

Consolidated financial statements of
PJSC "Pharmstandard" and its subsidiaries
for the year ended 31 December 2016

with Independent auditor's report

**Consolidated financial statements of
PJSC “Pharmstandard” and its subsidiaries**

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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", which comprise the consolidated statement of financial position as at 31 December 2016, and the 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. 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.



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улучшаем мир

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.

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 2016, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

A.B. Khorovitch
Partner
Ernst & Young LLC

25 April 2017

Details of the audited entity

Name: PJSC "Pharmstandard"

Record made in the State Register of Legal Entities on 5 May 2006, State Registration Number 02N#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-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

PJSC "Pharmstandard"
Consolidated statement of financial position
as at 31 December 2016
(in thousands of Russian rubles)

	Notes	2016	2015
Assets			
Non-current assets			
Property, plant and equipment	10	12,258,096	10,818,849
Intangible assets	11	2,874,966	3,554,506
Long-term financial assets	2, 16	8,608,184	4,824,042
Investments in associates and joint venture	6, 7	6,170,395	6,230,297
Deferred tax asset	28	600,905	721,657
		30,512,546	26,149,351
Current assets			
Inventories	12	12,881,951	10,200,182
Trade and other receivables	2, 13	17,279,573	16,346,568
VAT recoverable		217,762	143,515
Prepayments		571,938	618,548
Short-term financial assets	2, 15	15,342,354	14,598,049
Income tax prepayments		316,868	168,163
Cash and short term deposits	2, 14	17,386,578	14,397,241
		63,997,024	56,472,266
Total assets		94,509,570	82,621,617
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		721,573	954,051
Revaluation reserve for investments available for sale		167,462	515,608
Retained earnings		60,398,262	52,157,943
		61,323,653	53,663,958
Non-controlling interests		1,471,969	1,764,555
Total equity		62,795,622	55,428,513
Non-current liabilities			
Deferred tax liability	28	342,142	315,268
Other non-current liabilities	20	101,775	84,813
		443,917	400,081
Current liabilities			
Trade and other payables	2, 19	26,270,389	20,970,110
Short-term borrowings and loans	2, 17	4,070,794	4,089,436
Income tax payable		341,283	375,169
Taxes payable other than income tax	18	587,565	1,358,308
		31,270,031	26,793,023
Total liabilities		31,713,948	27,193,104
Total equity and liabilities		94,509,570	82,621,617

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

22 April 2017

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 2016
(in thousands of Russian rubles)

	Notes	2016	2015
Revenue	22	61,786,424	47,194,938
Cost of sales	23	(40,332,965)	(29,397,598)
Gross profit		21,453,459	17,797,340
Selling and distribution costs	24	(2,694,180)	(2,534,272)
General and administrative expenses	25	(3,243,775)	(2,687,072)
Operating profit		15,515,504	12,575,996
Other income	26	1,836,451	7,185,802
Other expenses	27	(6,488,169)	(2,191,341)
Interest income		1,565,452	945,840
Interest expense		(467,173)	(466,942)
Share in loss of a joint venture and associates, net	6, 7	(1,209,306)	(371,479)
Profit before income tax		10,752,759	17,677,876
Income tax expense	28	(2,750,482)	(3,746,776)
Profit for the year		8,002,277	13,931,100
Other comprehensive income			
<i>To be reclassified to profit or loss in subsequent periods</i>			
Exchange differences on translation of foreign operations		(219,301)	208,136
Revaluation of investments available for sale		(371,375)	515,608
Income tax effect		23,229	-
Total other comprehensive (loss)/income		(567,447)	723,744
Total comprehensive income for the year, net of tax		7,434,830	14,654,844
Profit for the year			
<i>Attributable to:</i>			
Equity holders of the parent		8,234,961	13,749,466
Non-controlling interests		(232,684)	181,634
Total comprehensive income for the year, net of tax		8,002,277	13,931,100
<i>Attributable to:</i>			
Equity holders of the parent		7,654,337	14,489,565
Non-controlling interests		(219,507)	165,279
		7,434,830	14,654,844
Earnings per share (in Russian rubles)			
- basic and diluted, based on profit for the year attributable to equity holders of the parent	21	226.51	378.20

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

22 April 2017



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

PJSC “Pharmstandard”

Consolidated cash flow statement
for the year ended 31 December 2016
(in thousands of Russian rubles)

	Notes	2015	2014
Cash flows from operating activities			
Profit before income tax		10,752,759	17,677,876
<i>Adjustments for:</i>			
	23, 24, 25,		
Depreciation and amortization	27	1,295,469	1,098,966
Charge of impairment – accounts receivable, net	13	161,438	761,963
Write-down of inventories to net realizable value, net	12	273,602	138,382
(Reversal)/charge of impairment – property, plant and equipment	10, 26, 27	(55,233)	120,327
Impairment of intangible assets and write-off of unsuccessful R&D projects	27	939,387	–
(Reversal)/charge of impairment – loans issued, net	26, 27	(1,013,039)	1,067,538
Loss on write-off of inventories		62,281	82,095
Gain on disposal of property, plant and equipment	10, 26	(22,212)	(64,967)
Share in loss of a joint venture and associates		1,209,306	371,479
Unrealized foreign exchange differences		2,041,870	(3,396,960)
Gain from transactions with promissory notes	26	(20,329)	(10,639)
Income from restructuring of accounts payable	26	–	(1,712,681)
Interest income		(1,565,452)	(945,840)
Interest expense		467,173	466,942
Operating cash flows before working capital changes		14,527,020	15,654,481
(Increase)/decrease in trade and other receivables	13	(1,140,535)	997,366
Increase in inventories	12	(3,017,652)	(3,358,793)
Increase in VAT recoverable		(74,247)	(27,211)
Decrease/(increase) in prepayments		46,610	(299,261)
Increase in trade and other payables	19	5,488,828	6,881,580
(Decrease)/increase in taxes payable other than income tax	18	(770,743)	702,683
Cash generated from operations		15,059,281	20,550,845
Income tax paid	28	(2,785,446)	(4,880,527)
Interest paid		(475,740)	(464,707)
Interest received		451,115	419,577
Net cash from operating activities		12,249,209	15,625,188
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(2,866,599)	(2,312,247)
Payments related to R&D projects	11	(491,970)	(603,260)
Cash paid for acquisition of share in associates	6, 7	(2,604,292)	(112,926)
Cash received from sale of property, plant and equipment		299,312	153,820
Cash received from return of deposits		386,936	1,053,656
Cash paid for investments available for sale		(6,138,428)	(678,017)
Cash received from return of short-term loans issued to third parties		2,377,277	1,297,669
Short-term bank deposits placed		(471,411)	(200,000)
Short-term bank deposits placed with the related bank		–	(952,198)
Loans issued to third parties		(2,358,399)	(1,849,980)
Loans issued to related parties		(838,818)	(4,674,782)
Loans repaid by related parties		971,063	72,000
Cash paid for purchase of promissory notes from related bank		–	(2,489,169)
Cash received from transactions with promissory notes		2,565,221	1,399,416
Net cash used in investing activities		(9,170,108)	(9,896,018)
Cash flows from financing activities			
Proceeds from borrowings and loans	17	4,000,001	4,083,151
Repayment of borrowings and loans	17	(4,018,262)	(4,001,300)
Dividends paid by a subsidiary to non-controlling shareholders	31	(67,721)	(46,719)
Net cash (used in)/from financing activities		(85,982)	35,132
Net increase in cash and cash equivalents		2,993,119	5,764,302
Net foreign exchange differences		(3,782)	91,391
Cash and cash equivalents at the beginning of the year	14	14,397,241	8,541,548
Cash and cash equivalents at the end of the year	2, 14	17,386,578	14,397,241

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 2016
(in thousands of Russian rubles)

