ANNUAL REPORT **2015**

Pharmstandard

FOR THE SAKE OF THE NATION

Annual report 2015

FOR THE SAKE
OF THE NATION

CONTENTS

1 PHARMSTANDARD TODAY 6

1.1 CEO Statement 6

1.2 Performance Highlights 8

1.3 Milestone Events in 2015 9

1.4 Management Responsibility Statement 10

1.5 Company's Mission 10

1.6 Company's Strategy 11

2 OVERVIEW OF THE RUSSIAN PHARMACEUTICAL MARKET IN 2015 16

2.1 General Information on Russian Pharmaceutical Market 16

2.2 Key regulatory changes in the Russian Federation 22

3 BUSINESS REPORT 30

3.1 Manufacturing Capacities (profile, operational performance in 2015, investments in 2015 and 2016 investment plans 30

3.2 Quality System 42

3.3 Business Partners and Contract Manufacturing 48

3.4 Pharmaceutical Portfolio 51

3.4.a New Products launched in 2015 52

3.5.b Vital and Essential Drugs in 2015–2016 53

3.4.c Marketing and Promotion 60

3.5 Government Procurement Market 63

3.6 Medical equipment 68

3.7 Export 69

4 CORPORATE GOVERNANCE 74

4.1 Corporate Policy 74

4.2 Information for Shareholders and Investors 80

5 PERSONNEL AND SOCIAL RESPONSIBILITY 84

5.1 Human Resources 84

5.2 Social Responsibility 85

6 FINANCIAL REVIEW 90

6.1 Management Review and Assessment of Financial Position and Performance 90

6.2 Risk Management 104

7 CONSOLIDATED FINANCIAL STATEMENTS FOR 2015 WITH INDEPENDENT AUDITOR'S REPORT 112

About this Annual report

In this Annual report the terms Pharmstandard, Pharmstandard Group, Company and Group refer to PJSC Pharmstandard together with its subsidiaries, whose financial results are consolidated by PJSC Pharmstandard when preparing the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS).

In this Annual Report percentage changes and shares of rounded numbers (e.g. in graphs and tables) are calculated based on unrounded financial and operation data. This may cause an inconsistency with computations based on rounded numbers presented in the Report.

PHARMSTANDARD-LEKSREDSTVA

OJSC Pharmstandard-Leksredstva (Kursk) is one of the ten largest pharmaceutical manufacturers in Russia. Its production capacity is more than 500 million packages per year. Pharmaceutical forms produced: tablets, aerosols, sprays, capsules, powders, liquid forms. Included to Pharmstandard Group since 2003..

2015 PRODUCTION, million packs

373

MANUFACTURING CAPCACITY, million packs

586

LOCATION

KURSK

STAFF, number of employees:

1734

PRODUCT RANGE, items

92

NUMBER OF SKU, items

269

1.0 PHARMSTANDARD TODAY

1.1 CEO STATEMENT

Dear Shareholders,

In 2009, the Ministry of Industry and Trade of the Russian Federation approved the Federal Strategy Pharma-2020[1] which guides Pharmstandard in its development in the mid-term future.

It is especially important in the context of the Government initiatives of 2014 and 2015 aimed at stimulating of domesting production. The Pharma-2020 Strategy and the Federal Target Program on the Development of the Russian Pharmaceutical and Medical Industry to 2020[2] form a basis for the development of the pharmaceutical industry in the near future with a focus on creating necessary HR and R&D resources, transition of the pharmaceutical industry to an innovative model driven by locally-based manufacturing of strategically important medications and vital and essential drugs (VED), as well as the launch of competitive domestic products.

The first stage of the Strategy is aimed at localisation of production and development of the pharmaceutical products in the Russian Federation. Over the last five years, from 2010 to 2015, we localized manufacturing of 48 pharmaceuticals, including 32 foreign products. Initially starting with the secondary packaging (5 drugs), we are currently expanding our localisation efforts (secondary packaging of 28 drugs, primary and secondary packaging of one drug, and full-cycle manufacturing of 19 drugs). They cover vital and essential drugs and science-intensive biological products. A good example is our agreement with Merck, stipulating the launch in the 1H2016 of full-cycle manufacturing Rebif, a VED drug for the treatment of multiple sclerosis; we have been making secondary packaging of Rebif since 2014. We are also planning to start full-cycle manufacturing[3] of Prezista and Sirturo (from Johnson & Johnson) and Preductal (from Servier) in 2016.

It is worth noting that the full-cycle manufacturing of such products as Rebif and Prezista is a challenging process which requires compliance with many process requirements, including special sterile conditions, temperature, humidity, and air exchange requirements, as well as control and registration of processing parameters.

We were able to achieve these results by implementing, operating, and regularly improving a GMP-compliant pharmaceutical quality system at all our facilities.

Pharmstandard proved to be a reliable company who offers its international partners a cooperation in manufacturing with subsequent maintenance on the Russian pharmaceutical market, including state and municipal procurement.

The Company intensively invests in its production facilities. The second stage of the Pharma-2020 Strategy presumes the development of the pharmaceutical industry of the Russian Federation, which is impossible without investment in production facilities. Following this Federal Strategy, in 2015 we approved a three-year investment plan for 2015 to 2017[4] stipulating investments of over 4 billion rubles in construction and upgrade of existing facilities, including development of tablet and lyophilisate manufacturing line in Ufa and construction of small-batch manufacturing areas in Kursk and Ufa. In accordance with the national import substitution policy, Tyumen Medical Equipment Plant plans to launch manufacturing of new types of equipment with no analogues in Russia, including a unique low-temperature flame steriliser.

Our CAPEX in 2015 amounted to over RUB 2.3 billion[5] and was mainly allocated to developing the Group's manufacturing and logistics capacities and equiping our facilities in accordance with the GMP standards.

We understand that our well-balanced development as a diversified pharmaceutical company, as well as development of the entire pharmaceutical industry, depends on the combination of success factors including constant development of new pharmaceutical products. We invest in the development of our own products, pursue active research, including inter-alia the studies of pharmaceutical products based on blood plasma. In 2015, our development costs were approximately RUB 800 million, around 80% of it were capitalised, in other words most efforts were successful.

Pharmstandard actively invests in other Russian and foreign bio-tech companies. Our team carefully selects investment targets, taking into account their prospects in the Russian market and opportunities of localising manufacturing and obtaining licenses. A good example is our investment in Biocad and Argos.

Finally, the balanced development would never be possible without investments in employees. Our team is our key asset and the main driver of our success. All our achievements are the result of the well-planned efforts of a highly professional team. In 2015, our team's success underlay our revenue, EBITDA, and net profit growth by 14%, 23%, and 25%, respectively. In 2015, we led the Russian market in manufacturing of drugs and food supplements with a market share of 6.5% in volume terms. I would like to thank each and every employee for his or her personal contributions on the way towards our common goal.

(1) Order of the Ministry of Industry and Trade of the Russian Federation No. 965 dated 23 October 2009 "On Approval of the Strategy for the Russian Pharmaceutical Industry Development to 2020".

(2) Decree of the Russian Government of the Russian Federation No. 91 dated 17 February 2011 "On the Federal Target Program "Development of the Russian Pharmaceutical and Medical Industry to 2020 and Thereafter".

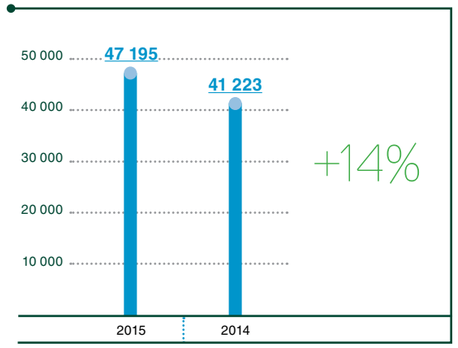
(3) Hereanafter 'full-cycle manufacturing' refers to production of a dosage form using purchased substances.

(4) Excluding investment in MasterPlasma.

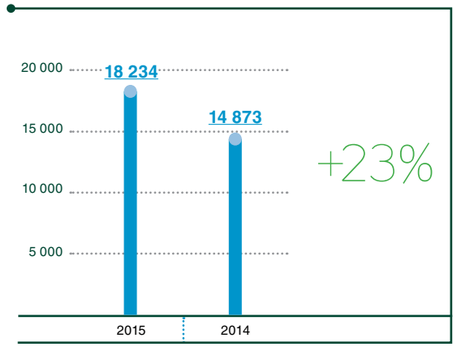
(5) Excluding investments in US and Canadian R&D companies and most part of investments in MasterPlasma.

1.2 PERFORMANCE HIGHLIGHTS

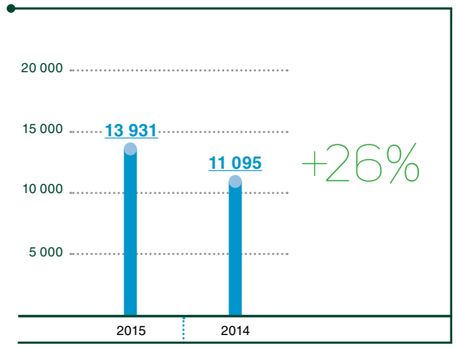
REVENUE, RUB M



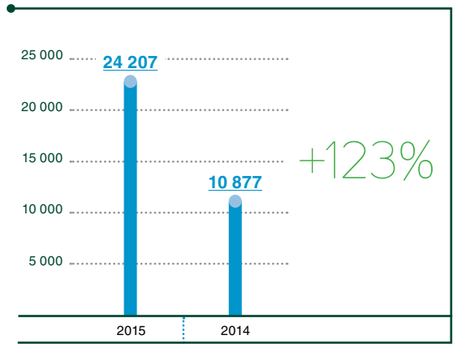
EBITDA, RUB M



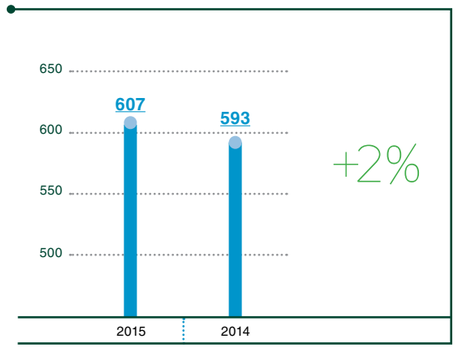
NET PROFIT, RUB M



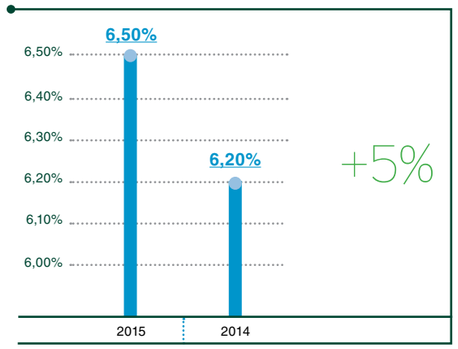
NET CASH, RUB M



PRODUCTION,
MILLION PACKS



COMPANY'S MARKET SHARE IN VOLUME TERMS,
%



1.3 MILESTONE EVENTS IN 2015

APRIL 27, 2015

Pharmstandard and Johnson & Johnson signed a memorandum of cooperation on development of innovations in diabetes control and localisation of production of OneTouch®, the glucose level self-control systems. Under this agreement Pharmstandard completed the transfer of final production stages and launched production of self-control dip-and-read sticks in Q3 2015.

MAY 13, 2015

Augment Investments Limited, the major shareholder of the Company, acquired 2,420,000 Company's ordinary shares (6.40% of all outstanding ordinary shares) from Bristley and announced an Offer to GDR holders (GDRs are global depository receipts certifying the rights to the Company's ordinary shares) to submit their claims with regard to the sale of GDRs.

JUNE 18, 2015

Pharmstandard's Board of Directors adopted decision on change of the Company's organisational structure and elected Grigory Potapov to the positions of the Chief Executive Officer and Vladimir Chupikov to the position of the Chief Operating Officer.

JUNE 25, 2015

Augment Investments Limited, the major shareholder of the Company, completed payments to GDR holders under the Offer and acquired 17,461,550 GDRs, representing 11.55% of the Company's authorised capital.

JUNE 30, 2015

AbbVie and Pharmstandard announced the start of the localization of Sinagis in Russia for the prevention of respiratory syncytial virus infection in children. Secondary packaging of Sinagis is performed at Pharmstandard's facility in Ufa.

