5,093,937	5,547,561
Prescription		
Branded	5,254,168	5,924,459
Non-branded	1,311,484	1,006,400
	6,565,652	**6,930,859**
Third parties products (b)	26,408,120	19,024,923
Other – substances and APIs	2,882,904	2,856,044
Clearance sale of OTC branded inventory to OTCpharm due to spin-off (e)	–	2,411,060
Total pharmaceutical products	**40,950,613**	**36,770,447**
Contractual manufacturing (Note 9) – (c)	2,690,107	1,503,922
Agency fee income (Note 9) – (d)	1,979,079	1,828,863
Medical equipment	1,575,139	1,120,203
	47,194,938	**41,223,435**

(a) On 1 April 2014 OTCpharm started its operation independently of the Group and since this date revenue from sale of the most of OTC branded products is being recognized by OTCpharm.

(b) Third parties products sales include sales of branded pharmaceutical products such as Velcade®, Mabtera®, Koagil VII, Mildronate®, IRS®-19®, Imudon®, Prezista®, Revlimid®, Cerezim®, Pulmozim® and other manufactured by other pharmaceutical companies.

(c) Since 2014, the Group provides contract manufacturing services primarily to OTCpharm (Note 9).

(d) The Company holds agency contracts for distribution and sale of certain products owned by related and third parties.

(e) In April and May 2014, the Group one-off sold the outstanding inventory balance related to OTC business to OTCpharm to enable it to launch independent operations (Note 9).

(All amounts are in thousands of Russian rubles unless otherwise indicated)

23. Cost of sales

The components of cost of sales were as follows:

	2015	2014
Materials, components and other	7,332,715	6,149,948
Third parties products	18,256,953	13,570,790
Production overheads	2,421,604	2,039,923
Depreciation and amortization	869,272	746,956
Direct labor costs	517,054	499,423
	29,397,598	**23,007,040**

In 2015, the total amount of cost of sales included (i) RR 177,905 of cost of the clearance sales of OTC-branded products to OTCpharm and (ii) RR 651,718 of cost of active pharmaceutical ingredients sold by the Group to OTCpharm.

24. Selling and distribution costs

Selling and distribution costs were as follows:

	2015	2014
Labor costs	1,339,123	1,503,273
Freight, communication and insurance of goods in transit	217,450	221,799
Advertising	226,671	1,573,496
Rent	159,205	140,196
Materials, maintenance and utilities	130,139	122,376
Certification expenses	118,611	113,209
Travel and entertainment expenses	101,136	129,799
Trainings and other services	96,111	68,792
Depreciation	56,099	71,849
Commission and license fees	41,174	144,573
Other expenses	48,553	44,155
	2,534,272	**4,133,517**

25. General and administrative expenses

General and administrative expenses were as follows:

	2015	2014
Labor costs	1,695,642	1,404,360
Legal, audit and advisory services	295,997	305,449
Rent	223,741	132,115
Materials, maintenance and utilities	172,503	167,866
Depreciation	109,553	125,865
Taxes other than income tax	30,972	23,781
Travel and entertainment expenses	29,034	33,571
Communication expenses	27,350	29,695
Property and other insurance	23,999	21,303
Other	78,281	56,421
	2,687,072	**2,300,426**

(All amounts are in thousands of Russian rubles unless otherwise indicated)

26. Other income

Other income comprised the following:

	2015	2014
Foreign exchange gain	4,630,371	2,166,253
Gain from restructuring of accounts payable	1,380,151	–
Income from non-core operations received from a related party (Note 9) (a)	234,621	259,539
Gain on disposal of property, plant and equipment	64,967	39,418
Reversal of impairment – property, plant and equipment (Note 10)	29,386	14,943
Income received as penalties	12,336	96,018
Gain from transactions with promissory notes (Note 9)	10,639	80,112
Reversal of impairment – financial assets	–	61,213
Gains from write-off of accounts payable	332,530	–
Other income	490,801	225,949
	7,185,802	**2,943,445**

(a) Income from non-core operations comprises of operational lease, income from sale of materials and other assets not included in other categories.

27. Other expenses

Other expenses comprised the following:

	2015	2014
Allowance for impairment of loans issued (Note 15)	1,021,447	–
Other taxes and penalties (a)	281,958	129,603
Research expenses (b)	163,379	36,881
Impairment of property, plant and equipment (Note 10)	149,713	68,193
Bank charges	42,010	28,210
Biolik expenses resulting from suspension of production	19,507	95,973
Charity	24,803	31,116
Foreign exchange loss	307,740	525,425
Other	180,784	117,535
	2,191,341	**1,032,936**

(a) Other taxes and penalties primarily include property tax expenses and penalties accrual as a result of tax audit.