	Equity attributable to equity holders of the parent							Total equity
	Share capital	Treasury shares	Foreign currency translation reserve	Revaluation reserve for investments available for sale	Retained earnings	Total	Non-controlling interests	
Balance at 1 January 2015	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
Profit for the year	–	–	–	–	8,234,961	8,234,961	(232,684)	8,002,277
Other comprehensive loss for the year	–	–	(232,478)	(348,146)	–	(580,624)	13,177	(567,447)
Total comprehensive income for the year	–	–	(232,478)	(348,146)	8,234,961	7,654,337	(219,507)	7,434,830
Change in ownership structure within the Group (Note 1)	–	–	–	–	5,358	5,358	(5,358)	–
Dividends paid by a subsidiary (Note 31)	–	–	–	–	–	–	(67,721)	(67,721)
Balance at 31 December 2016	37,793	(1,437)	721,573	167,462	60,398,262	61,323,653	1,471,969	62,795,622

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

PJSC “Pharmstandard”

Notes to the consolidated financial statement

for the year ended 31 December 2016

(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 were publicly traded. In 2016, Augment Investments Limited acquired 100% of the Company’s shares, and subsequently on 29 November 2016 the global depository receipts of PJSC “Pharmstandard” were excluded from the quotation list of the London Stock Exchange and trading in shares on the Moscow Stock Exchange was suspended. On 30 January 2017, the Company’s shareholders decided to delist shares and terminate the public status of PJSC “Pharmstandard”. In accordance with this decision the shares of PJSC “Pharmstandard” were excluded from the list of securities admitted to organized trading on the Moscow Stock Exchange starting 24 March 2017 (Note 32). 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 in Russian Federation) and Kharkov (Ukraine). The Company holds interest in the following subsidiaries, associates and joint ventures as at 31 December 2016 and 2015:

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 (c)	Cyprus	Intermediary holding company	50.005	50.005
9. Pharmapark LLC (c)	Russian Federation	Manufacturing of pharmaceutical products	50.005	50.005
10. Biomed named after I.I. Mechnikov JSC (c)	Russian Federation	Manufacturing of pharmaceutical products	49.845	49.845
11. Pharmatsevticheskiye innovatsii OJSC (c)	Russian Federation	Asset holder	50.005	50.005
12. EKK OJSC (c)	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-Medtehnika 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	52	100
19. MasterPlazma LLC	Russian Federation	Manufacturing of pharmaceutical products	52	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	32.10	27.65
22. Biocad Holdings Limited	Cyprus	Research, development and manufacturing of pharmaceutical products	20	20
23. Barskiy Lug LLC (d)	Russian federation	letting of business premises	49	-

(a) The Group’s share increased due to purchase of additional emission of shares (Note 7.1).

(b) In 2016 the share changed due to changes in group structure. In 2017, the Group decided to merge Pharmstandard – Plasma LLC with MasterPlasma LLC.

(c) 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.

(d) On 5 February 2016, the Group purchased share in Barskiy Lug LLC. Assets, liabilities and activities of this company are insignificant for the Group.

These consolidated financial statements were authorized for issue by the Board of Directors of PJSC “Pharmstandard” on 22 April 2017.

PJSC “Pharmstandard”

Notes to the consolidated financial statements (continued)

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

2. Basis of preparation of the financial statements

To ensure consistency with the presentation of data in the consolidated statement of financial position for the year ended 31 December 2016, comparative information for the year ended 31 December 2015 was appropriately reclassified.

Adjustments are detailed below:

	<u>Before adjustments</u>	<u>Adjustments</u>	<u>After adjustments</u>
Assets			
Non-current assets			
Long-term financial assets	4,686,936	137,106	4,824,042
Current assets			
Trade and other receivables	17,187,541	(840,973)	16,346,568
Short-term financial assets	13,902,848	695,201	14,598,049
Cash and short term deposits	14,388,575	8,666	14,397,241
Liabilities			
Current liabilities			
Trade and other payables	20,975,024	(4,914)	20,970,110
Short-term borrowings and loans	4,084,522	4,914	4,089,436

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.

PJSC “Pharmstandard”

Notes to the consolidated financial statements (continued)

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

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 2016. They did not have a significant impact on the Group's annual consolidated financial statements:

- ▶ *Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests* - amendments to IFRS 11 require that a joint operator should account for the acquisition of an interest in a joint operation that constitutes a business in accordance with the principles of IFRS 3 *Business Combinations*. 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 if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.
- ▶ *Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation* - the amendments clarify the revenue-based depreciation method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.
- ▶ *The amendments to IAS 1 Presentation of Financial Statements* – the amendments clarify, rather than significantly change, the existing IAS 1 requirements.
- ▶ *Amendments to IFRS 14 Regulatory Deferral Accounts*.
- ▶ *Amendments to IAS 27: Equity Method in Separate Financial Statements*
- ▶ *Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception*.
- ▶ *Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants*.
- ▶ *Annual Improvements 2012-2014 Cycle*.

The Group did not early apply the standards, clarifications or amendments issued but not yet effective.

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

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective. The Group is currently evaluating the impact of following standards and amendments on the consolidated financial statements.

PJSC “Pharmstandard”

Notes to the consolidated financial statements (continued)

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

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 effective for annual periods beginning on or after 1 January 2017 with early application permitted:

- ▶ *Amendments to IAS 7 Disclosure Initiative*

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.
- ▶ *Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments clarify that unrealised losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes can give rise to deductible temporary differences.
- ▶ *Annual Improvements 2014-2016 Cycle*
 - ▶ Improvement of IFRS 12.

Amendments effective for annual periods beginning on or after 1 January 2018 with early application permitted:

- ▶ *IFRS 9 Financial Instruments*

The standard will replace IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory.
- ▶ *IFRS 15 Revenue from Contracts with Customers*

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. The Group plans to adopt the new standard on the required effective date using the full retrospective method. The Group analyses existing contracts under new requirements and evaluates the impact of the new standard of the consolidated financial statements.
- ▶ *IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the asset or liability related to advance consideration in foreign currency, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration.
- ▶ *Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions*

Amendments address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

PJSC “Pharmstandard”

Notes to the consolidated financial statements (continued)

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

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 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018.

▶ *Amendments to IAS 40 Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into or out of investment property.

▶ *Annual Improvements 2014-2016 Cycle*

- ▶ Improvement of IFRS 1;
- ▶ Improvement of IAS 28.

Amendments effective for annual periods beginning on or after 1 January 2019 with early application permitted:

▶ *IFRS 16 Lease*

IFRS 16 will supersede all current lease recognition requirements under IFRS and sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. New standard substantially differs from the existing IFRS requirements.

▶ *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* – the effective date has been deferred indefinitely.

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.

PJSC “Pharmstandard”

Notes to the consolidated financial statements (continued)

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

4.1 Basis of consolidation (continued)

Subsidiaries (continued)

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.

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.

PJSC “Pharmstandard”

Notes to the consolidated financial statements (continued)

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

4.2 Cash and short-term deposits

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on 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:

	<u>Number of years</u>
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.

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Notes to the consolidated financial statements (continued)

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

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;

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Notes to the consolidated financial statements (continued)

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

4.7 Intangible assets other than goodwill (continued)

- 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
- f) 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.

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.

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Notes to the consolidated financial statements (continued)

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

4.8 Investments and other financial assets (continued)

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. 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.

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.

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Notes to the consolidated financial statements (continued)

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

4.8 Investments and other financial assets (continued)

Impairment of financial assets (continued)

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.

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Notes to the consolidated financial statements (continued)

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

4.10 Income taxes (continued)

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.

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Notes to the consolidated financial statements (continued)

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

4.13 Provisions (continued)

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 2016, under provision of the Russian legislation, the Group paid social contributions (“SC”) to 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 796 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 718 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%.

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Notes to the consolidated financial statements (continued)

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

4.16 Employee benefits (continued)

The Group’s SC are expensed in the year to which they relate.

SC accrued during the year ended 31 December 2016 amounted to RR 958,094 (2015: RR 857,129) 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 2016, the exchange rates used for the translation of foreign currency balances were 1 United States dollar = 60.66 rubles; 1 euro = 63.81 rubles; 1 Ukrainian hryvnia = 2.24 rubles (2015: 1 United States dollar = 72.88 rubles; 1 euro = 79.70 rubles; 1 Ukrainian hryvnia = 3.05 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.