SEPTEMBER 10, 2015

Merck and Pharmstandard signed an agreement for the full-cycle manufacturing of Erbitux for the treatment of metastatic colorectal cancer, head and neck cancer at Pharmstandard-UfaVITA plant.

NOVEMBER 25, 2015

Pharmstandard acquired additional shares of Allena Pharmaceuticals and completed its portfolio of venture investments in highly promising projects and products in the Russian market.

DECEMBER 17, 2015

Pharmstandard and Sanofi Russia signed an agreement on local manufacturing of Clexane in Russia. Clexane is used for the treatment of cardiovascular diseases and its full-cycle manufacturing will be launched at Pharmstandard-UfaVITA plant from 2016 to 2018.

1.4 MANAGEMENT RESPONSIBILITY STATEMENT

Directors are responsible for preparing this Annual Report of Pharmstandard PJSC ("Pharmstandard" or the "Company") including consolidated financial statements in accordance with applicable laws and regulations. Each of the current Directors, whose names and functions are listed in the Section 4 Corporate Governance of this Annual Report 2015, confirms that, to the best of his or her knowledge:

1. The Company's IFRS consolidated financial statements provide a true and fair view of its assets, liabilities, financial position and earnings;

2. The Business Section of the Annual Report includes a fair review of the Company's business development and performance, its industry position, as well as a description of key risks and uncertainties impacting the Company's business.

1.5 COMPANY'S MISSION

Development and manufacturing of advanced pharmaceutical products which meet the health care requirements and patients' expectations.

1.6 COMPANY'S STRATEGY

The Company's strategy is based on five major principles of development. The Company makes consistent efforts in line with these principles.

PRINCIPLE	ACTIONS TAKEN IN 2015
1 Increasing share of high-yield drugs in portfolio of the Company	In 2015, the share of high-yield drugs in the Company's pharmaceutical portfolio was increased. The main drivers of the increase among own products were Combilipen and Phosphogliv. The growth leaders among high-yield third party drugs were Revlimid, Pulmozyme and Actemra. In 2015, Pharmstandard-Tomskkhimpharm started modernisation of its capacities to focus on the output of a few high-yield drugs. Tyumen Medical Equipment Plant started to develop a comprehensive high-yield product portfolio in 2015 with the launch of new types of modern equipment. Currently, Tyumen Medical Equipment Plant offers its customers a variety of medical equipment for disinfection and sterilisation from steam sterilisers to disinfecting and cleaning units. In 2016 the Plant will start the manufacturing of new high profitable equipment (flame sterilisers).

PRINCIPLE	ACTIONS TAKEN IN 2015
2 Strengthening of the extent of drugs production localization within the joint projects with the leading international pharmaceutical companies	In 2014 about 12% of partners' products were manufactured on a full-cycle basis, while in 2015 the share was about 40%. In 2015, over 2/3 of partners' products produced at our facilities originally came from abroad.
3 Expansion of the Company's participation in the national import substitution programme	In 2015, the number of drugs of foreign partners manufactured at Pharmstandard's facilities increased by 39% from 23 in 2014 to 32 in 2015. By the end of 2016, we are planning to increase this figure up to 51 items.
4 Development and launch of new drugs, expansion of the range of dosage forms and volumes to fully satisfy market demands and consumer expectations	In 2015, the Group's product range was expanded by 8 new forms to 558 SKUs.
5 Automation of production planning process with a view of raising efficiency of process management and strengthening of focus on cost control	In 2014, the Company launched a business project of implementation an automatic manufacturing control system based on SAP ERP. Preparations were performed in 2014 to harmonise the organisation of the Company Quality Department. SAP project went live in 2015 at Pharmstandard-Leksredstva for the whole product range and 1,050 formulations were developed for production and quality control.

PHARMSTANDARD-UFAVITA

OJSC Pharmstandard-UfaVITA (Ufa) is one of the largest Russian pharmaceutical manufacturers. It holds the leading position in the area of single and multi-vitamin production. Apart from vitamins, the plant manufactures a broad range of pharmaceutical products.
At present, the range of products includes 50 names.
Included to Pharmstandard Group since 2003.

2015 PRODUCTION, million packs
80.1

LOCATION
UFA

PRODUCT RANGE, items
51

MANUFACTURING CAPCACITY, million packs
141

STAFF, number of employees:
1 622

NUMBER OF SKU, items
137

2.0 OVERVIEW OF THE RUSSIAN PHARMACEUTICAL MARKET IN 2015[6]

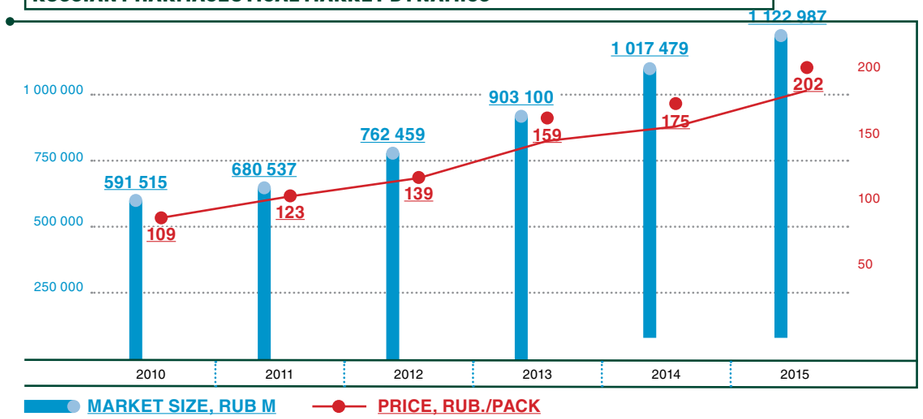
2.1 GENERAL INFORMATION ON RUSSIAN PHARMACEUTICAL MARKET

MARKET REVIEW 2015

In 2015, the volume of Russian pharmaceutical products and food supplements market amounted to RUB 1,123 bn[7] (or 5.56 bn packages), up 10% from the last year.

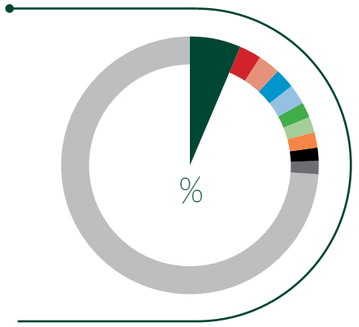
Average price for one package reached RUB 202 demonstrating 16% YoY growth. Prices for Vital and Essential Drugs (VED) (medicines with state-regulated prices) grew by 9%, non-VED segment demonstrated 22% price growths.

RUSSIAN PHARMACEUTICAL MARKET DYNAMICS



Based on 2015 results, Pharmstandard holds #1 position among all drugs and food supplements manufacturers with a market share of 6.5% in the Russian pharmaceutical market (in volume terms) and #1 position among Russian pharmaceutical companies with a market share of 10.8% (in volume terms).

RUSSIAN PHARMACEUTICAL MARKET STRUCTURE BY COMPANY
(IN VOLUME TERMS)



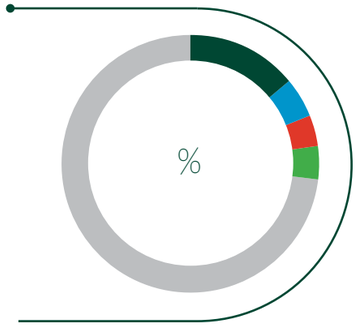
6,5	PHARMSTANDARD
2,8	Stada
2,8	Pharm-center
2,5	OTCPharm
2,4	Ozon
2,1	Biotek
1,9	Sanofi-Aventis
1,8	Teva
1,8	Tathimfarm
1,7	Nycomed/Takeda
73,6	Other

RUSSIAN PHARMACEUTICAL MARKET STRUCTURE

The Russian pharmaceutical market comprises Commercial Market and Government Procurement Market which in its turn includes:

1. Hospital segment
2. 7 High-Cost Nosologies Federal Program (7 Nosologies)
3. Public Drug Benefit Program (PDBP)
4. Regional-level drug benefit channel

MARKET STRUCTURE IN 2015



14	Hospital segment
5	7 Nosologies
4	Public Drug Benefit Program (PDBP)
4	Regional-level drug benefit channel
73	Retail commercial Market

COMMERCIAL MARKET

The commercial market dominates the pharmaceutical market accounting for 73% in value terms and 85% in volume terms.

The consumption in the commercial market decreased by 5% (in volume terms), but increased by 1.5% compared to 2014 in food supplement segment of the market.

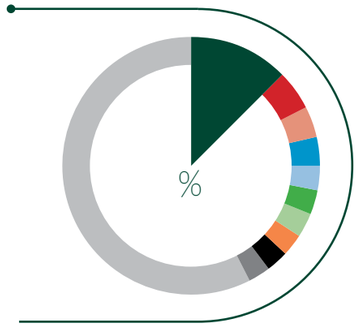
All commercial segments demonstrated 10.6% growth in value terms compared to 2014.

The share of domestic products in the commercial segment amounts to 28%, or about RUB 228 bn. Pharmstandard holds #1 position among Russian pharmaceutical companies in the segment in volume terms with a share of 12.6% and #2 position in value terms with a share of 5.9%.

(6) All information in this Section is based on IMS Health Russia: Research on Russian retail drug and Food supplements market (commercial market), Government Procurement Market (except Federal Reimbursement Program (FRP) and the regional-level drug benefit channel), FRP (including government procurement under the Public Drug Benefit Program (PDBP) and 7 High-Cost Nosologies (7 Nosologies)), and the regional-level drug benefit channel. IMS Health Russia data covers only in-house manufacturing and does not include contract manufacturing.

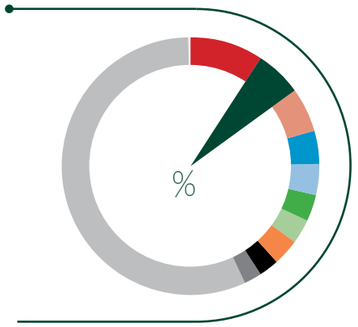
(7) In consumer prices.

COMMERCIAL MARKET STRUCTURE BY DOMESTIC MANUFACTURERS
(SHARE IN VOLUME TERMS)



12,6	PHARMSTANDARD
5,0	OTCPharm
4,0	Ozon
3,4	Tathimfarm Prep.rf
3,2	Pharm-Center
3,1	Gippokrat Rf
2,9	Tula pharm plant
2,8	Obnovlenie Pfk
2,8	Biotek
2,8	Stada*
57,4	Other

COMMERCIAL MARKET STRUCTURE BY DOMESTIC MANUFACTURERS
(SHARE IN VALUE TERMS)



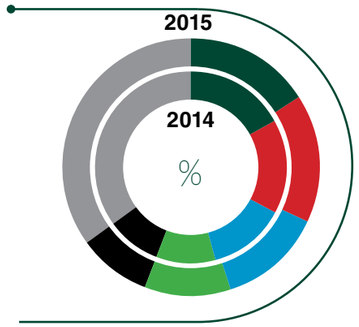
5,9	PHARMSTANDARD
9,5	OTCPharm
5,5	Stada*
4,4	Valenta
3,9	Servier*
3,3	Evalar
3,2	Materia Medica
3,1	Ozon
2,6	Akrikhin-Pharma
2,84	Niarmedik Plus RF
56,3	Other

* IMS Health recognizes as local producers.

Government Procurement Market – see Section 3.5 Review of the Government Procurement Market.

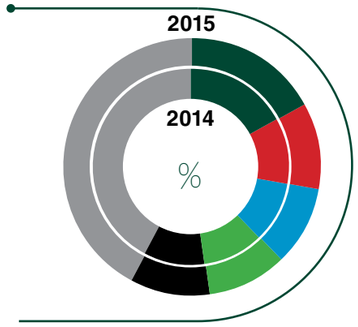
Russian pharmaceutical market structure and dynamics by ATC classification categories. The Pharmstandard medicines present in 14 of 15 ATC categories.