(b) These expenses represent certain non-recurring research projects.

28. Income tax

	2015	2014
Income tax expense – current	4,279,608	2,783,919
Deferred tax benefit – origination and reversal of temporary differences	(532,832)	(59,652)
Income tax expense	**3,746,776**	**2,724,267**

(All amounts are in thousands of Russian rubles unless otherwise indicated)

28. Income tax (continued)

Profit before tax for the purposes of the consolidated financial statements is reconciled to tax expense as follows:

	2015	2014
Profit before income tax	**17,677,876**	**13,819,730**
Theoretical tax charge at Russian statutory rate of 20%	**3,535,575**	**2,763,946**
Effect of the difference in tax rates in countries other than Russia	(364)	(1,067)
Tax effect from the increase in additional paid-in capital of the joint venture	22,585	–
Effect from intra-group dividends eliminated in consolidation (taxed at rate of 13-15%)	19,729	7,261
Adjustments in respect of current income tax of previous years	47,053	–
Share of results of associates and the joint venture	74,296	(47,012)
Non-deductible expenses	47,902	1,139
Income tax expense	**3,746,776**	**2,724,267**

Movements in deferred tax balances were as follows:

	1 January 2014	Temporary differences recognition and reversal in profit and loss	31 December 2014	Temporary differences recognition and reversal in profit and loss	31 December 2015
Tax effects of taxable and deductible temporary differences – asset (liability)					
Property, plant and equipment	(537,998)	(23,865)	(561,863)	30,910	(530,953)
Intangible assets	(34,302)	60,955	26,653	12,956	39,609
Trade and other receivables	(61,358)	(23,602)	(84,960)	190,887	105,927
Inventories	352,881	84,122	437,003	135,596	572,599
Trade and other payables	40,384	(24,294)	16,090	(9,730)	6,360
Financial assets	7,422	(7,422)	–	157,470	157,470
Other	46,876	(6,242)	40,634	14,743	55,377
Total net deferred tax (liability)/asset	**(186,095)**	**59,652**	**(126,443)**	**532,832**	**406,389**

Deferred tax is presented in the statement of financial position as follows:

	2015	2014
Deferred tax asset	721,657	480,330
Deferred tax liability	(315,268)	(606,773)
Total net deferred tax (liability)/asset	**406,389**	**(126,443)**

28. Income tax (continued)

The recognition and reversals of temporary differences primarily relates to the following:

- depreciation of property, plant and equipment in excess of the depreciation for tax purposes;
- write down of inventory to net realizable value, unrealized profit due to intragroup purchases of materials, discounts recognized in taxation as other income;
- fair value adjustments on acquisition;
- fair value of financial instruments in excess of the cost of these instruments for tax purpose;
- impairment of trade receivables;
- amortization of trade marks in excess of the amortization for tax purposes; and
- deemed cost adjustments upon conversion to IFRS.

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized was approximately RR 31,637,211 as at 31 December 2015 (2014: RR 23,632,865).

29. Contingencies, commitments and operating risks

Operating environment of the Group

Russia, where majority of the Group's operations are located, continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2015, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian ruble, as well as sanctions imposed on Russia by several countries. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects.

The Group also operates in Ukraine. Since 2014, the economic and political situation in Ukraine has deteriorated significantly. As a result, Ukraine has experienced a fall in gross domestic product, a significant negative balance of payments and a sharp reduction in foreign currency reserves. Furthermore, in 2015 the Ukrainian hryvnia significantly devalued to major foreign currencies and the National Bank of Ukraine imposed certain restrictions on foreign currency operations. Restrictions have also been introduced for certain cross-border settlements, including payments of dividends. International rating agencies have downgraded sovereign debt ratings for Ukraine. Currently, a loan program extension, which may necessitate certain austerity measures, is being negotiated by Ukraine with the International Monetary Fund. The combination of the above events has resulted in a deterioration of liquidity and much tighter credit conditions where credit is available.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

29. Contingencies, commitments and operating risks (continued)

Taxation

Russian tax, currency and customs legislation can be interpreted in different ways and is susceptible to frequent changes. The interpretation made by the Group's management of the legislation in question as applied to the operations and activities of the Group's enterprises may be challenged by the relevant regional or federal authorities.