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Notes to the consolidated financial statements (continued)

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

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.

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.

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Notes to the consolidated financial statements (continued)

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5. Significant accounting judgments and estimates (continued)

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 2016 is RR 1,604,692 (2015: RR 1,681,531). 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 2016, allowances for doubtful accounts receivable amounted to RR 1,134,349 (2015: RR 985,450). 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.

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 2016, 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.

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Notes to the consolidated financial statements (continued)

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

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:

	2016	2015
At 1 January	436,638	349,452
Contribution to the share capital (without change in share)	–	112,926
Group's share of loss for the year	(64,148)	(25,740)
At 31 December	372,490	436,638

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

	2016	2015
Current assets including cash and cash equivalents of RR 22,941 (2015: RR 37,413)	1,059,213	222,189
Property, plant and equipment, and other non-current assets	2,253,008	2,089,307
Current liabilities	(2,303,205)	(1,147,128)
Long-term loans and other non-current liabilities	(15,709)	–
Equity	993,307	1,164,368
Group's share as of 31 December	37.5%	37.5%
Carrying amount of the investment	372,490	436,638

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

	2016	2015
General and administrative expenses	(160,293)	(147,885)
Financial expenses, net	(136,907)	(81,832)
Other income, including income from non-core operations and rent of RR 138,979 (2015: RR 130,960)	142,605	193,341
Other expenses	(17,112)	(7,840)
Loss before income tax	(171,707)	(44,216)
Income tax benefit/(expense)	645	(24,424)
Loss and total comprehensive loss for the year	(171,062)	(68,640)
Group's share of loss and total comprehensive loss for the year	(64,148)	(25,740)

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

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Notes to the consolidated financial statements (continued)

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7. Investments in associates

7.1 Investments in Argos Therapeutics, Inc

Argos Therapeutics, Inc. (“Argos”) is a biopharmaceutical company registered in Delaware, USA, focused on the development and commercialization of fully personalized immunotherapy for the treatment of cancer and infectious diseases based on its Arcelis™ technology platform. In accordance with the share purchase agreement, the Company received the right to appoint two members to 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.

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.

In 2016, the Group purchased 7,258,730 shares from additional issue of Argos shares for cash consideration in the amount of US\$ 38,881 thousand (RR 2,588,184). As a result of purchase of shares the Group’s interest in Argos increased and resulting loss amounted to RR 283,263, including RR 20,276 accumulated foreign exchange loss reclassified to profit for the year.

Together with the shares of the additional issue, Argos distributed warrants providing the shareholder's with the right to purchase additional shares at a fixed price, as well as the possibility of cash settlement on a net basis. The effect of recognizing the obligation for warrants on the book value of the investment was RR 407,449 loss.

As of 31 December 2016, the Group’s share was 32.10% (2015: 27.65%).

Movements in the carrying amount of investments were as follows:

	2016	2015
At 1 January	724,762	1,629,895
Acquisition of shares	2,588,184	–
Group’s share of loss for the year	(1,085,986)	(1,332,834)
(Loss)/gain from changes in the Group’s share	(283,263)	184,194
Loss on recognition of warrants in Argos’s financial statements	(407,449)	–
Foreign exchange differences in other comprehensive income	(167,387)	243,509
At 31 December	1,369,146	724,764

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Notes to the consolidated financial statements (continued)

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7. Investments in associates (continued)

7.1 Investments in Argos Therapeutics, Inc (continued)

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

	2016	2015
Cash and cash equivalents	3,213,201	449,187
Other current assets	153,366	193,186
Property, plant and equipment, and other non-current assets	2,529,550	1,626,553
Current liabilities	(1,856,698)	(594,928)
Non-current liabilities	(3,665,185)	(3,729,395)
Equity/(equity deficit)	374,234	(2,055,397)
Share of the Group’s ownership as at 31 December	32.10%	27.65%
Carrying net assets/(deficit)	120,129	(568,284)
Goodwill arising from acquisition of shares of the associate	1,249,017	1,293,048
Carrying amount of investments	1,369,146	724,764

Summarized statement of comprehensive income of Argos is detailed below:

	2016	2015
Revenue	63,379	31,596
Research and development expenses	(2,567,922)	(3,782,732)
General and administrative expenses	(952,117)	(671,208)
Other expenses	(98,075)	(136,607)
Loss and total comprehensive loss for the year	(3,554,735)	(4,558,951)
The Group’s share of loss for the year	(1,085,986)	(1,332,834)
(Loss)/gain from changes in the Group’s share	(283,263)	184,194
Loss on recognition of warrants in Argos’s financial statements	(407,449)	-
Total recognized in loss for the year	(1,776,698)	(1,148,640)

7.2 Investments in Biocad Holding Limited

Biocad Holding Limited (“Biocad”) is a company registered under the law of Cyprus. It 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.

In accordance with the shareholder’s agreement, the Group obtained significant influence over strategic and operating policies of the Biocad, so it is recognized as associate applying the equity method of accounting.

As of 31 December 2016, the Group’s share in Biocad was 20% (2015: 20%).

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Notes to the consolidated financial statements (continued)

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

7. Investments in associates (continued)

7.2 Investments in Biocad Holding Limited (continued)

Movements in the carrying amount of investments were as follows:

	2016	2015
At 1 January	5,068,895	4,339,963
Group’s share of profit for the year	631,540	802,901
Effect of the pre-acquisition profit distribution (a)	-	(73,969)
Dividends	(1,190,681)	-
Forex in other comprehensive income	(80,995)	-
At 31 December	4,428,759	5,068,895

(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:

	2016	2015
Cash and cash equivalents	1,804,167	3,903,375
Other current assets	5,748,497	6,967,355
Property, plant and equipment	2,869,038	1,560,173
Intangible assets	3,362,360	4,042,122
Trade and other payables	(1,323,921)	(825,416)
Other current liabilities	(307,149)	(206,947)
Non-current liabilities	(1,531,077)	(1,618,069)
Equity	10,621,915	13,822,593
Share of the Group’s ownership	20%	20%
Carrying value of net assets	2,124,383	2,764,519
Goodwill arising from acquisition of the associate	2,304,376	2,304,376
Carrying amount of investments	4,428,759	5,068,895

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

	2016	2015
Revenue	11,724,199	9,048,736
Cost of sales	(2,103,260)	(1,096,119)
Research and development expenses	(2,302,948)	(1,081,565)
General and administrative expenses	(2,960,659)	(2,431,745)
Other expenses, net	(479,802)	171,755
Income tax expense	(719,830)	(596,557)
Profit for the period	3,157,700	4,014,505
Group’s share of profit for the period	631,540	802,901

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Notes to the consolidated financial statements (continued)

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

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.

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Notes to the consolidated financial statements (continued)

(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 2016	Production and wholesale of pharmaceutical products (Pharmaceutical products)	Production and wholesale of medical equipment	Group
Sales to external customers	59,980,202	1,806,222	61,786,424
Total revenue	59,980,202	1,806,222	61,786,424
Gross profit	21,068,473	384,986	21,453,459
Segment result	10,799,663	64,123	10,863,786
Interest income, net			1,098,279
Share in loss of a joint venture and associates, net			(1,209,306)
Profit before income tax			10,752,759
Income tax expense			(2,750,482)
Profit for the year			8,002,277
Segment assets	92,069,387	1,522,410	93,591,797
Unallocated assets			917,773
Total assets			94,509,570
Segment liabilities	26,826,016	199,738	27,025,754
Unallocated liabilities			4,688,194
Total liabilities			31,713,948
Acquisition of property, plant and equipment (Note 10)	2,911,854	25,068	2,936,922
Depreciation and amortization (Notes 10 and 11)	1,331,466	18,537	1,350,003
Reversal of impairment loss on property, plant and equipment (Note 10)	1,860	53,373	55,233
Loss from impairment of intangible assets (Note 11)	(14,895)	-	(14,895)

As at 31 December 2016, unallocated liabilities of RR 4,688,194 include loans and borrowings of RR 4,004,769, income tax payable of RR 341,283 and deferred tax liability of RR 342,142.