RUSSIAN PHARMACEUTICAL MARKET STRUCTURE AND DYNAMICS BY ATC CLASSIFICATION CATEGORIES
IN VOLUME TERMS



2015	2014	
16	17	N – NERVOUS SYSTEM
16	16	A – ALIMENTARY TRACT AND METABOLISM
13	13	R – RESPIRATORY SYSTEM
11	10	C – CARDIOVASCULAR SYSTEM
9	9	J – GENERAL ANTI-INFECTIVES SYSTEMIC
35	35	Other 10 ATC

RUSSIAN PHARMACEUTICAL MARKET STRUCTURE AND DYNAMICS BY ATC CLASSIFICATION CATEGORIES
IN VALUE TERMS



2015	2014	
17	17	N – NERVOUS SYSTEM
11	11	A – ALIMENTARY TRACT AND METABOLISM
10	10	L – ANTINEOPLASTIC AND IMMUNOMODULATING AGENTS
10	10	C – CARDIOVASCULAR SYSTEM
10	10	J – GENERAL ANTI-INFECTIVES SYSTEMIC
42	42	Other 10 ATC

MARKET ANALYSIS

RUSSIAN PHARMACEUTICAL MARKET STRUCTURE AND DYNAMICS BY SEGMENT
(IN VALUE TERMS, RUB BN)

SEGMENT	2014 RUB bn	2014 Share	2015 RUB bn	2015 Share	15/14
Commercial market	736	72%	814	73%	+11%
Hospital segment	157	15%	161	14%	+2%
PDBP	46	5%	52	5%	+13%
7 Nosologies	40	4%	47	4%	+17%
Regional-level benefit	38	4%	49	4%	+30%
Total	**1 017**	**100%**	**1 123**	**100%**	**+10%**

RUSSIAN PHARMACEUTICAL MARKET STRUCTURE AND DYNAMICS BY SEGMENT
(IN VOLUME TERMS, PACKS M)

SEGMENT	2014 Pack m	2014 Share	2015 Pack m	2015 Share	15/14
Commercial market	4 983	86%	4 737	85%	(5%)
Hospital segment	725	13%	702	13%	(3%)
PDBP	80	1%	79	1%	(1%)
7 Nosologies	3	-	3	-	+12%
Regional-level benefit	36	1%	42	1%	+18%
Total	**5 827**	**100%**	**5 563**	**100%**	**(5%)**

AVERAGE MANUFACTURER'S PRICE DYNAMICS IN THE RUSSIAN PHARMACEUTICAL MARKET BY SEGMENT (RUB/PACK)

SEGMENT	2014	2015	15/14
Commercial market	4 983	4 737	(5%)
Hospital segment	725	702	(3%)
PDBP	80	79	(1%)
7 Nosologies	3	4	+12%
Regional-level benefit	36	42	+18%
Total	**5 827**	**5 563**	**(5%)**

RUSSIAN PHARMACEUTICAL MARKET STRUCTURE AND DYNAMICS BY MANUFACTURER ORIGIN (IN VALUE TERMS, RUB BN)

	2014		2015		
Import/Local	RUB bn	Share	RUB bn	Share	15/14
IMPORT	772	76%	818	73%	+6%
LOCAL	245	24%	305	27%	+24%
Total	**1 017**	**100%**	**1 123**	**100%**	**+10%**

RUSSIAN PHARMACEUTICAL MARKET STRUCTURE AND DYNAMICS BY MANUFACTURER ORIGIN (IN VOLUME TERMS, PACKS M)

	2014		2015		
Import/Local	Packs m	Share	Packs m	Share	15/14
IMPORT	2 506	43%	2 346	42%	(6%)
LOCAL	3 321	57%	3 217	58%	(3%)
Total	**5 827**	**100%**	**5 563**	**100%**	**(5%)**

RUSSIAN PHARMACEUTICAL MARKET STRUCTURE AND DYNAMICS BY DRUG STATUS (IN VALUE TERMS, RUB BN)

	2014		2015		
RX/OTC	RUB bn	Share	RUB bn	Share	15/14
RX	606	59%	670	60%	+11%
OTC	364	36%	401	36%	+10%
Food supplements	47	5%	52	5%	+11%
Total	**1 017**	**100%**	**1 123**	**100%**	**+10%**

RUSSIAN PHARMACEUTICAL MARKET STRUCTURE AND DYNAMICS BY DRUG STATUS (IN VOLUME TERMS, PACKS M)

	2014		2015		
RX/OTC	Packs m	Share	Packs m	Share	15/14
RX	3 312	57%	3 094	56%	(7%)
OTC	2 147	37%	2 095	38%	(2%)
Food supplements	368	6%	374	7%	+1%
Total	**5 827**	**100%**	**5 563**	**100%**	**(5%)**

RUSSIAN PHARMACEUTICAL MARKET STRUCTURE AND DYNAMICS BY PRODUCT INCLUSION ON THE VED LIST (IN VALUE TERMS, RUB BN)

	2014		2015		
VED	Packs m	Share	Packs m	Share	15/14
Non-VED listed	531	52%	600	53%	+13%.
VED listed	486	48%	523	47%	+8%
Total	**1 017**	**100%**	**1 123**	**100%**	**+10%**

AVERAGE MANUFACTURER'S PRICE DYNAMICS IN THE RUSSIAN PHARMACEUTICAL MARKET BY PRODUCT INCLUSION ON THE VED LIST (IN VOLUME TERMS, PACKS M))

	2014		2015		
VED	Packs m	Share	Packs m	Share	15/14
Non-VED listed	3 227	55%	2 991	54%	(7%)
VED listed	2 600	45%	2 572	46%	(1%)
Total	**5 827**	**100%**	**5 563**	**100%**	**(5%)**

AVERAGE MANUFACTURER'S PRICE DYNAMICS IN THE RUSSIAN PHARMACEUTICAL MARKET BY PRODUCT INCLUSION ON THE VED LIST (RUB/PACK)

VED	2014	2015	15/14
Non-VED listed	165	201	+22%
VED listed	187	203	+9%
Total	**175**	**202**	**+16%**

2.2 KEY REGULATORY CHANGES IN THE RUSSIAN FEDERATION

GENERAL INFORMATION ON THE RUSSIAN PHARMACEUTICAL LEGISLATION

The pharmaceutical legislation is a hierarchy of legal acts.

The major legal act for the pharmaceutical industry is the Federal Law "On Circulation of Medicines" dated 12 April 2010 #61-FZ which regulates circulation of medicines, i.e. development, preclinical testing, clinical trials, expert examination, evaluation, state registration, standardization and quality control, manufacture, compounding, storage, transportation, import into the Russian Federation, export from the Russian Federation, advertising, dispensation, distribution, transfer, use and destruction.

The Law establishes the priority of the state regulation of safety, quality and efficacy of medicines in the process of their circulation.

Furthermore, the legislation on circulation of medicines comprises other federal laws such as:

- Federal Law # 323-FZ "On the Fundamentals of Health Protection in the Russian Federation» dated 21 November 2011» (hereinafter - the Law on the Fundamentals of Health Protection of Citizens) which regulates relations arising in the sphere of health protection of citizens in the Russian Federation and determines: legal, organizational and economic basis of health protection of citizens; health protection rights and obligations of citizens and separate national groups, and the warranty of these rights; powers and responsibility of public authorities of the Russian Federation, federal constituencies and local government bodies in the health protection sphere; the rights and obligations of medical organizations, other organizations, individual entrepreneurs involved in the health protection activities;
- Federal Law # 3-FZ "On Narcotic Drugs and Psychotropic Substances" dated 08 January 1998 which establishes the legal framework of the government control for the turnover the narcotic drugs, psychotropic substances and their precursors, and of the countering the illicit trafficking to protect the health of citizens, state and public security;
- Federal Law # 38-FZ "On Advertising" dated 13 March 2006 which was adopted to ensure the development of markets of goods, work and services on the basis of fair competition, unity of the economic space in the Russian Federation, realization of the right to receive fair and reliable advertizing, prevention of violation of Russian legislation on advertizing and suppression of inadequate advertizing facts as well;
- Federal Law # 135-FZ "On the Protection of Competition" dated 26 July 2006 which establishes he organizational and legal basis for the protection of competition including the prevention and suppression of: monopolistic activities and unfair competition; non-admission, limitation or elimination of competition. The Law is aimed at ensuring the unity of economic space, the free movement of goods, the freedom of economic activity in the Russian Federation, the protection of competition and creation of conditions for effective functioning of the product markets.

The next level of legal acts constituting the legislation on circulation of medicines is represented by other statutory legal acts of the Russian Federation. This category includes the decrees of the President of the Russian Federation, the regulations and orders of the Government of the Russian Federation, statutory legal acts of the Federal Executive Authorities, for example:

- Decree # 598 of the President of the Russian Federation dated 07 May 2012 «On Improvement of State Policy in the Sphere of Health Care» which introduces activities to be implemented by the Government of the Russian Federation in the sphere of health care including the introduction of the strategy for medication provision for the population of the Russian Federation until 2025 and the plan of its implementation, increase in the volume of domestic production of medicines from the Strategically Important Drugs List and the Vital and Essential Drugs List up to 90%;
- Order # 865 of the Government of the Russian Federation dated 29 October 2010 "On State Regulation of the Prices for the Medicines Included in the Vital and Essential Drugs List" which establishes the rules for the circulation of the medicines included in the Vital and Essential Drugs List.

The largest category of the statutory acts constituting the legislation on circulation of medicines includes statutory legal acts of the Federal Executive Authorities, first of all the acts of the Ministry of Health of the Russian Federation, for example:

- Order # 428n of the Ministry of Health of Russia dated 22 October 2012 «On Approval of the Administrative Procedure of the Russian Federation Ministry of Health for the State Service of Registering Pharmaceuticals for Medical Use» which regulates the procedure of the registration of medicines for further circulation in the territory of the Russian Federation;
- Order # 1222n of the Ministry of Health and Social Development of the Russian Federation dated 28 December 2010 which approved the rules for the wholesale trade of medicines for medical use;
- Order # 756n of the Ministry of Health and Social Development of the Russian Federation dated 26 August 2010 which endorses the procedure for working out the general pharmacopoeia entries, pharmacopoeia entries and their inclusion in the state pharmacopoeia and placing the information on the state pharmacopoeia on the official website.

The vectors of the pharmaceutical market development are assigned by Resolution # 91 of the Government of the Russian Federation dated 17 February 2011 "On the Federal Target Program "Development of the Pharmaceutical and Medical Industry of the Russian Federation for the period up to 2020 and beyond", by Order # 965 of the Ministry of Industry and Trade of the Russian Federation dated 23 October 2009 «On the Approval of the Strategy of Pharmaceutical Industry Development up to 2020" and by Order # 66 of the Ministry of Health of Russia dated 13 February 2013 «On the Approval of the Strategy for Medication Provision of the Population of the Russian Federation until 2025" which determine the strategy and program of the pharmaceutical industry development, namely the creation of appropriate personnel and scientific-technological base, the transition of the pharmaceutical industry towards the innovative development model through the production of strategically important medicines and Vital and Essential Drugs by the national pharmaceutical industry and launch of innovative and competitive domestic products.

The realization of the development vectors and state programs is also performed on the basis of the social provision of the population with medicines by virtue of conducting state procurements which are an integral part of the Russian pharmaceutical market and have a large normative and legal foundation.

REGULATION OF THE STATE PROCUREMENTS AND SUPPLY OF MEDICAL PRODUCTS FOR THE POPULATION

In the Russian Federation, patients are procured with medical products through the following state social assistance programmes:

1. 1. Procurement of drugs and medical products, including health care products, for categories eligible for state-funded social care (federal and regional-level benefit recipients) funded hrough regional budgets and federal subventions.

Regional level benefit recipients, i.e. individuals included in the list of categories eligible for fully subsidized drugs prescribed by physicians as per the approved list of drugs and medical products based on the RF Government's Decree #890 dated 30 July 1994 «On State Support of the Development of Medical Industry and Improvement of Providing the Population and Public Health Institutions with Medicines and Medical

Products» stipulating the specific measures for support of the Russian pharmaceutical manufacturers at all levels of the budget system.

Federal level benefit recipients, i.e. individuals eligible for state-funded social support in the form of welfare services package in accordance with the Federal Law "On State Social Assistance" #178 dated 17 July 1999. This group of benefit recipients receives fully subsidized drugs under the Public Drug Benefit Program (PDBP) as per the Vital and Essential Drugs List which is annually approved by the Government Resolution.

2. Centralized provision of benefits-entitled individuals included in the specific Federal Register with medicines for treatment of 7 high-cost nosologies (diseases requiring high-cost treatment), funded through the federal budget.

Related costs are covered by the subventions from the federal budget to the regions.