In addition, certain amendments to tax legislation were passed in 2014 and enter into force from 2015 which are aimed at combating tax evasion through the use of low-tax jurisdictions and aggressive tax planning structures. In particular, those amendments include definitions of the concepts of beneficial ownership and tax residence of legal entities at their actual place of business, and an approach to the taxation of controlled foreign companies.

These changes, as well as recent trends in the application and interpretation of certain provisions of Russian tax legislation, indicate that the tax authorities may take a tougher line in interpreting the law and checking tax returns. As a result, tax authorities may raise questions about transactions and accounting methods which they did not question before. This may result in significant amounts of additional tax charges, penalties and fines being imposed. It is not possible to determine claim amounts for suits which may be but have not actually been filed, or to assess the likelihood of an adverse outcome. Tax audits may cover the three calendar years immediately preceding the year in which the audit occurs. In certain circumstances an audit can also cover earlier periods.

The management is of the opinion that, as at 31 December 2015, it has correctly interpreted the relevant provisions of law, and it is highly likely that the Group's position in regard to tax, currency and customs legislation will remain unchanged.

Because of the uncertainties associated with the Russian tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as at 31 December 2015. Should the tax authorities decide to issue a claim and prove successful in the court, they would be entitled to recover the amount claimed, together with fines (in Russia amounting to 20% of such amount and interest at the rate of 1/300 of the Central Bank of the Russian Federation rate for each day of delay for late payment of such amount). Management believes that it is not probable that the ultimate outcome of such matters would result in a liability. Therefore, no provision for these contingencies was recorded in these consolidated financial statements.

Russian transfer pricing legislation

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the Russian tax authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices. A list of "controlled" transactions includes transactions performed with related parties based on domestic and cross-border agreements and certain types of cross-border transactions with independent parties. Since 2014 the transfer pricing rules for domestic transactions apply only if the amount of all transactions with related party exceeds RR 1 billion in 2014 (apart from some exceptions provided by the Tax Code); all cross-border transactions with related parties are controlled without application of any financial thresholds. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could apply the symmetrical adjustment to its profit tax liabilities according a special notification issued by the authorized body in due course.

29. Contingencies, commitments and operating risks (continued)

Russian transfer pricing legislation (continued)

The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place in 2012-2015 but also to the prior transactions with related parties if related income and expenses were recognized in 2012-2015. Special transfer pricing rules apply to transactions with securities and derivatives.

In 2012-2015, the Group determined its tax liabilities arising from "controlled" transactions using actual transaction prices.

Due to the uncertainty and absence of current practice of application of the current Russian transfer pricing legislation, the Russian tax authorities may challenge the level of prices applied by the Group under the "controlled" transactions and assess additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the "controlled" transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

Insurance policies

The Group holds insurance policies in relation to its property, plant and equipment, which cover majority of property, plant and equipment items. The Group holds no insurance policies in relation to its operations, or in respect of public liability.

Operating lease agreements

The Group entered into a number of operating lease agreements for warehouses. Rental agreements are revised on an annual basis.

Commitment liabilities and guarantees

In July 2015, the Group provided an unsecured guarantee maturing on 31 March 2016 to third parties to secure their obligations under state contracts signed by these parties. The outstanding amount of the guarantee as at 31 December 2015 is RR 1,000,000. As at the date of these financial statements, the guarantee ceased to be effective (Note 32).

In December 2015, the Company provided to third parties the guarantees secured with EUR-denominated deposits placed with the related bank in the a total amount of RR 996,215. The guarantees maturing in August 2017 were provided to third parties with regard to certain projects of potential future interest for the Group. In February 2016, the collateral agreements were early terminated (Notes 9, 14 and 29).

In December 2015, the Group provided an unsecured guarantee in the amount of US$ 5.9 million (RR 426,735) maturing in October 2016 to a third party to secure its obligations under supply agreements for distribution of pharmaceutical products. The management believes that the provided guarantee would result in remote financial risks for the Group.

(All amounts are in thousands of Russian rubles unless otherwise indicated)

30. Financial instruments and financial risk management objectives and policies

Fair values

Management believes that fair value of cash and cash equivalents, short-term financial assets, trade and other receivables and payables, and short-term borrowings and loans approximate their carrying amounts due to their short maturity.