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Notes to the consolidated financial statements (continued)

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

8. Segment information (continued)

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	21,920,571	575,268	22,495,839
Unallocated liabilities			4,697,265
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, unallocated liabilities of RR 4,697,265 include loans and borrowings of RR 4,006,828, income tax payable of RR 375,169 and deferred tax liability of RR 315,268.

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 one customer in the Pharmaceutical products segment individually amounted to more than 10% of the Group’s total revenue in this segment:

Customer	2016	2015
Ministry of Health of the Russian Federation and its regional branches (only open public tenders)	19,037,815	13,615,890
Sales share	31%	29%

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Notes to the consolidated financial statements (continued)

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

9. Balances and transactions with related parties

Balances with related parties

	Short-term financial assets – (a), Note 15	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
2016				
Parent	10,263,282	–	–	–
Other related parties ¹	54,516	–	911,701	7,326,962
Joint venture	2,000,677	–	140,110	6,585
Total	12,318,475	–	1,051,811	7,333,547

	Short-term financial assets – (a), Note 15	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
2015				
Parent	10,904,479	–	–	–
Other related parties ¹	1,323,961	12,346,788	2,836,072	3,167,863
Joint venture	816,995	–	116,500	704
Total	13,045,435	12,346,788	2,952,572	3,168,567

- (a) This item is detailed in sub-sections “Loans provided to parent”, “Loans provided to Joint venture and other related parties” and “Promissory notes of related parties” below.
- (b) This item is primarily comprised of receivables from PJSC OTCpharm (“OTCpharm”) for sale of raw materials, finished products and contract manufacturing services, agency fee receivables from sale of certain related party products and prepayments for rent and other services.
- (c) This item primarily comprised payables to OTCpharm for sales of branded OTC medicines in accordance with the agency agreement in the amount of RR 6,233,263 as of 31 December 2016 (2015: RR 2,380,642).

¹ Other related parties represent entities under control of the Company’s parent and Parents’ shareholders.

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Notes to the consolidated financial statements (continued)

(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	2016	2015
Agency fee income (included in revenue) (A)	Other related parties	1,736,084	1,177,419
Contract manufacturing revenue from OTCpharm and Biocad (included in revenue) (B)	Other related parties	3,439,780	2,437,685
Revenue from sale of active pharmaceutical ingredients to OTCpharm (included in revenue) (C)	Other related parties	1,792,149	877,481
Revenue from sale of finished products to OTCpharm (included in revenue) (C)	Other related parties	407,514	56,131
Revenue from sale of third-parties products (included in revenue)	Associate and other related parties	4,438	34,401
Revenue from sale of third-parties products to OTCpharm (included in revenue) (C)	Other related parties	-	183,023
Interest income from deposits placed with the related bank	Other related parties	-	10,604
Interest income from loans provided to the parent and other related parties	Parent and other related parties	776,063	603,372
License fees (included in selling and distribution cost)	Other related parties	(34)	(1,429)
Warehouse rental expenses (included in selling and distribution cost)	Other related parties	(5,584)	(65,992)
Office rental expenses (included in general and administrative expenses)	Other related parties	(27,475)	(140,455)
Cost of sales (D)	Other related parties	(2,245,347)	(213,112)
Consulting on venture investments (included in general and administrative expenses) (E)	Other related parties	(90,515)	(97,908)
Other income (F)	Other related parties	180,525	658,280
Other expenses	Other related parties	(10,285)	(11,246)
Advertising	Other related parties	-	(8,157)
Research and development expenditures	Other related parties	(35,864)	(4,708)
Purchase of promissory notes from the related bank (H)	Other related parties	-	5,063,068
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	104,745	39,962
Income from sale of R&D	Other related parties	36,835	-
Purchase of R&D	Other related parties	(13,129)	(14,222)

PJSC “Pharmstandard”

Notes to the consolidated financial statements (continued)

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

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.

(B) Contract manufacturing revenue

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

(C) Revenue from sales to OTCpharm

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 2,245,347 (2015: RR 213,112) comprises the cost of the above medicines of RR 1,365,340 (2015: RR 195,862), 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 2016, outstanding inventories of these products amounted to RR 146,424 (31 December 2015: RR 62,278).

(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.

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Notes to the consolidated financial statements (continued)

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

9. Balances and transactions with related parties (continued)

Significant transactions with related parties (continued)

(G) Purchase of promissory notes

Beginning 1 January 2016, related bank stopped being related to the Group. So the Group accounts for sales and payments of promissory notes held as of 31 December 2015 as transactions with third parties.

In 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. As at 31 December 2015, the Group recognized the promissory notes as cash and short-term deposits. Further, the Group sold them in January 2016 and recognized income from sale in the amount of RR 20,329.

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

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 786,698. 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).

Loans issued to the parent

In 2015 and 2016, 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 2016, the outstanding amount of unsecured short-term loans issued to Augment amounted to US\$ 169,202 thousand (RR 10,263,282) including interest payable in amount US\$ 14,482 thousand (RR 878,447) and bearing interest of 5% to 6.19% p.a. (LIBOR + 4.5%) (2015: US\$ 151,224 thousand (RR 10,904,479) including interest payable US\$ 9,624 thousand (RR 584,289); interest rate of 4% to 5.25% p.a.). Loans are unsecured.

In 2016, the Company’s parent has repaid part of loans in total amount of US\$ 10,000 thousand (RR 733,596). All other loans’ maturity dates were extended until 2017.

In 2016 the Group has issued new loans in total amount of US\$ 23,120 thousand (RR 1,736,199). The maturity date is 2017.

Loans issued to associate and other related parties

In 2015 and 2016, the Company issued to a joint venture several unsecured short-term loans in Rubles bearing interest of 12% to 15% p.a. In 2016, joint venture has repaid part of the loan in the amount of RR 75,000. The remaining loans were extended until 2017.

In 2016, the Company issued loans of RR 1,070,300 bearing an interest of 12% to 15% p.a. The maturity date is in 2017.

PJSC “Pharmstandard”

Notes to the consolidated financial statements (continued)

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

9. Balances and transactions with related parties (continued)

Loans issued to associate and other related parties (continued)

As of 31 December 2016 outstanding amount of unsecured short-term loans to joint venture was RR 2,000,677, including interest in amount RR 246,527.

As of 31 December 2016 outstanding amount of unsecured short-term loans to other related party was RR 111,972, including interest in amount RR 11,972, and interest rate was 10% p.a. In 2016, the other related party ceased to meet the criteria of affiliation with the Group.

In 2016, the Company issued loans to other related party in the amount of RR 109,015, including interest accrued RR 11,515, with an interest rate of 13% p.a. In 2016 an impairment allowance was accrued for one of the loans in the total amount of RR 54,499 due to the poor financial position of the borrower. As of December 31, 2016, the outstanding amount of an unsecured short-term loan, net of a provision, was RR 54,516, including interest payable RR 5,766.

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 than 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 1,211,989 were recorded as short-term financial assets.

Compensation to key management personnel

For the year ended 31 December 2016, total compensation to key management personnel amounted to RR 112,729 (2015: RR 71,551). Such compensation represents payroll and bonuses included in general and administrative expenses.