Since 2008, in the Russian Federation, the so-called "7 Nosologies Program" has being implemented. According to this program, the medicines for treatment of patients suffering from hemophelia, cystic fibrosis, pituitary dwarfism, Gaucher's Disease, myeloleukemia, multiple sclerosis and patients who underwent transplantation of organs and (or) tissues, are purchased centrally at the cost of the federal budget.

7 Nosologies Federal Program has been being implemented in the Russian Federation since 2008.

Under the Program, medications for patients suffering from haemophilia, mucoviscidosis, pituitary dwarfism, Gaucher disease, myeloleukemia, disseminated sclerosis, post organ and/ or tissue transplant patients are purchased on a centralized basis through the federal budget. The medications are handed over on an outpatient basis under the public drug benefit programs.

7 Nosologies drugs are purchased centrally by the Russia's Ministry of Healthcare in accordance with the Rules of Procurement of Medications for Treatment of Patients with Malignancy of Lymphoid, Hematopoietic and Related Tissue, Haemophilia, Mucoviscidosis, Pituitary Dwarfism, Gaucher Disease, Disseminated Sclerosis, Post Organ and/ or Tissue Transplant Patients approved by the Government's Decree #1155 of 26 December 2011. These Rules set out the procedure for purchasing the above medications by the Ministry of Healthcare and Social Development of the Russian Federation, the terms and procedure for their transfer to the federal healthcare institutions subordinated to Russia's Federal Medical and Biological Agency, as well as their transfer to the ownership of regions of the Russian Federation for further transfer, on an as-needed basis, to the ownership of municipal entities.

The "7 Nosologies Program" spreads only on the procurements of the medicines included in the specific list. Initially, the list of the medicines purchased under this program consisted of 18 INNs (International Nonproprietary Names) and since 01 March 2015 the list was extended to 23 INNs. In late 2015, the list was reconsidered for the second time and one more medicine for treatment of multiple sclerosis was added for procurement in 2016.

In 2005, the volume of procurement for this program was more than RUB 44.6 bn and it is expected to exceed RUB 42.6 bn in 2016.

3. Procurement of drugs for patients suffering from diseases included in the list of life-threatening and chronic progressive rare (orphan) diseases, leading to a reduction in life expectancy of patients or their disability, in accordance with the Law "On the Fundamentals of Public Health Protection of the Citizens". The list of these diseases was approved by Resolution # 403 dated 26 April 2012. This Resolution also defined the Maintenance Rules for the Federal Register of persons suffering from life-threatening and chronic progressive rare (orphan) diseases that lead to a reduction in life expectancy of citizens or their disability.

The medication provision of patients suffering from orphan diseases (except the diseases covered by "7 Nosologies Program") is funded through the budgets of regions of the Russian Federation.

4. Procurement of drugs for patients suffering from human immunodeficiency viruses and hepatitis B and C.

On the 1st of January 2013 the Russian Government adopted the Resolution # 1438 "On Financial Provision of Procurement of Diagnostic Agents and Anti-Virus Preparations for Prophylaxis, Identification, Monitoring of Treatment and Treatment of the Persons Infected with Human Immunodeficiency Viruses and Hepatitis B And C" dated 27 December 2012 which set the beginning of the decentralization of procurements of medicines for treatment of socially significant diseases and the transfer of authority to the regions. Such medication provision is funded by providing and distributing other interbudgetary transfers from the federal budget to the regional budgets. In 2015, the list of medicines being purchased under the above mentioned resolution was extended to 27 INNs by adding the drug Tenofovir.

In this segment, the Company has successfully sold new drugs Intelence, Prezista, Edurant being produced in cooperation with the company "Johnson & Johnson" in 2015.

5. The medication provision for patients with tuberculosis.

The procurement of antituberculosis drugs is financed from the federal budget which is the main source for procurement of secondary antituberculosis drugs (70% of the total volume of financing) and from the regional budgets under the antituberculosis programs.

The state social assistance for the population in medication provision is performed by conducting the state procurement under the corresponding statutory regulation.

PROCEDURE FOR CONDUCTING STATE PROCUREMENT OF MEDICINES

State procurement of medicines is regulated by the special legislation on state procurements based on Federal Law # 44-FZ "On the Contract System in the Sphere of Procurement of Goods, Works, Services for State and Municipal Needs" dated 05 April 2013 (hereinafter – the «Contracting Law») which came into force on 1 January 2014.

The Contracting Law is aimed at substantially improving the legislation in the sphere of state and municipal procurement and to form the contract system of procurement.

The Contracting Law and its implementing regulations govern the whole cycle of procurement activity including procurement planning, standardization and substantiation; methods of vendor selection including procurement contracts with the only vendor; procurement monitoring and audit; the procedure for the execution of state and municipal contracts and the expertise of results; information support, control of procurement and procedure for appealing actions or inactions of involved parties including contract managers, officials of the contract system service.

This Law also provides the option to solve separate issues associated with procurements at the level of the region of the Russian Federation and the municipal level. The procedures for conducting procurement for state and municipal needs became more complicated and detailed due to the adoption of the Contracting Law. However, the procurement process became more open and transparent.

In 2015, Order # 155 of the Russian Ministry of Economic Development "On the Conditions for Admission of Goods Originating from Foreign Countries for the Purpose of Procurement of Goods, Works and Services for State and Municipal Needs" dated 25 March 2014 remained in force. This Order established the admission conditions for the purposes of the state and municipal procurement of certain goods originating from foreign countries and the procedure for granting preferences to the participants proposing for the supply of goods originating from the Republic of Armenia, the Republic of Belarus and the Republic of Kazakhstan. According to the Order those participants, whose bids and final quotations provide for the supply of goods originating from Russia, Belarus and(or) of Kazakhstan for state and municipal needs, are granted with a 15% discount to the contract price

KEY CHANGES TO LEGISLATION IN THE SPHERE OF STATE PROCUREMENT IN 2015

In 2015, the Government carried implementation of deoffshorization and import substitution strategies, restricting the offshore companies to participate in state procurement. These strategies also specified the preferences granted to domestic manufacturers in admitting to the state procurement procedures of medicines and in signing of the state and municipal contracts on these procedures.

In November 2015, the Russian Ministry of Economic Development extended the list of the countries, who may get the preferencies accroding the Order # 155 (see short information above)to the Eurasian Economic Union (effective since 2016).

Furthermore, on 30 November 2015 Resolution # 1289 "On Restrictions and Conditions for Admission of Foreign-Manufactured Medicines included on the List of Vital and Essential Drugs for the Purposes of Procurement for State and Municipal Needs" was adopted. This Resolution is only applied to the admission of foreign medicines included in the Vital and Essential Drugs List. The Resolution permanently confirmed the "Third One Is Not Wanted" principle which means that if 2 Russian manufacturers participate in a tender then foreign manufactures shall be rejected.

The restrictions of the "Third One Is Not Wanted" principles are not applied to medicines which are packed on a primary and secondary retail packing basis with release quality control within the territory of the Eurasian Economic Union

.

PHARMSTANDARD-TOMSKHIMFARM

OJSC Pharmstandard-Tomskhimfarm (Tomsk) is the largest manufacturer of finished pharmaceutical products in Western Siberia. The plant is located in the city of Tomsk, which is large historical and scientific center in the Asian part of Russia.

2015 PRODUCTION, million packs

101.9

LOCATION

TOMSK

PRODUCT RANGE, items

28

MANUFACTURING CAPCACITY, million packs

205

STAFF, number of employees:

573

NUMBER OF SKU, items

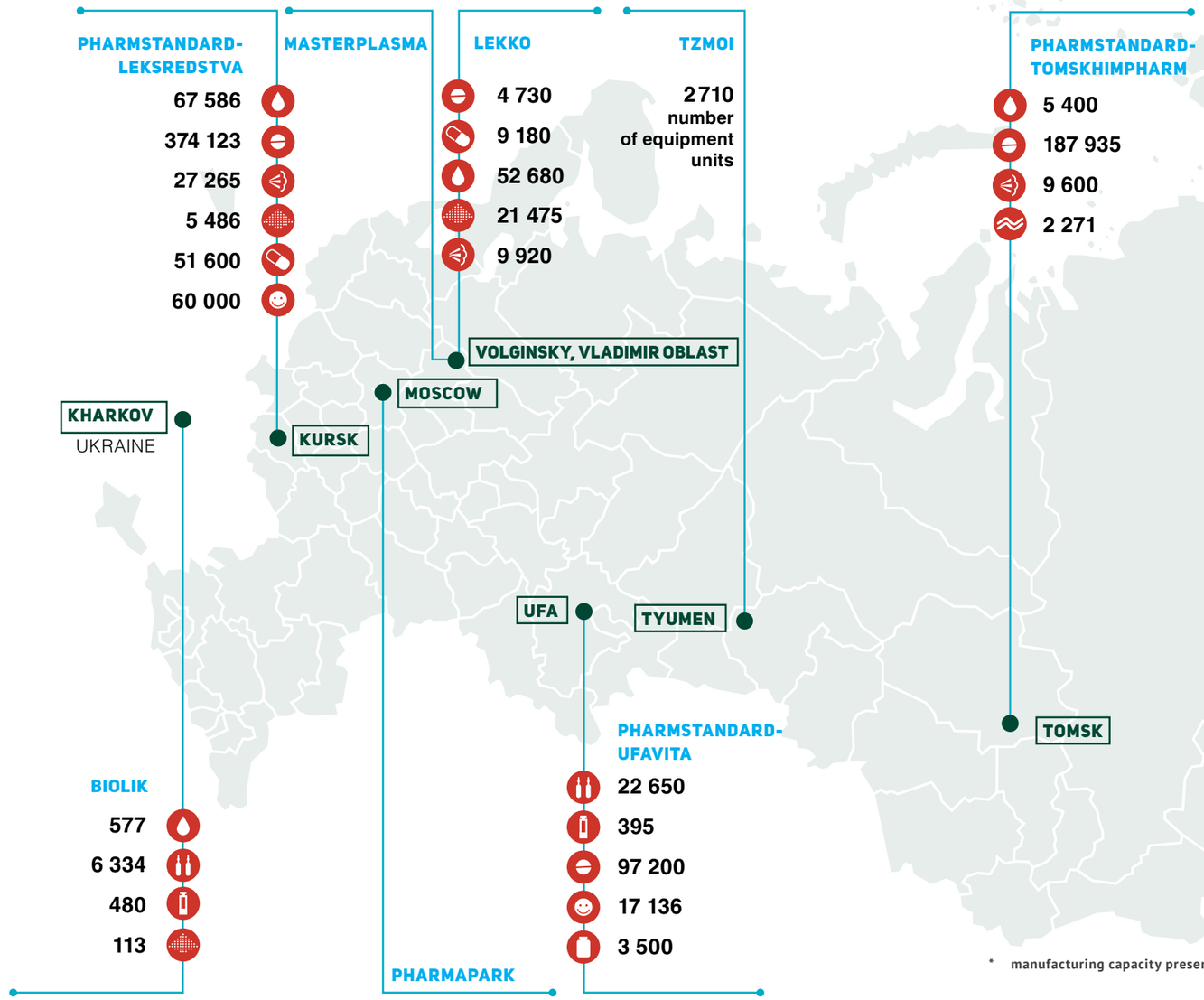
68

3.0 BUSINESS REPORT

3.1 MANUFACTURING CAPACITY*

The Company has seven manufacturing facilities and one plant under construction. The core operations of the facilities may be nominally subdivided into the production of pharmaceutical products, medical equipment, production of substances and special plasma-based pharmaceutical products.

- Syrups and liquid dosage forms
- Tablets
- Aerosols and sprays
- Powders
- Capsules
- Vitamins (Ferrohematogen)
- Ampoules
- Lyophilisates
- Insulin (Human)
- Ointments
- Interpherone



In 2015, the Group produced

607
MILLION PACKS

257
LITRES OF SUBSTANCES FOR SALE

859
UNITS OF MEDICAL EQUIPMENT

* manufacturing capacity presented in thousand packs or in items of medical equipment (for TZMOI).

In 2015, the Group produced 607 million packages of pharmaceuticals, 257 litres of substances for sale,[8] and 859 units of medical equipment. The overal manufacturingl capacity of the Group's companies amounted to 1,037 thousand packages, 764 litres of substances, and 2,710 units of medical equipment. Pharmstandard is the largest Russian producer of pharmaceuticals and the only private pharmaceutical company included on the List of Major Russian Companies[9].