The Group has no long-term borrowings and loans and derivative financial instruments as of 31 December 2015 and 31 December 2014.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

31 December 2015

	Total	Level 1	Level 2	Level 3
Assets measured at fair value				
Investments available for sale				
Unquoted equity shares (Note 16)	**1,279,895**	–	–	1,279,895
Quoted equity shares (Note 16)	**1,317,317**	1,317,317	–	–
Assets for which fair values are disclosed				
Short-term loans provided (Note 15)	**11,179,040**	–	–	11,179,040
Long-term loans provided (Note 16)	**2,081,648**	–	–	2,081,648
Securities (Note 15)	**2,523,808**	10,725	–	2,513,083

31 December 2014

	Total	Level 1	Level 2	Level 3
Assets measured at fair value				
Investments available for sale				
Unquoted equity shares (Note 16)	**328,174**	–	–	328,174
Quoted equity shares (Note 16)	**618,842**	618,842	–	–
Assets for which fair values are disclosed				
Short-term loans provided (Note 15)	**5,836,439**	–	–	5,836,439
Long-term loans provided (Note 16)	**293,163**	–	–	293,163
Securities (Note 15)	**435,832**	5,714	–	430,118

In 2015 and 2014, there were no transfers between levels of the fair value hierarchy either.

Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans, short-term and long-term bank deposits, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations and investment activities. The Group has various other financial assets and liabilities such as promissory notes, trade receivables, trade and other payables, which relate directly to its operations. During the year, the Group did not undertake active trading in financial instruments.

(All amounts are in thousands of Russian rubles unless otherwise indicated)

30. Financial instruments and financial risk management objectives and policies (continued)

Financial risk management objectives and policies (continued)

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

Interest rate risk

Management believes that the Group does not have significant interest rate risk as at 31 December 2015 and 31 December 2014. The Group has made certain short-term financial investments (loans and bank deposits, see Notes 14, 15 and 16) at fixed interest rates based on current market rates at the date of initial recognition and has received short-term borrowings and loans (Note 17) at fixed interest rates based on current market rates at the date of initial recognition. Therefore, the Group is not exposed to interest rate risk through fluctuations of market interest rates.

Foreign exchange risk

The Group has certain US dollar and euro-denominated cash and short-term deposits (Note 14), short-term financial assets (Note 15), trade and other payables (Note 19), and trade and other receivables (Note 13). Therefore, the Group is exposed to foreign exchange risk.

The Group monitors the foreign exchange risk by analyzing changes in exchange rates in the currencies in which its cash, financial assets and payables are denominated. However, the Group does not have formal arrangements to mitigate this foreign exchange risk.

The tables below shows the sensitivity to a reasonably possible change in the US dollar and euro exchange rates, with all other variables held constant, of the Group's profit before tax:

	Increase/ decrease in US$ rate	Effect on profit before tax
As at 31 December 2015		
US dollar/ruble exchange rate	+40.00%	7,607,250
US dollar/ruble exchange rate	-13.00%	(2,472,356)

	Increase/ decrease in US$ rate	Effect on profit before tax
As at 31 December 2014		
US dollar/ruble exchange rate	+28.54%	2,657,819
US dollar/ruble exchange rate	-28.54%	(2,657,819)

	Increase/ decrease in euro rate	Effect on profit before tax
As at 31 December 2015		
Euro/ruble exchange rate	+43.00%	1,511,501
Euro/ruble exchange rate	-15.00%	(527,268)

(All amounts are in thousands of Russian rubles unless otherwise indicated)

30. Financial instruments and financial risk management objectives and policies (continued)

Financial risk management objectives and policies (continued)

	Increase/ decrease in euro rate	Effect on profit before tax
As at 31 December 2014		
Euro/ruble exchange rate	+29.58%	383,984
Euro/ruble exchange rate	-29.58%	(383,984)

	Increase/ decrease in US$ rate	Effect on profit before tax
As at 31 December 2015		
US dollar/Ukrainian hryvnia exchange rate	+67.00%	(668,512)
US dollar /Ukrainian hryvnia exchange rate	-18.00%	179,600

	Increase/ decrease in US$ rate	Effect on profit before tax
As at 31 December 2014		
US dollar/Ukrainian hryvnia exchange rate	+28.93%	(152,991)
US dollar/Ukrainian hryvnia exchange rate	-28.93%	152,991

	Increase/ decrease in euro rate	Effect on profit before tax
As at 31 December 2015		
Euro/Ukrainian hryvnia exchange rate	+67.00%	(355,990)
Euro/Ukrainian hryvnia exchange rate	-18.00%	95,639

	Increase/ decrease in euro rate	Effect on profit before tax
As at 31 December 2014		
Euro/Ukrainian hryvnia exchange rate	+28.96%	(153,796)
Euro/Ukrainian hryvnia exchange rate	-28.96%	153,796

Liquidity risk

The Group’s policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its operating and financial commitments. The Group performs continuous monitoring of cash deficit risks and continuous monitoring of repayment of its financial liabilities on time. The Group performs daily cash flow planning and control procedures.