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Notes to the consolidated financial statements (continued)

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

10. Property, plant and equipment

Property, plant and equipment consist of the following:

	Land	Buildings	Plant and machinery	Equipment, motor vehicles and other	Assets under construction	Total
Balance at 31 December 2016						
Cost						
Balance at 1 January 2016	451,720	5,475,863	7,170,967	1,082,146	2,072,289	16,252,985
Additions	8,152	100,115	106,117	193,364	2,529,174	2,936,922
Transfers	-	488,628	835,987	55,951	(1,380,566)	-
Disposals	(14)	(5,046)	(147,103)	(78,510)	(191,954)	(422,627)
Foreign exchange differences	-	(41,336)	(57,748)	(4,869)	(28,208)	(132,161)
Balance at 31 December 2016	459,858	6,018,224	7,908,220	1,248,082	3,000,735	18,635,119
Accumulated depreciation and impairment						
Balance at 1 January 2016	-	1,042,603	3,793,440	471,753	126,340	5,434,136
Depreciation charge	-	172,991	818,047	203,683	-	1,194,721
Disposals	-	(1,255)	(89,159)	(55,113)	-	(145,527)
Impairment charge, net (Notes 26, 27)	-	30,155	(52,703)	(40)	(32,645)	(55,233)
Foreign exchange differences	-	(10,253)	(26,169)	(2,863)	(11,789)	(51,074)
Balance at 31 December 2016	-	1,234,241	4,443,456	617,420	81,906	6,377,023
Net book value						
Balance at 1 January 2016	451,720	4,433,260	3,377,527	610,393	1,945,949	10,818,849
Balance at 31 December 2016	459,858	4,783,983	3,464,764	630,662	2,918,829	12,258,096
Balance at 31 December 2015						
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

In 2016, the Group accrued an allowance for impairment of property, plant and equipment due to their conservation and uncertain plans for the further use, and also reversed allowance accrued in prior periods for objects being in use in 2016.

In 2016 and 2015, the Group did not receive any loans for capital construction and had no new qualifying assets, therefore no borrowing costs were capitalized.

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Notes to the consolidated financial statements (continued)

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

10. Property, plant and equipment (continued)

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 2016 was RR 35,521 (2015: RR 32,182). Such payments are reassessed by the state authorities on an annual basis. No such reassessment has been completed for 2017 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 159,336 as at 31 December 2016 (2015: RR 194,766). Income from operating lease in the amount of RR 139,947 is recognized as other income (2015: RR 128,261) (Notes 9 and 26).

11. Intangible assets

31 December 2016	Goodwill	Trademarks, patents and licenses	Development costs	Total
Cost				
Balance at 1 January 2016	1,681,531	1,478,483	816,582	3,976,596
Additions	-	-	491,968	491,968
Disposals (Note 27)	-	-	(924,492)	(924,492)
Foreign exchange differences	(76,839)	-	-	(76,839)
Balance at 31 December 2016	1,604,692	1,478,483	384,058	3,467,233
Accumulated amortization and impairment				
Balance at 1 January 2016	-	422,090	-	422,090
Amortization	-	155,282	-	155,282
Impairment (Note 27)	-	14,895	-	14,895
Balance at 31 December 2016	-	592,267	-	592,267
Net book value				
Balance at 1 January 2016	1,681,531	1,056,393	816,582	3,554,506
Balance at 31 December 2016	1,604,692	886,216	384,058	2,874,966

PJSC “Pharmstandard”

Notes to the consolidated financial statements (continued)

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

11. Intangible assets (continued)

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	-	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

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

Name	Carrying amount		Remaining amortization period (years)	
	2016	2015	2016	2015
Sirturo®	614,210	690,987	7	8
Epostim®	105,247	124,383	6	7
Pegaltevir®	61,823	105,487	3	4

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 (Medical equipment).

Carrying amount of goodwill allocated to each cash generating unit:

	Pharmaceutical products		Equipment		Total	
	2016	2015	2016	2015	2016	2015
Carrying amount of goodwill	1,385,838	1,462,677	218,854	218,854	1,604,692	1,681,531

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.

PJSC “Pharmstandard”

Notes to the consolidated financial statements (continued)

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

11. Intangible assets (continued)

Impairment testing of goodwill (continued)

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 1.4%); 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 12.78% (2015: 9.19%).

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.

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.

PJSC “Pharmstandard”

Notes to the consolidated financial statements (continued)

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

12. Inventories

Inventories consist of the following:

	2016	2015
Raw materials – at cost	3,155,998	3,187,204
Work in progress – at cost	1,824,281	936,366
Finished products – at net realizable value	7,901,672	6,076,612
	12,881,951	10,200,182

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

	2016	2015
Balance at 1 January	175,489	136,209
Additional write-downs	303,961	154,699
Unused amounts reversed	(30,359)	(16,317)
Utilized during the year	(47,015)	(100,843)
Foreign exchange differences	(2,650)	1,741
Balance at 31 December	399,426	175,489

13. Trade and other receivables

	2016	2015
Trade receivables (net of allowance for impairment of RR 1,134,349 (2015: RR 985,450))	16,242,844	13,468,997
Trade receivables – related parties (Note 9)	913,832	2,516,872
Other receivables – related parties (Note 9) (a)	122,897	360,699
	17,279,573	16,346,568

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

As at 31 December 2016, RR 838,287 of trade and other receivables were denominated in currencies other than Russian ruble (primarily in US dollars) (2015: RR 2,682,171).

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

	2016	2015
Balance at 1 January	985,450	225,186
Additional allowance	687,803	890,950
Unused amounts reversed	(526,365)	(128,987)
Utilized during the year	(6,472)	(1,146)
Foreign exchange differences	(6,067)	(553)
Balance at 31 December	1,134,349	985,450

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Notes to the consolidated financial statements (continued)

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14. Cash and short term deposits

Cash and short-term deposits consist of the following:

	2016	2015
Cash in bank – Russian rubles	9,902,149	2,052,124
Cash in bank – US dollars and euro	6,705,949	2,953,997
Cash at bank – Ukrainian hryvnia	5,338	1,285
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)	418,162	553,808
Short-term bank deposits – US dollars and euro (a)	121,544	1,039,615
Short-term bank deposits placed with the related bank, provided as collateral – euro (c) (Note 9)	–	996,226
Short-term bank deposits – Ukrainian hryvnia	84,373	72,624
Short-term bank deposits placed with the related bank – Russian ruble (a) (Note 9)	–	2,604,700
Short-term bank deposits placed with the related bank – US dollars (a) (Note 9)	–	1,513,741
Short-term deposits to secure participation in open public tenders – Russian rubles (b)	149,063	129,453
	17,386,578	14,397,241

- (a) Deposits denominated in Russian rubles bear interest rates of 7.62% to 8.47% p.a. (2015: 6.5% to 10.65% p.a.). Deposits denominated in US dollars and euro bear interest rates of 0.79% p.a. (2015: 0.2% to 1.17% 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.

In 2015 substantially all cash and short-term deposits of the Group were placed in the related bank (Note 9). Cash balances with the related bank carry no interest. Since 1 January 2016, this bank has ceased to be related.

15. Short-term financial assets

	2016	2015
Short-term loans and deposits		
Short-term loan issued to the parent – US dollars (Note 9)	10,263,282	10,904,479
Short-term loans issued to third parties – Russian rubles (a)	253,376	–
Short-term loans issued to third parties – US dollars (b)	2,463,058	1,067,538
Promissory notes – Russian rubles	–	1,337,136
Promissory notes in the related bank – US dollars (Note 9)	–	1,211,989
Short-term loans issued to related parties – Russian rubles (Note 9)	2,109,692	928,967
Short-term bank deposits – US dollars	286,692	–
Short-term bank deposits – Russian rubles	–	202,217
Allowance for impairment of loans issued to third parties (b)	–	(1,067,538)
Allowance for impairment of loans issued to related parties (Note 9)	(54,499)	–
Investments available for sale		
Securities and other	20,753	13,261
	15,342,354	14,598,049

- (a) In 2016, the Company provided unsecured short-term loans to third parties with maturity in 2017 and fixed interest rate of 10.00% to 13.00% p.a (2015: 6.5% to 18% p.a.).

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Notes to the consolidated financial statements (continued)

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

15. Short-term financial assets (continued)

- (b) In 2015, the Company provided secured loan bearing fixed interest rate of 9% p.a. to a third-party to finance certain projects that were of potential interest to the Group in the future. In 2015, due to a violation of the loan repayment schedule, the Group accrued bad debt allowance in the amount of RR 1,067,538 for the loan and interest receivable. In April 2016, this loan was restructured and partially reclassified to long-term financial assets in the amount of RR 664,125 according to a new debt repayment schedule. Bad debt allowance was released because the borrower complied with the payment schedule (Note 26).