Operating company	Finished dosage form	Number of shifts	Manufacturing capcacity 2014, thous.packs	Capacity utilisation 2014, %	Manufacturing capcacity 2015, thous. packs	Capacity utilisation 2015, %
Pharmstandard-Leksredstva	Syrups and liquid dosage forms	3	86 274	93%	67 586	65%p
	Tablets	3	385 133	67%	374 123	68%
	Aerosols and sprays	3	27 883	62%	27 265	68%
	Powders	3	6 649	26%	5 486	33%
	Capsules	3	71 150	54%	51 600	50%
	Vitamins (Ferrohematogen)	3	1 000	59%	60 000	40%
	Total		**578 089**		**586 060**	
Pharmstandard-UfaVITA	Ampoules	3	25 468	49%	22 650	54%
	Lyophilisates	3	390	99%	395	96%
	Syrups and liquid dosage forms	3	-	0%	-	0%
	Tablets		122 090	60%	97 200	64%
	Vitamins (Ferrohematogen)		37 700	62%	17 136	26%
	Insulin (Human)		2 648	45%	3 500	30%
	Total		**188 296**		**140 881**	
Pharmstandard-Tomskhimpharm	Syrups and liquid dosage forms	3	5 400	5%	5 400	2%
	Tablets	3	318 931	26%	187 935	30%
	Aerosols and sprays	3	9 600	21%	9 600	13%
	Ointments	3	2 178	31%	2 271	29%
	Total		**336 109**		**205 206**	
Pharmstandard-Biolik	Syrups and liquid dosage forms	3	177	34%	257	42%
	Ampoules	3	6 483	12%	6 334	49%
	Lyophilisates	3	480	26%	480	1%
	Powders	3	25	43%	113	30%
	Total		**7 165**		**7 184**	
Lekko CJSC	Tablets	3	6 734	12%	4 730	27%
	Capsules	3	4 819	77%	9 180	52%
	Syrups and liquid dosage forms	3	56 300	45%	52 680	63%
	Powders	3	12 238	55%	21 475	45%
	Aerosols and sprays	3	15 435	6%	9 920	5%
	Total		**95 526**		**97 985**	
TZMOI JSC**	Steam sterilizers, up to 100 litres	3	9 600	31%	2500	31%
	Steam sterilizers, over to 100 litres	3	420	13%	110	47%
	Washing units	3	-	0%	100	39%
	Total		**17 220**		**2 710**	
Pharmapark LLC***	Interpherone, acetone-free and nitrile-free substance	3/2*	27 000	97%	420 000	67%
	Interpherone-alpha, substance	3/2*	205 000	99%		67%
	Interpherone, methionine-free (IFN) substance	3/2*	52 000	94%		17%
	Peginterferon, substance	3/2*	16 000	97%	200 000	33%
	Erythropoietin, substance	3/2*	11 160	11%	14 400	88%
	Total		**311 160**		**634 400**	

(8) Substances manufactured for internal use excluded

(9) The List includes major corporations-residents of the Russian Federation that are critical for GDP, employment, and social stability.

* – three shifts in 2014 and 2 shifts in 2015.
** – Capacity shown in units of equipment.
*** – Capacity shown in ml.

More detailed information on the Group's facilities is available on the following websites:

PHARMSTANDARD-LEKSREDSTVA

http://pharmstd.ru/page_17.html

PHARMSTANDARD-UFAVITA

http://pharmstd.ru/page_18.html

PHARMSTANDARD-TOMSKHIMPHARM

http://pharmstd.ru/page_19.html

PHARMSTANDARD-BIOLIK

http://pharmstd.ru/page_152.html

LEKKO

http://www.lekko-pharm.ru/

PHARMAPARK

http://www.pharmapark.ru/

TZMOI (TYUMEN MEDICAL EQUIPMENT PLANT)

http://pharmstd.ru/page_20.html

OUTPUT IN 2015

Pharmstandard-Leksredstva OJSC

In 2015, Pharmstandard-Leksredstva manufactured 373 million packages (vs 335 million packages in 2014), +11% in volume. Pharmstandard-Leksredstva also manufactured 15 tons of substances for sale.

The increase was driven by:

- diversification of a product portfolio (development of its own drugs and contract manufacturing of new drugs);
- lauch of new import-substituting drugs - 19 items totally;
- expansion of the assortment by introducing new products manufactured by contract;
- increase of production under the government contracts (e.g. Revlimid).

Pharmstandard-UfaVITA OJSC

In 2015, Pharmstandard-UfaVITA manufactured 80.6 million packages, a y-o-y decrease of 14.5% (vs 94.3 million packages in 2014).

The reduction of the output was due to the liquidation of the ferrogenatogen workshop with an output of 22 million packages, or 23.3% of the total output, lest year.

Pharmstandard-Tomskhimpharm OJSC

Pharmstandard-Tomskhimpharm manufactured 101.9 million packages in 2015.

The output reduction by 17.9% was mainly caused by the modernisation at Pharmstandard-Tomskhimpharm aimed at optimising processes and improving profitability of the plant. Pharmstandard-Tomskhimpharm will transfer to Pharmstandard-Leksredstva, Group's largest plant, the production of drugs rrequires significant economies of scale. With that Pharmstandard-Tomskhimpharm will focus on the output of high-yield drugs with the small output in volume.

Furthermore, the output is temporarily affected by the dismantling of some old facilities during the modernisation without launching of new capacities in 2015

.

Pharmstandard-Biolik PJSC

The core operations of Pharmstandard-Biolik in 2015 were the manufacturing of medicinal, liposomal, immunobiological, and diagnostic products.

Pharmstandard-Biolik manufactured 1.6 million packages in 2015 flat versus 2014.

Lekko CJSC

In 2015 total output of Lekko amounted to 49.8 million packages. Output grew by 31%, driven by the increase of orders from OTCPharm PJSC (Acipol, Noopept and Rinostop).

Pharmapark LLC

In 2015, Pharmapark manufactured 520 thousand packages of medications and 242 litres of substances for sale. The output of finished pharmaceutical products and substances increased by 85% and 40%, respectively (in volume terms). It is worth noting that active pharmaceutical substances are manufactured at Pharmapark's plant and most of them (74% in 2015) are sold to third parties, while the remaining volume is used for own production. Finished dosage forms are manufactured by Pharmstandard-UfaVITA under the contract manufacturing scheme, with two drugs subject to output control by Pharmstandard-UfaVITA and one drug - by Pharmapark.

The growth of output relates to the launch of a new product PegAltevir for government contracts as well as to increase of internal and external consumption of substances.

TZMOI (Tyumen Medical Equipment Plant) JSC

In 2015, TZMOI manufactured 768 steam sterilisers with a capacity of up to 100 litres, 52 steam sterilisers with a capacity of over 100 litres, and 39 washing units. In the reporting year it was decided to suspend production of old models of sterilisers VK-75 and GK-100-3 and re-equip them with an automatic process control system.

In 2015 the plant implemented new technology of assembling sterilisers with a capacity of 300, 400, and 600 litres. These sterilisers are equipped with a control system developed by specialists from the Pharmstandard-Medtechnika technical centre.

LAUNCH OF NEW CAPACITIES AND MODERNISATIONS IN 2015

In accordance with the Production Development Plans the Group builds new manufacturing facilities and purchase equipment for production and quality control. The following activities were carried out to launch new products and expand the manufacturing capacities:

Pharmstandard-Leksredstva OJSC

In 2015, we completed construction and installation works and purchased equipment for over RUB 800 million. Construction and installation works performed using internal and third party resources:

- A new full-cycle aerosols and spray workshop with a capacity of 10.5 million packages per year was built and commissioned. This area was prepared to manufacture new products from Chiesi and Nativa;
- Corvalol manufacturing line in the workshop No 1 was reconstructed and commissioned in November 2015;
- A storage area for highly active hormone substances was set up and equipped with a sampling isolator;
- A warehouse with a storage temperature of 2–8°C was set up;
- A purified water unit, supplying to three manufacturing sites, was installed. The unit complies with the European Pharmacopoeia requirements;
- Areas 3 of workshop 2 was equipped with DK PC 40 A packing unit with a switcher and a blister count indicator;
- Construction and installation works performed in workshop 3 to open clean and controlled rooms required in relation to the expansion of area 6;
- SAP projects went live in all manufacturing areas for the entire product range. A total of 1,050 master recipes were developed for production and quality control of finishd goods as well as intermediate products;
- New equipment replaced the worn out one at the existing production

.

Pharmstandard-UfaVITA OJSC

The plant completed construction and installation works and purchased equipment for RUB 709 million in 2015. Construction and installation was performed using internal and third party resources.

- The cytostatics area was launched (tablets and injection drugs) and manufacturing began according to the production plan;
- The pre-filled syringe area was launched and manufacturing began according to the production plan;
- Reconstrustion works for the insulin production areas were continued;
- Reconstrustion of the injection drug area involving the replacement of equipment and start-up of small-batch production of injection drugs was continued: clean rooms were dismantled and prepared for the reconstrucion;
- Construction of the eye drop production was continued with the purchase of the process equipment;
- Construction of a new building for finished tablets and injection drugs was continued with set up of the central and quality control laboratories and purchase of new laboratory equipment.

Pharmstandard-Tomskhimpharm OJSC

The plant completed construction and installation works and purchased equipment for RUB 71.6 million in 2015, including:

- RUB 17 million for construction and modernisation of buildings;
- RUB 52 million for purchase of machinery and equipment;
- RUB 2 million as other capital investment.

Construction of a gas/steam boiler house was completed and a comissioning permit was obtained.

Pharmstandard-Biolik PJSC

The plant completed construction and installation works and purchased equipment for UAH 16.8 million (appr. RUB 47 million) in 2015. Construction and installation was performed using internal and third party resources and included:

- reconstruction of the antirabies immunoglobulin area;
- reconstruction and commissioning of a clinic for the diagnostic and organic drugs area;
- reconstruction of the hydrocortisone area;
- reconstruction and commissioning of the ectericidum area;
- equipping of the chemical control laboratory;
- purchase and start-up of new validation equipment.

Lekko CJSC

The plant completed construction and installation works and purchased equipment for RUB 26.9 million in 2015. Construction and installation was performed using internal and third party resources and included:

- purchase and commissioning of a purified water unit;
- purchase and commissioning of the following process equipment: carbon total organic analyzer, capsule filling and cartoning machines.

Pharmapark LLC

In 2015 the plant purchased project works for RUB 5.0 million.

1. Reconstruction of the laboratories involved in physicochemical, microbiological, and biological control was started in 2015 and will result in the expansion of the laboratorial area and segregation from the process area.

2. Production capacity of the API Peginterferon, the raw material for manufacturing and filling Pegaltevir, was significantly increased.

MasterPlazma LLC

A greenfield project has been implemented in Volginsky of the Vladimir Oblast since 2014. The plant will produce biopharmaceutical products and will become the largest Russian blood plasma fractioning plant. MasterPlasma LLC was incorporated on 26 May 2015 and has the exclusive right to commercial use of a new and unique technology for blood plasma fractioning and processing in the Russian Federation and CIS. Pharmstandard owns 52% of Master Plazma LLC.

The project involves construction of a new factory building with an area of 20,000 square metres. Currently the Group invested more than RUB 1 billion into the project, and the total investment will exceed RUB 10 billion into the constriction of the plant, new equipment, license payment, clinical trials, trainings, etc. The plant will be launched in 2018. The company will offer more than 250 new jobs.

The project is aimed at building a full-cycle facility to manufacture the most demanded vital and essential drugs in the medical industry: intravenous immunoglobulins (IVIG), including hyperimmune and anti-D immunoglobulins, albumin, VIII factor, IX factor, and such products as alpha-1 protease inhibitor, C1-esterase inhibitor, and intravenous fibrinogen which are not supplied by the Russian market.

Currently, over 80% of blood plasma products in Russia are supplied by foreign companies. The target capacity of the plant reaches 600 thousand litres of plasma per year. These outputs will be sufficient to satisfy the current demands of health care system in the Russian Federation and replace 100% of imported products with albumin, intravenous immunoglobulins, and IX factor; and 20% of such products with VIII factor. Furthermore, the Company plans to launch such drugs as alpha-1 antitrypsin and C1-esterase inhibitor which are not accessible to Russian patients but required for the treatment of life-threatening hereditary diseases. A new age in the treatment of hereditary and acquired haemostatic diseases will be intravenous fibrinogen drug (FG) which can be also used by surgical practice to reduce mortality from bleeding.