The table below summarizes the maturity profile of the Group’s non-derivative financial liabilities based on contractual undiscounted payments, including interest.

As at 31 December 2015	Total	Less than 4 months	4 to 6 months	6 to 12 months	More than 12 months
Borrowings and loans (Note 17)	**4,446,600**	124,307	119,393	4,202,900	
Trade and other payables	**20,427,656**	20,427,656			
Other non-current liabilities	**15,813**				15,813
Total	**24,890,069**	**20,551,963**	**119,393**	**4,202,900**	**15,813**

(All amounts are in thousands of Russian rubles unless otherwise indicated)

30. Financial instruments and financial risk management objectives and policies (continued)

Financial risk management objectives and policies (continued)

As at 31 December 2014	Total	Less than 4 months	4 to 6 months	6 to 12 months	More than 12 months
Borrowings and loans (Note 17)	**4,342,739**	151,451	75,725	4,115,563	–
Trade and other payables	**15,402,950**	15,402,950	–	–	–
Other non-current liabilities	**23,472**	–	–	–	23,472
Total	**19,769,161**	**15,554,401**	**75,725**	**4,115,563**	**23,472**

Credit risk

Financial assets, which potentially are subject to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Sales to customers are made in accordance with annually approved Marketing and Credit policy. The Group daily monitors sales and receivables conditions using appropriate internal control procedures.

The carrying amount of accounts receivable, net of allowance for impairment, represents the maximum amount exposed to credit risk. Although collection of receivables could be affected by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

Cash and deposits are mainly held in the related bank and the Group assessed the credit risk as low.

The table below summarizes the maturity profile of the Group's trade and other receivables:

		Neither impaired nor past due	Not impaired but past due				
	Total		Less 1 month	1-2 months	2-3 months	3-6 months	More than 6 months
31 December 2015	**17,187,541**	12,966,706	2,242,195	269,450	182,784	620,688	905,718
31 December 2014	**19,432,066**	14,242,641	814,441	733,756	480,738	2,728,979	431,511

Sales concentration to a small group of customers

The Group works with five distributors that together represent about 31% of the Group's revenue for 2015, excluding sales to the Ministry of Health of the Russian Federation and its departments under open public tenders. It is common practice of the Russian pharmaceutical market to work with the limited number of large distributors.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(All amounts are in thousands of Russian rubles unless otherwise indicated)

30. Financial instruments and financial risk management objectives and policies (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio not more than 60%. The Group's net debt includes borrowings and loans, trade and other payables, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent.

	2015	2014
Borrowings and loans	4,084,522	4,002,941
Trade and other payables	20,975,024	15,834,351
Less: cash and short-term deposits	(14,388,575)	(8,541,548)
Net debt	**10,670,971**	**11,295,744**
Equity attributable to the equity holders of the parent	53,663,958	39,174,393
Capital and net debt	**64,334,929**	**50,470,137**
Gearing ratio	17%	22%

31. Material partly-owned subsidiaries

Proportion of equity interest held by non-controlling interests is summarized below:

Name	Country of incorporation and operation	2015 % share	2014 % share
Pharmstandard-Tomskhimpharm OJSC	Russian Federation	9.22	9.22
Other			
Pharmstandard-Biolik PJSC	Ukraine	3.07	3.07
MDR Pharmaceuticals	Cyprus	49.95	49.95
Bigpearl Trading Limited	Cyprus	49.995	49.995
Pharmapark LLC	Russian Federation	49.995	49.995
Biomed named after I. I.Mechnikov JSC	Russian Federation	50.155	50.155
Pharmatsevticheskiye Innovatsii LLC	Russian Federation	49.995	49.995
EKK JSC	Russian Federation	64.71	64.71
Moldildo Trading Limited	Cyprus	25	25
Pharmstandard-Medtechnika LLC	Russian Federation	25	25
Cellthera Pharm LLC	Russian Federation	25	25
MasterPlazma LLC	Russian Federation	48	–