In addition, in 2014-2015 the Company provided to another third-party unsecured long-term loans maturing on 31 December 2017 and bearing fixed interest rate of 9% p.a. to finance certain investment project of potential interest to the Group in the future, and loan repayment is secured with the future economic benefits from this project, estimated by the management of the Group on the basis of relevant long-term business plans. In 2016, this loan was reclassified to short-term financial assets in the amount of RR 2,180,654 in accordance with its maturity.

16. Long-term financial assets

	2016	2015
Long-term loans and deposits		
Long-term loans issued to third party – Russian rubles (a)	–	38,100
Long-term loan issued to third party – US dollars (Note 15b)	664,125	2,180,654
Other long-term assets	10,816	8,076
Investments available for sale		
Quoted equity shares	6,096,337	1,317,317
Unquoted equity shares	1,836,906	1,279,895
	8,608,184	4,824,042

- (a) On 9 June 2014 the Company issued unsecured long-term loan to third party with fixed interest rate of 15% p.a. The loan was closed before maturity as of 31 December 2016.

As at 31 December 2016, financial investments available for sale include the following quoted equity shares:

(i) RR 1,315,202 (2015: RR 343,291) investments in preferred (further converted into ordinary) and ordinary shares of Protagonist Therapeutics, Inc. (“Protagonist”) registered in the USA, Delaware. Protagonist is developing orally stable peptides and peptidomimetics for treatment of metabolic and inflammatory bowel diseases. Since 2016, Protagonist shares have been listed on NASDAQ, the fair value of investments in Protagonist is determined on the basis of published quotations of prices in the active market. The increase in the cost of investments for the 12 months of 2016 is reflected in the revaluation reserve for available-for-sale instruments and is reflected in other comprehensive income in the amount of RR 793,300 (net of disposal of the reserve for revaluation of investments in connection with the sale of a portion of shares reflected in other comprehensive income in the amount of RR 89,360)

(ii) RR 1,134,304 (2015: RR 1,317,317) investments in preferred (further converted into ordinary) and ordinary shares of Proteon Therapeutics, Inc. (“Proteon”) registered in the USA, Delaware. Proteon is a biopharmaceutical company developing novel, first-in-class pharmaceuticals to improve the patency and functional lifetime of arteriovenous fistula 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. The decrease in the cost of investments for the 12 months of 2016 is reflected in other comprehensive income in the amount of RR 1,048,530.

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Notes to the consolidated financial statements (continued)

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

16. Long-term financial assets (continued)

(iii) RR 4,646,831 investments in ordinary shares of related party PJSC OTCpharm located in Moscow, Russian Federation. OTCpharm is the largest company in the Russian pharmaceutical market of OTC products. The main activity of OTCpharm and its subsidiaries is the production, marketing and promotion, distribution of pharmaceutical products. Shares of OTCpharm are listed on the Moscow Stock Exchange, the fair value of investments in OTCpharm is determined based on published quotes in the active market. The decrease in the cost of investments for the 12 months of 2016 is reflected in the revaluation reserve for available-for-sale instruments in the amount of RR 116,145 (effect of income tax amounted RR 23,229.)

As at 31 December 2016, financial investments available for sale include following unquoted equity shares:

(i) RR 429,488 (2015: RR 516,054) investments in preferred shares of Allena Pharmaceuticals (“Allena”) registered in the USA, Delaware. Allena is a company developing and commercializing non-systemic protein therapeutics to treat metabolic and orphan diseases, including hyperoxaluria and kidney stones.

(ii) RR 46,719 (2015: 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.

(iii) RR 303,284 (2015: RR 364,414) investments in preferred (further converted into ordinary) and ordinary shares of Jounce Therapeutics Inc (“Jounce”), registered in the USA, Delaware. Jounce is working on creation of cancer treatment mechanisms that ensure an optimal involvement of the immune system.

(iv) RR 395,133 investments in preferred shares of TransMedics, Inc. (“TransMedics”), registered in the state of Delaware, USA. TransMedics specializes in the development of portable medical devices, the Organ Care System (OCS LUNG, OCS HEART, OCS LIVER) for improved quality, viability and utilization of organs intended for transplantation.

(v) RR 151,642 investments in preferred shares of Avelas Biosciences, Inc. (“Avelas”), registered in the state of Delaware, USA. Avelas develops peptide products cleaved by matrix metalloproteinases to form cell-penetrating peptides conjugated with fluorophore for intraoperative fluorescence diagnostics of the positive surgical edge of the tumor, as well as regional lymph nodes.

(vi) RR 60,658 investments in privileged shares of Cleome Holdings Limited, registered in the Republic of Cyprus, owning a group of companies that provide services in the field of personal and medical genetics (providing customers with access to genetic information, full genome sequencing services).

(vii) RR 424,598 investments in preferred shares of Neon Therapeutics, Inc. (hereinafter referred to as Neon), registered in the state of Delaware, USA. Neon is developing personalized neoepitope vaccines for the treatment of oncological diseases, based on tumor sequencing data and proprietary bioinformatics algorithm.

PJSC “Pharmstandard”

Notes to the consolidated financial statements (continued)

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

16. Long-term financial assets (continued)

(viii) Warrants in the amount of RR 25,384, giving the right to purchase ordinary shares of Argos Therapeutics. Inc.

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

17. Short-term borrowings and loans

	2016	2015
Short-term loan – Russian rubles (a)	4,069,261	4,087,522
Other loans	1,533	1,914
	4,070,794	4,089,436

(a) As at 31 December 2016, this item included RR 4,003,653 unsecured loan issued by Sberbank, with an interest rate of 9.87% p.a., and RR 65,608 unsecured loan with an interest rate of 7.5% p.a. (2015: RR 4,004,914, 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.).

18. Taxes payable other than income tax

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

	2016	2015
Value-added tax	422,550	1,213,297
Social taxes	98,889	87,356
Property tax	18,753	19,965
Other taxes	47,373	37,690
	587,565	1,358,308

19. Trade and other payables

	2016	2015
Trade payables	3,966,208	6,826,871
Payables for products procurement – third parties (a)	13,279,185	9,402,620
Payables for products procurement, raw materials and other payables – related parties (Note 9)	1,100,284	787,925
Issued promissory notes – US dollars and euro (b)	445,356	542,454
Payables to employees	658,342	590,034
Payables to OTCpharm (on the agency contract) – related party (Note 9)	6,233,263	2,380,642
Other payables (c)	587,751	439,564
	26,270,389	20,970,110

(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 2016, RR 1,278,455 (2015: RR 2,519,263) of trade payables were denominated in currencies other than Russian ruble, primarily in US dollars and euro.

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Notes to the consolidated financial statements (continued)

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

20. Other non-current liabilities

	2016	2015
Deferred income	91,000	69,000
Other	10,775	15,813
	101,775	84,813

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. As of 31 December 2016 and 31 December 2015, the Group's subsidiaries own 3.8% of the Company's shares, the value of these shares is presented within equity in the line treasury shares.

As at 31 December 2016 and 31 December 2015, Victor Kharitonin, a Russian citizen, was the ultimate controlling shareholder of the Group.

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:

	2016	2015
Weighted average number of ordinary shares outstanding	36,355,683	36,355,683
Profit for the year attributable to the ordinary shareholders	8,234,961	13,749,466
Basic and diluted earnings per share, Russian rubles	226.51	378.2

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Notes to the consolidated financial statements (continued)

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

22. Revenue

Revenue breakdown by product groups comprised the following:

	2016	2015
Pharmaceutical products Over the Counter (“OTC”)	5,829,140	5,093,937
Prescription		
Branded	5,926,536	5,254,168
Non-branded	1,391,009	1,311,484
	7,317,545	6,565,652
Third parties products (a)	36,221,808	26,408,120
Other – substances and APIs	3,325,074	2,882,904
Total pharmaceutical products	52,693,567	40,950,613
Contractual manufacturing (Note 9) – (b)	4,661,569	2,690,107
Agency fee income (Note 9) – (c)	2,625,066	1,979,079
Medical equipment	1,806,222	1,575,139
	61,786,424	47,194,938

- (a) 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.
- (b) Since 2014, the Group provides contract manufacturing services primarily to OTCpharm and Biocad (Note 9).
- (c) The Company holds agency contracts for distribution and sale of certain products owned by related and third parties.