The new plant will meet the current Russian and international Drugs Manufacturing and Quality Control Rules, including the requirements of such foreign regulatory authorities as FDA and EMEA. This will boost additional sales of the drug in international markets after 2019.

PLANS FOR INVESTMENT IN PRODUCTION IN 2016

Pharmstandard-Leksredstva OJSC

1. Set-up of an experimental small batch area;

2. New secondary packaging line in the Hematogen area;

3. Reconstruction of the warehouse and construction of a new packaging storage;

4. Installation of air conditioning systems on two floors of the plant warehouse;

5. Reconstruction of some premises related to the liquid and solid dosage forms area to expand the coating application line.

Pharmstandard-UfaVITA OJSC

1. Continued construction of a new building for the FPP (Finished pharmaceutical products) site with a total area of 10,500 square meters (6 floors) for the production areas and laboratories. Installation of a tablets line (coated and uncoated), partial transfer of tablet production, installation of a lyophilised drugs line and set up of the staged control and central laboratories;

2. Reconstruction of the process areas for insulin to start the production of Mabthera, a concentrate for solutions for infusions;

3. Construction and launch of the eye drops production line;

4. Reconstruction of the injection drugs line and small batch area;

5. Construction of a new gasified boiler house to increase hot water and industrial steam generation capacities;

6. Construction and start-up of a vaccine line.

Pharmstandard-Biolik PJSC

1. Reconstruction, installation and commissioning of the nutrient media preparation line.

2. Reconstruction and modernisation of biocontrol laboratory and vivarium.

Lekko CJSC

1. Purchase of a reactor and a freeze dryer with a partial rebuild of the biological drugs line;

2. Start-up of a soft dosage form area (including the purchase of all necessary process equipment).

Pharmapark LLC

1. Start-up of an eukaryotic growth sector (D-class rooms);

2. Scheduled implementation of changes in the technology of growing and cleaning of highly productive erythropoetin producent (in a biological reactor) to boost line capacity..

TZMOI (Tyumen Medical Equipment Plant) JSC

1. In 2016, the plant is expected to launch the manufacturing of new equipment types which has no analogues in Russia, including a unique, low-temperature flame sterilizer.

2. Modernisation of the sterilisers VK-75 and GK-100-3 and re-equipping them with with an automatic process control system will improve the plant's competitive position.

3.2 QUALITY SYSTEMS

All Pharmstandard's operating companies have a functional and constantly improving quality management systems in place.

Companies of the Pharmstandard Group have their own unique certified laboratories with high-tech equipment. Special biochemical methods have been adopted and now are largely used, for example: cell-culture-based biological assays and identification based on antiviral activity. Such high-precision methods require specials skills of personnel and ensure production of high quality and safe products.

The system has been developed and implemented in full compliance with:

- Commission Directive 2003/94/EC;
- Drugs Manufacturing and Quality Control Rules approved by Order # 916 of the Ministry for Industry and Trade of the Russian Federation dated 14 June 2013;
- Russian National Standards GOST ISO 9001-2011 (ISO 9001:2008) "Quality management systems. Requirements".

The quality management system operating at our Tyumen Medical Equipment and Tools Plant complies with the standards:

- EN ISO 13485 (EN ISO 13485:2012 + AC:2012 – ISO 13485:2003 + Cor. 1:2009) "Medical Devices – Quality Management Systems – Regulatory Requirements";
- EN ISO 9001 (ISO 9001:2008) "Quality Management Systems – Requirements".

All operating companies undergo regular inspections by state authorities of the Russian Federation: the Ministry for Industry and Trade (hereafter Minpromtorg), Federal Service for Supervision in the Sphere of Health Care of the Russian Federation (hereafter Roszdravnadzor), and audits by foreign and Russian partners: Abbott, AbbVie, Celgene, CHIESI, GE HealthCare, Genzyme, Grindeks, Johnson, Kemwell Biopharma, MARVEL BIOSCIENCE, Merck, Novartis, Roche, Servier, Sanofi, Biocad , Nativa, Generium.

In the context of cooperation with foreign partners and formation of the Eurasian Economic Union (EAEU) integrated pharmaceutical market, Pharmstandard Group continues active implementation and improvement of the quality system in accordance with Good Distribution Practice (GDP). In 2015, Pharmstandard Group updated and approved the Quality Policy and developed GDP Implementation Plan for 2016.

Since 2015, Pharmstandard Group applies unified approaches to the quality management. All Pharmstandard manufacturing companies approved and applied a single approach to vendor analysis and acceptance.

In 2015, Pharmstandard Group launched a range of projects on improvement of computerized systems to achieve quality goals in the inventory accounting, document management and personnel training.

An integrated database for registering claims from customers is currently being completed. It will provide a timely response on all customers requests.

VALIDATION AND QUALIFICATION

The implementation of an annual Validation Master Plan in order to provide a temperature-controlled chain in manufacturing, storage and transportation of heat-labile drugs and all other Pharmastandard products, is an important part of the validation and qualification process.

According to the Validation Master Plan, the qualification of the Pharmastandard Group storage spaces and computerized systems was performed in compliance with the international GAMP 5 requirements.

Validation Process Policy was updated and harmonized. The thermal containers kitting processes were unified to ensure quality and safety of products, and at the same time, the optimization of storage processes was performed.

INFORMATION ON THE QUALITY SYSTEMS OF THE PHARMASTANDARD GROUP COMPANIES

In compliance with Order # 916 of the Ministry for Industry and Trade of the Russian Federation "On the Approval of Drugs Manufacturing and Quality Control Rules" dated 14 June 2013, the Authorized Persons of all Pharmstandard Group companies have passed the state certification.

The quality system of all Pharmstandard Group companies is confirmed by the following documents:

Pharmstandard-Leksredstva OJSC

1. EU GMP "Good Manufacturing Practice (EU GMP)" compliance certificate based on Directive 2003/94/EC, # ZVA/LV/2015/002H dated 19 February 2015, valid until 12 December 2017;

2. GOST R 52249-2009 "Drugs Manufacturing and Quality Control Rules" compliance certificate # GMPEU RU.001.P0007 dated 27 May 2013, valid until 27 May 2016;

3. GOST ISO 9001-2011 (ISO 9001:2008) "Quality Management System. Requirements" compliance certificate # ROSS RU.IS11.K00893 dated 27 May 2013, valid until 27 May 2016;

4. Ukrainian Decree ST-N MOZU 42-4.0:2011 "Pharmaceuticals. Good Manufacturing Practice" compliance certificate # 035/2013/SAUMP/GMP, valid until 29 March 2016;

5. Statement on medicinal product manufacturer's compliance with the Drugs Manufacturing and Quality Control Rules #GMP-0003-000003/15 dated 29 January 2015, valid until 30 December 2016.

The company underwent 2 audits by partners (companies Servie CJSC and Roche CJSC).

Pharmstandard-UfaVITA OJSC

1. EU GMP "Good Manufacturing Practice (EU GMP)" compliance certificate based on Directive 2003/94/EC, # ZVA/LV/2015/004H dated 30 April 2015, valid until 20 February 2018;

2. GOST R 52249-2009 (GMP) "Drugs Manufacturing and Quality Control Rules" compliance certificate #GMPEU RU.001.P00326 dated 30 May 2013, valid until 30 May 2016;

3. GOST ISO 9001-2011 (ISO 9001:2008) "Quality Management System. Requirements" compliance certificate # ROSS RU.IS11.K00895 dated 30 May 2013, valid until 30 May 2016;

4. Statement on medicinal product manufacturer's compliance with the Drugs Manufacturing and Quality Control Rules # GMP-0002-000075/15 dated 21 September 2015, valid until 19 May 2018.

The company underwent 8 audits by partners (companies Sanofi-Aventis Group JSC, Roche CJSC, Merck Serano GmbH, Biocad CJSC, Novartis Pharma LLC, Johnson & Johnson LLC, Eisai LLC)

Pharmstandard-Tomskhimpharm OJSC

1. GOST R 52249-2009 (GMP) "Drugs Manufacturing and Quality Control Rules" compliance certificate # GMPEU RU.001.P000327 dated 30 May 2013, valid until 30 May 2016;

2. GOST ISO 9001-2011 (ISO 9001:2008) "Quality Management System. Requirements" compliance certificate # ROSS RU.IS11.K00896 dated 30 May 2013, valid until 30 May 2016;

3. Ukrainian Decree ST-N MOZU 42-4.0:2011 "Pharmaceuticals. Good Manufacturing Practice" compliance certificate # 068/2013/SAUMP/GMP, valid until 19 July 2016;

4. Statement on medicinal product manufacturer's compliance with the Drugs Manufacturing and Quality Control Rules

Statement # GMP-0012-000014/15 dated 10 March 2015 (manufacturing facility located at: 32, Proletarskaya st., Tomsk)

Statement # GMP-0012-000015/15 dated 10 March 2015 (manufacturing facility located at: 89, Roza Lyuksemburg st., Tomsk)

Statement # GMP-0012-000016/15 dated March 10, 2015 (manufacturing facility located at: 32, Proletarskaya st., Tomsk)

The company underwent an audit by a counterparty Biocad CJSC. .

Lekko CJSC

1. GOST R 52249-2009 (GMP) “Drugs Manufacturing and Quality Control Rules” compliance certificate # GMPEU RU.001. P0010 dated 18 June 2013, valid until 18 June 2016;

2. GOST ISO 9001-2011 (ISO 9001:2008) “Quality Management System. Requirements” compliance certificate # ROSS RU.IS11. K00866 dated 11 March 2013, valid until 11 March 2016;

3. Statement on medicinal product manufacturer’s compliance with the Drugs Manufacturing and Quality Control Rules # GMP-0013-000017/15 dated 10 March 2015, valid until 09 June 2017.

Pharmapark LLC

1. GOST ISO 9001-2011 (ISO 9001:2008) “Quality Management System. Requirements” compliance certificate # ROSS RU.IS11. K0111 dated 23 December 2015, valid until 22 September 2018;

2. Statement on medicinal product manufacturer’s compliance with the Drugs Manufacturing and Quality Control Rules

Statement # GMP-0010-000011/15 dated 13 February 2015 (manufacturing facility located at: Bldg. 1, 8, Nauchny Proezd, Moscow),

Statement # GMP-0010-000012/15 dated 13 February 2015 (manufacturing facility located at: Petrovo-Dalnee settlement, Krasnogorsk District, Moscow Region), valid until 08 July 2017.

TZMOI (Tyumen Medical Equipment Plant) JSC

1. EN ISO 13485 (EN ISO 13485:2012 + AC:2012 – ISO 13485:2003 + Cor. 1:2009) “Medical Devices – Quality Management Systems – Regulatory requirements” compliance certificate # D1236900007 dated 27 November 2013, valid until 20 October 2018;

2. EN ISO 9001 (ISO 9001:2008) “Quality Management Systems – Requirements” compliance certificate # D1236900008 dated 28 November 2013, valid until 27 November 2016.

Pharmstandard-Biolik PJSC

1. Permission of the State Sanitary and Epidemiological Service of Ukraine in Kharkiv Region for work with microorganisms of the 3-4 pathogenic groups for the following manufacturing facilities:

— anatoxin shop area of vaccine and serum manufacturing facility

(Permission # 65-15 issued on 16 April 2015, valid until 16 April 2020);

— antirabic antigen manufacturing facility

(Permission # 66-15 issued on 16 April 2015, valid until 16 April 2020);

— virology laboratory of the Quality Control Department

(Permission # 81-15 issued on 20 April 2015, valid until 16 May 2020);

— biological control laboratory of the Quality Control Department

(Permission # 64-15 issued on 20 April 2015, valid until 16 April 2020);

2. ISO 13485:2008 “Quality Management System” compliance certificate # UA 2.003.8408-14 dated 9 April 2014;

3. GOST ISO 9001-2011 (ISO 9001:2008) “Quality Management System” compliance certificate # UA 2.003.08400-14 dated 3 April 2014.

Production of medical products for laboratory diagnostic in vitro (issued by State-Owned Enterprise “Kharkiv Regional Scientific and Production Center of Standardization, Metrology and Certification”)

4. “Quality Management System. Requirements” compliance certificate # ROSS RU.UA.11.K01019 dated 4 June 2014, valid until 4 June 2017.