(All amounts are in thousands of Russian rubles unless otherwise indicated)

31. Material partly-owned subsidiaries (continued)

The summarized financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations:

Summarized statement of profit or loss for 2015	**Pharmstandard-Tomskhimpharm OJSC**	**Other**
Revenue	2,422,508	3,530,696
Cost of sales	(1,742,814)	(2,101,134)
Selling and distribution costs	(485,892)	(475,419)
Administrative expenses	(135,331)	(460,536)
Other income (expense), net	416,350	(6,135)
Financial income (expense), net	3,388	53,968
Profit before income tax	**478,209**	**541,440**
Income tax	(96,862)	(99,826)
Profit for the year	**381,347**	**441,614**
Attributable to non-controlling interests	34,321	147,313

Summarized statement of profit or loss for 2014	**Pharmstandard-Tomskhimpharm OJSC**	**Other**
Revenue	3,129,735	2,607,780
Cost of sales	(1,949,704)	(1,180,736)
Selling and distribution costs	(693,541)	(379,799)
Administrative expenses	(121,758)	(378,162)
Other income (expense), net	85,289	(312,407)
Financial income (expense), net	–	(3,777)
Profit before income tax	**450,021**	**352,899**
Income tax	(93,163)	(123,622)
Profit for the year	**356,858**	**229,277**
Attributable to non-controlling interests	32,117	222,112

Summarized statement of financial position as at 31 December 2015	**Pharmstandard-Tomskhimpharm OJSC**	**Other**
Inventories, receivables, cash and short-term deposits and other current assets	3,710,925	3,373,824
Property, plant and equipment, intangible assets and other non-current financial assets	479,590	2,450,300
Trade, other payables and other current liabilities	(277,348)	(2,747,249)
Deferred tax liabilities and other non-current liabilities	(27,173)	(282,168)
Total equity	**3,885,994**	**2,794,707**
Attributable to:		
Non-controlling interests	349,739	1,414,816

(All amounts are in thousands of Russian rubles unless otherwise indicated)

31. Material partly-owned subsidiaries (continued)

Summarized statement of financial position as at 31 December 2014	**Pharmstandard-Tomskhimpharm OJSC**	**Other**
Inventories, receivables, cash and short-term deposits and other current assets	3,326,916	2,693,010
Property, plant and equipment, intangible assets and other non-current financial assets	465,401	2,379,916
Trade, other payables and other current liabilities	(263,959)	(2,169,288)
Deferred tax liabilities and other non-current liabilities	(23,710)	(419,456)
Total equity	**3,504,648**	**2,484,182**
Attributable to:		
Non-controlling interests	315,418	1,330,529

Dividends paid by a subsidiary

In 2015, Bigpearl Trading Limited (Cyprus), a Company's subsidiary, paid non-controlling shareholders dividends of RR 46,719 (2014: RR 32,269).

32. Events after the reporting period

In July 2015, the Group provided an unsecured guaranty maturing on 31 March 2016 for third parties to secure their obligations under state contracts signed by these parties. As at the date of these financial statements, the guaranty was ceased (Note 29).

In December 2015, the Company provided to third parties EUR-denominated deposits placed with the related bank as collateral under bank guaranties for a total amount of RR 996,215 with regard to projects of potential future interest for the Group. In February 2016, the collateral agreements were early terminated (Notes 9, 14 and 29).

On 14 March 2016, Pharmstandard International S.A. acquired additional ordinary shares in Argos Therapeutics Inc. (Note 7.1) for cash consideration of US$ 9,720 thousand (RR 683,381). Therefore the Group controls 30.67% of Argos shares after this acquisition. Argos Therapeutics Inc. is a US biopharmaceutical company focused on the development and commercialization of fully personalized immunotherapies for the treatment of cancer and infectious diseases based on its Arcelis™ technology platform.

On 24 March 2016, Pharmstandard International S.A. acquired additional preferred shares in Protagonist Therapeutics Inc. (Note 16) for cash consideration of US$ 843 thousand (RR 57,071). Therefore the Group controls 7.22% of Protagonist shares after this acquisition. Protagonist Therapeutics Inc. is a US company engaged in development of the peptide technology mainly used for the treatment of bowel diseases.

In April 2016 the Company concluded agreement on the restructuring of the short-term loan issued to a third party due to the continuing interest in future economic benefits from the respective project. The maturity of the loan was extended until July 2018 (Note 15). The Company evaluates the recoverability of the loan in accordance with the approved repayment schedule.