23. Cost of sales

The components of cost of sales were as follows:

	2016	2015
Materials, components and other	8,913,289	7,332,715
Third parties products	27,139,167	18,256,953
Production overheads	2,586,827	2,421,604
Depreciation and amortization	1,038,981	869,272
Direct labor costs	654,701	517,054
	40,332,965	29,397,598

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Notes to the consolidated financial statements (continued)

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

24. Selling and distribution costs

Selling and distribution costs were as follows:

	2016	2015
Labor costs	1,434,092	1,339,123
Advertising	252,208	226,671
Freight, communication and insurance of goods in transit	222,444	217,450
Rent	154,338	159,205
Materials, maintenance and utilities	138,126	130,139
Trainings and other services	124,928	96,111
Certification expenses	102,211	118,611
Travel and entertainment expenses	93,712	101,136
Commission and license fees	66,287	41,174
Depreciation	50,044	56,099
Other expenses	55,790	48,553
	2,694,180	2,534,272

25. General and administrative expenses

General and administrative expenses were as follows:

	2016	2015
Labor costs	1,950,278	1,695,642
Legal, audit and advisory services	494,892	295,997
Rent	259,916	223,741
Materials, maintenance and utilities	196,613	172,503
Depreciation	140,417	109,553
Taxes other than income tax	33,746	30,972
Communication expenses	30,703	27,350
Travel and entertainment expenses	29,692	29,034
Property and other insurance	29,520	23,999
Other	77,998	78,281
	3,243,775	2,687,072

26. Other income

Other income comprised the following:

	2016	2015
Reversal of impairment – financial assets (Note 15)	1,067,538	–
Income from non-core operations (a)	196,015	234,621
Reversal of impairment – property, plant and equipment (Note 10)	86,430	29,386
Income received as penalties	35,257	12,336
Foreign exchange gain	34,022	4,630,371
Gain on disposal of property, plant and equipment	22,212	64,967
Gain from transactions with promissory notes (Note 9)	20,329	10,639
Gain from restructuring of accounts payable	–	1,380,151
Gain from write-off of accounts payable	–	332,530
Other income	374,648	490,801
	1,836,451	7,185,802

- (a) Income from non-core operations comprises of operational lease, income from sale of materials and other assets not included in other categories. In 2016 depreciation of leased-out assets was RR 66,027 (2015: RR 64,042).

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Notes to the consolidated financial statements (continued)

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

27. Other expenses

Other expenses comprised the following:

	2016	2015
Foreign exchange loss	4,710,046	307,740
Research expenses (b)	924,492	163,379
Charity	176,162	24,803
Other taxes and penalties (a)	163,593	281,958
Allowance for impairment of loans issued (Note 15)	54,499	1,067,538
Delisting expenses	41,585	–
Bank charges	41,419	42,010
Impairment of property, plant and equipment (Note 10)	31,197	149,713
Biolik expenses resulting from suspension of production	29,602	19,507
Impairment of intangible assets (Note 11)	14,895	–
Other	300,679	134,693
	6,488,169	2,191,341

- (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. In addition, in 2016, the Group decided to terminate several R&D projects (development stage), with no positive result.

28. Income tax

	2016	2015
Income tax expense – current	2,579,627	4,279,608
Deferred tax expense/(benefit) – origination and reversal of temporary differences	170,855	(532,832)
Income tax expense	2,750,482	3,746,776

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

	2016	2015
Profit before income tax	10,752,759	17,677,876
Theoretical tax charge at Russian statutory rate of 20%	2,150,552	3,535,575
Effect of the difference in tax rates in countries other than Russia	(2,072)	(364)
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%)	22,802	19,729
Effect from dividends received from associate	159,419	–
Adjustments in respect of income tax of previous years	33,551	47,053
Share of results of associates and joint venture	241,861	74,296
Deferred tax from retained earnings of associated company	54,632	–
Non-deductible expenses	89,737	47,902
Income tax expense	2,750,482	3,746,776

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Notes to the consolidated financial statements (continued)

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

28. Income tax (continued)

Movements in deferred tax balances were as follows:

	1 January 2015	Temporary differences recognition and reversal in profit and loss	31 December 2015	Temporary differences recognition and reversal in profit and loss	Temporary differences recognition and reversal in OCI	31 December 2016
Tax effects of taxable and deductible temporary differences – (liability)/asset						
Property, plant and equipment	(561,863)	30,910	(530,953)	(33,914)	–	(564,867)
Intangible assets	26,653	12,956	39,609	173,808	–	213,417
Financial assets	–	157,470	157,470	(232,178)	23,229	(51,479)
Inventories	437,003	135,596	572,599	(41,947)	–	530,652
Trade and other receivables	(84,960)	190,887	105,927	75,674	–	181,601
Trade and other payables	16,090	(9,730)	6,360	(94,533)	–	(88,173)
Other	40,634	14,743	55,377	(17,765)	–	37,612
Total net deferred tax (liability)/asset	(126,443)	532,832	406,389	(170,855)	23,229	258,763

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

	2016	2015
Deferred tax asset	600,905	721,657
Deferred tax liability	(342,142)	(315,268)
Total net deferred tax asset	258,763	406,389

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 42,780,449 as at 31 December 2016 (2015: RR 39,706,832).

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

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.

The Russian economy was negatively impacted by a significant drop in crude oil prices and sanctions imposed on Russia by several countries. Interest rates in rubles remain high. The combination of these factors has led to a reduction in the availability of capital, and an increase in its value, as well as an increase in uncertainty about further economic growth, which could adversely affect the Group's financial position, results of operations and economic prospects. Management of the Group believes that it is taking appropriate measures to maintain the Group's economic stability in the current environment.

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 – 2016 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.

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.

Certain amendments to legislation were passed in 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.

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Notes to the consolidated financial statements (continued)

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

29. Contingencies, commitments and operating risks (continued)

Taxation (continued)

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 2016, 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 2016. 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 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. The transfer pricing rules for domestic transactions apply only if the amount of all transactions with related party exceeds RR 1 billion (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.

Special transfer pricing rules apply to transactions with securities and derivatives.

In 2012-2016, 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.

PJSC “Pharmstandard”

Notes to the consolidated financial statements (continued)

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

29. Contingencies, commitments and operating risks (continued)

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 June and September 2016, the Group provided an unsecured guarantees in the amount of RR 5,397 million and RR 1,750 million respectively to a third party to secure obligations of the parent company within the process of the Company’s shares buyback. These guaranties become effective since September 2016 and until April and September 2020 respectively. The management believes that the financial risk associated with these guarantees is remote.

30. Financial instruments and financial risk management objectives and policies

Fair values

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

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 based on the inputs with significant effect on the recorded fair value which are not based on observable market data.

31 December 2016

	Total	Level 1	Level 2	Level 3
Assets measured at fair value				
Unquoted equity shares (Note 16)	1,836,906	–	–	1,836,906
Quoted equity shares (Note 16)	6,096,337	6,096,337	–	–
Assets for which fair values are disclosed				
Short-term loans issued (Note 15)	15,034,909	–	–	15,034,909
Long-term loans issued (Note 16)	664,125	–	–	664,125
Securities (Note 15)	20,753	18,216	–	2,537

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Notes to the consolidated financial statements (continued)

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

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

Fair value hierarchy (continued)

31 December 2015

	Total	Level 1	Level 2	Level 3
Assets measured at fair value				
<i>Investments available for sale</i>				
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 issued (Note 15)	11,833,446	-	-	11,833,446
Long-term loans issued (Note 16)	2,218,754	-	-	2,218,754
Securities (Note 15)	2,562,386	10,725	-	2,551,661

In 2016 and 2015, 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.

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 2016 and 31 December 2015. The most of the Groups’ short-term financial investments (loans and bank deposits, see Notes 14, 15 and 16) are issued at fixed interest rates based on current market rates at the date of initial recognition and short-term borrowings and loans (Note 17) are received at fixed interest rates based on current market rates at the date of initial recognition.