Pharmacy depots of Pharmstandard PJSC / Pharmstandard LLC

GOST R ISO 9001-2008 “Quality Management System. Requirements” compliance certificates were issued:

1. Pharmstandard PJSC

Certificate # ROSS RU.IS11.K01090 dated 18 September 2015, valid until 18 September 2018.

The company underwent an audit by counterparty Roche CJSC.

2. Pharmstandard LLC

Certificate # ROSS RU.IS11.K01092 dated 29 September 2015, valid until 18 September 2018.

QUALITY SYSTEM CONFIRMATION IN 2015

Pharmstandard-Leksredstva OJSC

In January 2015, the Ministry of Industry and Trade issued a Statement on the company’s compliance with the Drugs Manufacturing and Quality Control Rules, Order # 127 of dated 29 January 2015.

In May 2015, according to the results of the inspection, the company confirmed the validity of compliance certificates: GOST ISO 9001-2011 (ISO 9001:2008) “Quality Management System. Requirements” and GOST R 52249-2009 “Drugs Manufacturing and Quality Control Rules”.

In June 2015, according to the results of the inspection, the competence of the Testing Laboratory of Pharmstandard-Leksredstva OJSC (Quality Control Department) was confirmed and the scope of accreditation was extended.

Pharmstandard-UfaVITA OJSC

In January 2015, the Ministry of Industry and Trade issued a Statement on the company’s compliance with the Drugs Manufacturing and Quality Control Rules.

In April 2015, a Good Manufacturing Practice compliance certificate was obtained.

In May 2015, the validity of the certificates was confirmed by the Russian Research Institute for Certification JSC (VNIIS).

In February 2015, the State Agency of Medicines of the Republik of Latvia confirmed the company’s compliance with GMP rules based on Directive 2003/94/EC.

Pharmstandard-Tomskhimpharm OJSC

In May 2015, according to the results of the audit of Quality Management Systems, the

compliance with GOST R 52249-2009 and GOST ISO 9001-2011 was confirmed and the corresponding certificates were received.

In 2015, the Ministry of Industry and Trade issued a Statement on the compliance of all company's manufacturing facilities with the Drugs Manufacturing and Quality Control Rules.

Pharmstandard-Biolik PJSC

In 2015, the laboratories of the Quality Control Department passed certification and confirmed their license for conducting drugs quality control of medicines. Biological control laboratory and virology laboratory received Permission of Sanitary and Epidemiological Service for work with microorganisms of the 3-4 pathogenic groups.

In 2015, the company passed the audit and received the certificates of compliance with ISO 9001 for General Quality Management System and ISO 13485 for Medical Products Quality Management System. According to the results of 55 internal audits conducted in the company, 75% of disclosed incompliances were corrected within a year and others are planned to be corrected in 2016. There were 7 audits of raw materials and packing materials vendors. The company's employees took part in the external training on quality management and professional development programs and received the corresponding certificates. A number of documents on pharmaceutical quality system were prepared and approved; the necessary update of the following documents was comleted as well: regulatory quality documents, standard operating methodologies, operating instructions and specifications. The policy and objectives of the company in the area of quality management were actualized.

Lekko CJSC

In March 2015, the Ministry of Industry and Trade of the Russian Federation issued a Statement on the company's compliance with the Drugs Manufacturing and Quality Control Rules.

In May 2015, according to the results of the inspection, the company confirmed the validity of compliance certificates: GOST ISO 9001-2011 (ISO 9001:2008) "Quality Management System. Requirements" and GOST R 52249-2009 "Drugs Manufacturing and Quality Control Rules".

Pharmapark LLC

In 2015 the Quality Management Systems of the company were re-certified for compliance with GOST R 9001. The validity of GOST ISO 9001-2011 was extended until 22 September 2018.

The company also received a Statement on the compliance with the Drugs Manufacturing and Quality Control Rules approved by Order # 916 of Ministry of Industry and Trade of the Russian Federation.

In 2015, the company carried out some works aimed at reducing dependence on outsourcing laboratories by implementing new methods increasing reliability of analysis quality.

TZMOI (Tyumen Medical Equipment Plant) JSC

In the autumn of 2015, the external auditor, MDC, performed a certification audit of the Quality Management Systems of TZMOI OJSC. As a result, the validity period of the certificate confirming the company's compliance with ISO 9001 and ISO 13485 was extended for 2016 year.

3.3 BUSINESS PARTNERS AND CONTRACT MANUFACTURING

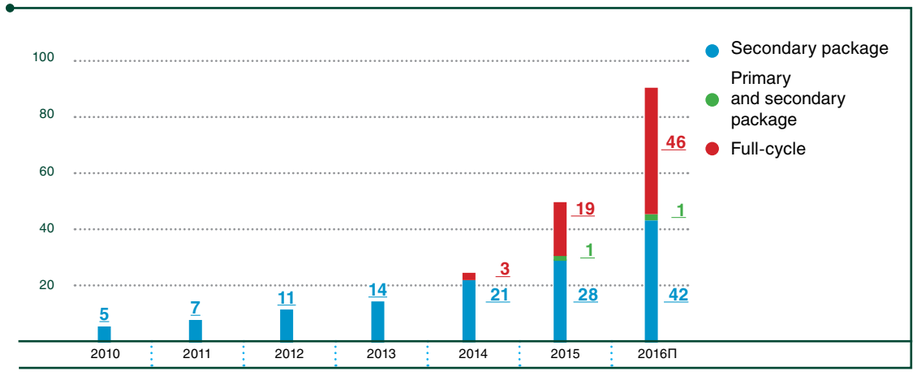
Pharmstandard closely co-operates with many pharmaceutical majors, including Abbott, AbbVie, Celgene, CHIESI, GE HealthCare, Genzyme, Grindeks, Johnson&Johnson, Kemwell Biopharma, MARVEL BIOSCIENCE, Merck, Novartis, Roche, Servier, Generium, Biocad, Nativa, and Sanofi-Aventis in manufacturing, marketing and distribution, striving to achieve the maximum localization of strategically important drugs and make them more affordable and accessible to patients.

In 2015, the Company completed localisation of new pharmaceutical products and dosage forms of the following companies:

Item No.	Partner	Product name	Pharmacotherapeutic group	Manufacturing type	Facility
1	EbbVi LLC	Survanta, suspension for endotracheal injection, 25 mg/ml	Surfactant	Secondary package	Ufa
2	Johnson & Johnson LLC	Prezista, 600 mg tablets	Anti-viral agent	Full-cycle	Ufa
3		Disposables for the portable blood glucose control system (One Touch Verio)	Medical device	Secondary package	Ufa
4		Disposables for the portable blood glucose control system (One Touch Select)	Medical device	Secondary package	Ufa
5		Disposables for the portable blood glucose control system (One Touch Ultra)	Medical device	Secondary package	Ufa
6	F. Hoffmann-La Roche, Ltd.	Mabthera, solution for subcutaneous injection, 1,400 mg/11.7 ml	Antitumour and immunomodifier agent, antibodies	Secondary package	Ufa
7	Sanofi-Aventis France	Clexane, solution for injection, 2000 anti-Xa IU/0.2 ml, 4000 anti-Xa IU/0.4 ml, 6000 anti-Xa IU/0.6 ml, 8000 anti-Xa IU/0.8 ml, 0000 anti-Xa IU/1 ml	Direct-action anticoagulant	Secondary package	Ufa
8	Nativa LLC	Selana, film-coated tablets, 1 mg.	Antitumour agent, oestrogen synthesis inhibitor	Full-cycle	Ufa
9		Estrolet, film-coated tablets, 2.5 mg	Antitumour agent, oestrogen synthesis inhibitor	Full-cycle	Ufa
10		Bicana, 50 mg and 150 mg tablets	Antitumour agent, antiandrogen	Full-cycle	Ufa
11	Ferring AG, Switzerland	Minirin, sublingual tablets, 60 µg, 120 µg, and 240 µg	Treatment of diabetes insipidus	Secondary package	Ufa
12.	Biocad	Anastrozole, 1 mg tablets	Antitumour agent, oestrogen synthesis inhibitor	Full-cycle	Ufa
13.		Capecitabine, 150 mg and 500 mg tablets	Antitumour agent, antimetabolite	Full-cycle	Ufa
14.		Emtricitabinum, 200 mg capsules (Biocad CJSC)	Anti-viral drug with activity against HIV-1	Full-cycle	Ufa
15.		Zilacomb, tablets (Biocad CJSC)	Anti-viral agent [HIV]	Full-cycle	Tomsk
16.		Tenofovir, tablets (Biocad CJSC)	Anti-viral agent	Full-cycle	Tomsk
17.		Entekavir, tablets (Biocad CJSC)	Anti-viral agent	Full-cycle	Tomsk
18.		Vasobral, tablets	Vasodilatory agent	Primary and secondary package	Kursk
19.	F-Sintez	Octreotide-long, pellets for extended action intramascular suspension, 10 mg, 20 mg, and 30 mg	Synthetic somatostatin analogue	Full-cycle	Ufa
20.	OTCPharm	Mycoderil (Naftifinum), 1% topical solution	Antifungal agent	Full-cycle	Kursk
21.		Mycoderil (Naftifinum), 1% cream	Antifungal agent	Full-cycle	Tomsk
22.		Maxicold for children, per os suspension [strawberry and orange flavours], 100 mg/5 ml	Frighting symptoms of ARD and colds (non-narcotic analgesic drug+alpha-adrenomimetic+vitamin)	Full-cycle	Kursk
23.		Magnelis B6 forte film-coated tablets, 100 mg + 10 mg, 30 or 60 tablets	Multivitamins and minerals	Full-cycle	Tomsk

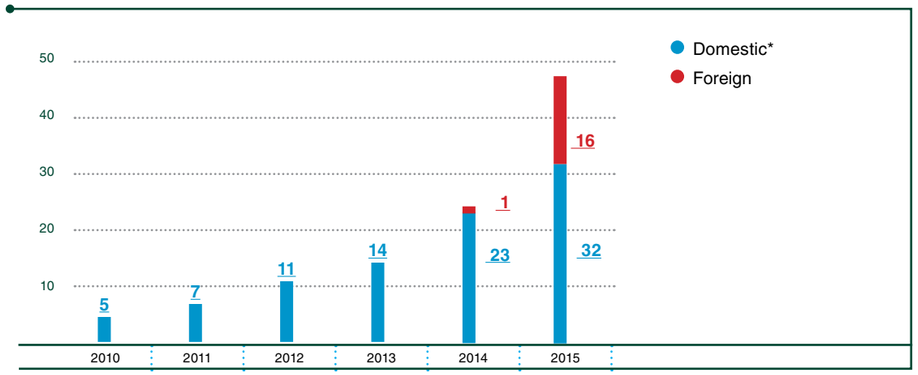
Since 2010 Pharmstandard localized production of 48 products. The intensity of localization turns to full-cycle in accordance to the import substitution strategy: while the company provided exclusive secondary packaging services in 2013, in 2015 it launched the full-cycle manufacturing of 19 of out of 48 drugs and primary and secondary packaging of one drug.

INTENSITY OF LOCALIZATION AT PHARMSTANDARD GROUP FACILITIES FROM 2010 TO 2016



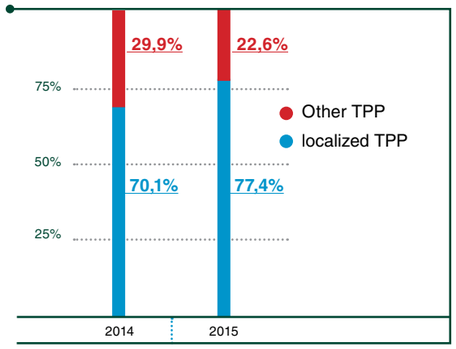
We are developing our relations with foreign and domestic partners.

INTENSITY OF LOCALIZATION AT PHARMSTANDARD GROUP FACILITIES FROM 2010 TO 2016, BY FOREIGN AND DOMESTIC ORIGIN



* – including OTCPharm drugs localized in 2015. Pharmacutical products transferred to OTCpharm PJSC are included in own products in 2014.

STRUCTURE OF TPP SALES, 2014-2015



Therefore, the sales of TPP localized at Pharmstandard's facilities grew from 50% to 77% in 2015.