Foreign exchange risk

The Group has certain US dollar and euro-denominated cash and short-term deposits (Note 14), short-term and long-term financial assets (Note 15 and 16), 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.

PJSC “Pharmstandard”

Notes to the consolidated financial statements (continued)

(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 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 2016		
US dollar/ruble exchange rate	+20,00%	3,468,433
US dollar/ruble exchange rate	-20,00%	(3,468,433)
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)
As at 31 December 2016		
Euro/ruble exchange rate	+20,00%	617,962
Euro/ruble exchange rate	-20,00%	(617,962)
As at 31 December 2015		
Euro/ruble exchange rate	+43.00%	1,511,501
Euro/ruble exchange rate	-15.00%	(527,268)
As at 31 December 2016		
US dollar/Ukrainian hryvnia exchange rate	+53,00%	(243,583)
US dollar /Ukrainian hryvnia exchange rate	-13,00%	59,747
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
As at 31 December 2016		
Euro/Ukrainian hryvnia exchange rate	+53,00%	(162,257)
Euro/Ukrainian hryvnia exchange rate	-15,00%	45,922

PJSC “Pharmstandard”

Notes to the consolidated financial statements (continued)

(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 2015		
Euro/Ukrainian hryvnia exchange rate	+67.00%	(355,990)
Euro/Ukrainian hryvnia exchange rate	-18.00%	95,639

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 2014	Total	Less than 4 months	4 to 6 months	6 to 12 months	More than 12 months
Borrowings and loans (Note 17)	4,321,156	121,743	119,402	4,080,011	-
Trade and other payables (Note 19)	25,825,032	25,825,032	-	-	-
Other non-current liabilities (Note 20)	10,775	-	-	-	10,775
Total	30,156,963	25,946,775	119,402	4,080,011	10,775

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 (Note 19)	20,422,742	20,422,742	-	-	-
Other non-current liabilities (Note 20)	15,813	-	-	-	15,813
Total	24,885,155	20,547,049	119,393	4,202,900	15,813

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.

PJSC “Pharmstandard”

Notes to the consolidated financial statements (continued)

(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)

Cash and deposits are placed in the bank that was treated as a related bank in prior periods. Although the bank ceased to be affiliated with the Group, the Group continues to use it for most its payments and settlements due to the long history of cooperation. At that, the management analyses the bank’s financial position and assets’ structure and quality on a regular basis in order to minimize the credit risk.

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

	Total	Neither impaired nor past due	Not impaired but past due				
			Less 1 month	1-2 months	2-3 months	3-6 months	More than 6 months
31 December 2016	17,279,573	13,928,374	2,535,700	150,990	59,628	257,746	347,135
31 December 2015	16,346,568	12,125,733	2,242,195	269,450	182,784	620,688	905,718

Sales concentration to a small group of customers

The Group works with five distributors that together represent about 32% of the Group’s revenue for 2016, 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.

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.

	2016	2015
Borrowings and loans	4,070,794	4,089,436
Trade and other payables	26,270,389	20,970,110
Less: cash and short-term deposits	(17,386,578)	(14,397,241)
Net debt	12,954,605	10,662,305
Equity attributable to the equity holders of the parent	61,323,653	53,663,958
Capital and net debt	74,278,258	64,326,263
Gearing ratio	17%	17%

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Notes to the consolidated financial statements (continued)

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

31. Material partly-owned subsidiaries

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

Name	Country of incorporation and operation	2016 % share	2015 % 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-Medtehnika LLC	Russian Federation	25	25
Cellthera Pharm LLC	Russian Federation	25	25
MasterPlazma LLC	Russian Federation	48	48
Pharmstandard-Plazma LLC	Russian Federation	48	–

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 2016	Pharmstandard-Tomskhimpharm	
	OJSC	Other
Revenue	2,327,884	3,731,966
Cost of sales	(1,755,931)	(2,046,384)
Selling and distribution costs	(409,124)	(558,110)
Administrative expenses	(127,401)	(505,286)
Other income (expense), net	(8,384)	(1,028,692)
Financial income (expense), net	10,680	(212,921)
Profit/(loss) before income tax	37,724	(619,427)
Income tax	(9,350)	41,459
Profit/(loss) for the year	28,374	(577,968)
Attributable to non-controlling interests	2,616	(235,300)
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

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Notes to the consolidated financial statements (continued)

(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 2016	Pharmstandard-Tomskhimpharm OJSC	Other
Inventories, receivables, cash and short-term deposits and other current assets	3,749,554	3,812,579
Property, plant and equipment, intangible assets and other non-current financial assets	417,443	2,933,165
Trade, other payables and other current liabilities	(227,539)	(4,588,385)
Deferred tax liabilities and other non-current liabilities	(25,091)	(131,981)
Total equity	3,914,367	2,025,378
<i>Attributable to:</i>		
Non-controlling interests	360,905	1,111,064
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
<i>Attributable to:</i>		
Non-controlling interests	349,739	1,414,816

Dividends paid by a subsidiary

In 2016, Bigpearl Trading Limited (Cyprus), a Company’s subsidiary, paid non-controlling shareholders dividends of RR 67,721 (2015: RR 46,719).

32. Events after the reporting period

On 27 January 2017, Jounce Therapeutics Inc. carried out the initial placement of its 6,365,000 ordinary shares on NASDAQ. On 31 January 2017, Pharmstandard International S.A. purchased ordinary shares of Jones Therapeutics Inc. for a cash consideration of US\$ 1,000 thousand (RR 60,161). Thus, the Group increased its share in the company's capital from 2.04% to 2.06%. Jounce Therapeutics Inc. is registered in the United States and specializes in the development of antibodies against targets of immunosuppressive control for oncological indications.

On 30 January 2017 Pharmstandard International S.A. acquired ordinary shares of EnGene Inc. for a cash consideration of EUR 13 thousand (RR 848) and further on 1 March 2017 acquired preferred shares of EnGene Inc. for a cash consideration of US\$ 839 thousand (RR 48,646). Thus, the Group increased its share in the company's capital from 4.18% to 6%. EnGene Inc. is registered in Canada and is developing the delivery of nucleotides (DNA and RNAi) to mucosal tissues for the treatment of chronic diseases through suppression or induction of protein synthesis.

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Notes to the consolidated financial statements (continued)

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

32. Events after the reporting period (continued)

In 2017 the independent monitoring committee (IDMC) recommended the Group’s associate Argos Pharmaceuticals to discontinue Phase 3 clinical trials of the lead product candidate AGS-003 due to its potential futility. Consequently, Argos Pharmaceuticals market quotes at NASDAQ fell from US\$ 4.9 on 31 December 2016 to US\$ 0.5 on the date of these consolidated financial statements. Argos intends to conduct the detailed analysis of the results and discuss with FDA the possibility to continue the trial to assess the drug’s longer-term benefits.

On 24 March 2017, shares of PJSC “Pharmstandard” were excluded from the list of securities admitted to organized trading on the Moscow Stock Exchange in accordance with the decision taken on 30 January 2017 at the extraordinary general meeting of shareholders of PJSC “Pharmstandard”.

On 27 March 2017, the Group entered in a newly created joint venture JSC "KirovPlasma". The authorized capital of the company will be 80 million rubles. The company will develop and establish production of drugs from human blood plasma at the plant in Kirov. The Group’s share in the authorized capital of the enterprise is 37.5%.

On 30 March 2017 Pharmstandard International S.A. acquired preferred shares of Avelas Biosciences for a cash consideration of US\$ 2,500 thousand (RR 142,560). Thus, taking into account the dilution, the Company’s share is 9.46%. Avelas Biosciences is registered in the US and develops peptide products cleaved by matrix metalloproteinases to form cell-penetrating peptides conjugated with fluorophore for intraoperative fluorescence diagnostics of the positive surgical edge of the tumor, as well as regional lymph nodes.

On 21 April 2017, the Company sold 50% shares in the capital of its subsidiary, PJSC “Pharmstandard-Biolek”, to a third party a for a total consideration of US\$ 1.8 million. After this transaction, the ownership interest equaled to 46.93%. The Company lost control over the company PJSC “Pharmstandard-Biolek”.