The Company plans to continue expanding the range and intensity of localization of foreign drugs in the future. The product range will be significantly expanded in endocrinology, oncology, oncogematology, pulmonology, hepatitis, multiple sclerosis, rheumatology, etc. The Company cooperates with its international partners in elaborating new molecule development projects.

3.4 PHARMACEUTICAL PORTFOLIO

The Company's pharmaceutical portfolio traditionally includs several drug groups such as: over-the-counted drugs (OTC), prescription drugs (RX), and third party products (TPP). Prescription and OTC drugs are further divided into branded and non-branded. Branded drugs include the ones with a registered trademark and non-branded drugs are the ones that are not associated with a unique brand. The structure of revenues by these groups is summarised in the table below.

REVENUE STRUCTURE BY GROUP OF PRODUCTS

RUB m	2015	2014	Growth 2015/2014 (%)
Own products	**11 660**	**12 479**	**(6,6%)**
Over-the-counter drugs (OTC)	**5 094**	**5 548**	**(8,2%)**
Branded	1 615	2 766	(41,6%)
Non-branded	3 479	2 782	+25,1%
Prescription drugs (RX)	**6 566**	**6 931**	**(5,3%)**
Branded	5 254	5 924	(11,3%)
Non-branded	1 311	1 006	+30,3%
TPP	**26 408**	**19 025**	**+38,8%**
Substances	**2 005**	**1 269**	**+58,0%**
Pharmaceutical portfolio, total	**40 073**	**32 772**	**+22,3%**

In 2015 the Group's pharmaceutical portfolio included 558 positions inclusive of the dosage forms:

Plant	Number of products	Number of SKU			
		FPP	Food supplements	Substances	Total SKU
Pharmstandard-Leksredstva	92	245	10	14	**269**
Pharmstandard-UfaVITA	51	124	13	–	**137**
Pharmstandard-Tomskhimpharm	28	67	1	–	**68**
Pharmstandard-Biolik	22	44	–	–	**44**
Lekko	13	22	–	–	**22**
Pharmapark	7	13		5	**18**

Finished pharmaceutical products (FPP) were the largest group in the range followed by food supplements and substances.

3.4a NEW PRODUCTS LAUNCHED IN 2015

In 2015 Pharmstandard's plants set up production of their own products and third party products under the contract manufacturing. Contract manufacturing is discussed in Section 3.3 Business Partners and Contract Manufacturing.

Pharmstandard-Leksredstva OJSC

In 2015, Pharmstandard-Leksredstva set up production of 14 new drugs, including:

2 own products:

- Azithromycin, film-coated tablets 500 mg
- Corvalol, tablets

9 products transferred from Tomskhimfarm plant:

- Andipal, tablets N20
- Vicair, tablets N20
- Glucose, tablets 0.5 g, N20
- Papaverin, tablets 40 mg, N20
- Papasolum, tablets N20
- Pentalgin, film-coated tablets N4
- Leonuri extract, tablets
- Thermopsol, cough lozenges, N20
- Formetine, tablets

and 4 products under the contract manufacturing with Chiesi and OTCPharm PJSC (see Section 3.3 Business Partners and Contract Manufacturing for further details).

Pharmstandard-UfaVITA OJSC

In 2015, Pharmstandard-UfaVITA manufactured 16 new drugs with nine of them produced on a full-cycle, five drugs - secondary packaging, and three items were presented by disposables for a portable blood glucose control system. 15 out of 16 drugs are manufactured as part of expanding the contract manufacturing scope with local and international companies (see Section 2.2.3, Business Partners and Contracted Manufacturing for further details).

Pharmstandard-Tomskhimpharm OJSC

In 2015, the company completed development, registration and launched large-scale manufacturing of 5 new products (generics, new compositions of well-known INNs and existing products with new consumer properties or dosage forms). These are 2 RX drugs, 2 OTC drugs, and one food supplement. Of those 3 own drugs included:

- Glycin Extra, a food supplement in tablets
- Clarithromycin, 500 mg film-coated tablets
- Levofloxacin, 500 mg and 750 mg film-coated tablets

and 2 TPP drugs (see Section 2.2.3 Business Partners and Contracted Manufacturing for further details).

Pharmstandard-Biolik PJSC

In 2015, the development of new technologies involved the elaboration of an antirabies antigen using a cell culture for serum horse immunisation and an antirabies vaccine using the cell culture for veterinary purposes and for human health.

3.4B VITAL AND ESSENTIAL DRUGS IN 2015–2016

Until 1 October 2015, the regulation of prices of medicines included in the Vital and Essential Drugs List (hereafter – VED) was based on the statutory rules and methodologies established in 2012.

Since 1 October 2015 the applicable regulatory framework has been changed in regard to the main documents regulating maximum sale prices set by pharmaceutical manufacturers for VED:

- Federal Law #61-FZ "On Circulation of Medicines" dated 12 April 2010;
- The Methodology for calculating maximum sale prices set by pharmaceutical manufacturers for medicines on the VED list (hereafter - the Methodology) (approved by Resolution #979 of the Russian Geovernment dated 15 September 2015);
- The Rules for the state registration and re-registration of maximum sale prices set by pharmaceutical manufacturers for medicines on the VED list (hereafter – the Rules) (approved by Resolution #865 of the Russian Government dated 29 October 2010 as amended by the Resolution #979 of the Russian Government dated 15 September 2015).

VED list for 2015 was amended in accordance with Decree # 2782-r of the Russian Government dated 30 December 2014. The amendments became effective on 1 March 2015 and until this date the VED list approved by Decree #2199-r of the Russian Government dated 7 December 2011 was in effect.

The further main principles of regulating pricing and circulation of VED came into force on 1 October 2015:

- Federal Servise on Tariffs (hereafter – FST) was abolished, thereby the functions of registration and re-registration of maximum VED prices were assigned to the Federal Antimonopoly Service (hereafter - FAS);
- Retaining of the cost method for price substantiation which is based on the breakdown of costs for VED development, manufacturing and distribution provided by Russian manufacturers;
- Introduction of the terms "reference" and "biosimilar" medicines and differentiation of pricing methods on the basis of these two groups of medicines;
- Pricing for generics is based on the decreasing coefficient applied to a reference medicine price; prices for medicines produced by foreign manufactures must be decreased from the latest registered prices;
- The medicines localized in the Russian Federation were included in a special group with the special price registration rules differing from the registration procedure applied to Russian and foreign manufactures;
- Annual price re-registration became available for foreign manufacturers, etc.

RE-REGISTRATION OF MAXIMUM PRICES FOR VED IN 2015

Re-registration of maximum prices in 2015 was conducted with due regard to the anticipated inflation rate (5.5 %) established by Federal Law # 384-FZ "On the Federal Budget for 2015 and for the Planned Period 2016 and 2017" dated 1 December 2014. In accordance with the law, Pharmstandard Group submitted appropriate sets of documents to the Russian Ministry of Health for price re-registration of 81 VED. All sets of documents submitted for re-registration with due regard to the inflation rate in 2015, were approved by FAS and thereby the corresponding extracts from the re-registration order were issued.
2 maximum sale prices were increased by the rate of the raw materials appreciation.
Of the total 83 re-registered VED prices, 48 relate to the Group's own products and 35 relate to the third-party products.

#	INN	Brand name	Number of re-registered prices adjusted for inflation rate in 2015	Number of re-registered prices increased by the rate of the raw materials appreciation
1	-	Anatoxinum diphtherico-tetanicum purifica-	1	
2	Activated Charcoal*	Activated Charcoal	2	
3	Aminophilline	Euphyllin	1	
4	Ascorbic acid	Ascorbic acid	1	
5	Atenolol	Atenolol	2	
6	Acetylsalicylic acid	Acetylsalicylic acid	2	
7	Beclomethasone	Clenil	1	
8	Vaccine for prevention of diphtheria, tetanus and whooping cough	Vaccine for prevention of diphtheria, tetanus and whooping cough	1	
9	Glibenclamide	Glibenclamide	1	
10	Darunavir	Prezista	3	
11	Digoxin	Digoxin	1	
12	Dornasum alfa	Pulmozyme	1	
13	Insulin soluble	Biosulin R	1	
14	Insulin-isophan	Biosulin N	1	
15	Interferon Alfa	Altevir	5	
16	Interferon Beta	Rebif	2	
17	Human Leukocyte Interferon	Human Leukocyte Interferon	1	
18	Potassium and magnesium aspartate	Asparcam	1	
19	Calcium gluconate	Calcium gluconate	1	
20	Co-trimoxazole		Co-trimoxazole	1
21	Co-trimoxazole		1	
22	Lenalidomide	Revlimid	3	
23	Lidocaine	Lidocaine	1	
24	Losartan	Bloctran	3	
25	Metronidazole	Metronidazole	1	
26	Nitroglycerin	Nitrospray	1	
27	Nilotinib	Tasigna	4	
28	Oseltamyvir	Tamiflu	9	
29	Pancreatin	Pancreatin	1	
30	Paracetamol	Paracetamol	4	
31	Propranolol	Anaprilin	2	
32	Rituximab	Mabthera	6	
33	Thioctic acid	Octolipen	2	
34	Tocilizumab	Actemra	2	
35	Trihexyphenidyl	Cyclodol	1	
36	Phospholipides + Glycyrrhizinic acid	Phosphogliv	3	
		Phosphogliv forte	1	
37	Filgrastim	Neupomax	2	
38	Formoterol	Atimos	1	
39	Cefazolin	Cefazolin	-	
40	Cefotaxime	Cefotaxime	-	1
41	Ceftriaxon	Ceftriaxon	-	1
42	Enalapril	Renipril	2	
43	Etravirine	Intelence	1	
Total number of prices re-registered in 2015			**81**	**2**

The information on the price re-registration in 2015 by Pharmstandard Group companies is presented below:

Pharmstandard manufacturers who re-registered VED prices were in 2015	Number of prices
Biomed named after I.I. Mechnikov JSC	3
Pharmstandard-Leksredstva OJSC	43
Lekko OJSC	2
Pharmstandard-Tomskhimpharm OJSC	1
Pharmstandard-UfaVITA OJSC	31
Pharmapark LLC	3
Total	**83**

*** INN Activated Charcoal was removed from the VED list on 1 March 2015.**

REGISTRATION OF MAXIMUM SALE PRICES FOR VED IN 2015

In 2015, 33 maximum sale prices for VED manufactured or owned by Pharmstandard Group companies were entered in the State Register (17 INNs / 17 brand names).

Price registration cases:	INN	Brand name	Number of prices
INNs included in the VED list since 1 March 2015	Bedaquiline	Sirturo	1
	Azacitidine	Vidaza	1
	Palivizumab	Synagis	2
	Telaprevir	Incivo	1
Drug formulations was included in the VED list since 1 March 2015	Bortezomib	Velcade	1
	Meldonium	Mildronate	1
A new type of primary packaging was included in the registration documentation	Nitroglycerin	Nitroglycerin	1
An additional packaging stipulated in statutory acts was registered	Metronidazole	Metronidazole	1
	Potassium and magnesium aspartate	Asparcam	2
An additional manufacturing facility was included in the registration documentation (transfer of manufacture between manufacturing facilities of Pharmstandard Group)	Metformin	Formetine	4
An additional manufacturing facility was included in the registration documentation (localization of the complete manufacturing cycle)	Anastrazole	Selana	2
An additional manufacturing facility was included in the registration documentation (localization of the secondary packaging in Russia)	Enoxaparin sodium	Clexane	4
New nomenclature The secondary packaging was added	Levofloxacin	Levofloxacin	8*
	Acetylsalicylic acid	Acetylsalicylic acid	1
	Paracetamol	Paracetamol	1
	Ascorbic acid	Ascorbic acid	
Re-registration	Lidocaine	Lidocaine spray	1
Total number of prices registered in 2015			**33**

*** The maximum sale prices for Levofloxacin (2 prices) were registered by entering alterations in the valid entry of the State Register of Maximum Sale Prices in terms of the modification of a drug content**

The information on the price registration in 2015 for the medicines produced by the Pharmstandard Group companies is presented below:

Plant	Number of VED prices registered in 2015
Pharmstandard-UfaVITA OJSC	14
Pharmstandard-Leksredstva OJSC	11
Pharmstandard-Tomskhimpharm OJSC	8
TOTAL:	**33**

The following drugs were excluded from the State Register of Maximum Sale Prices due to the termination of production: Calcium gluconate, Furosemide and Nitrosorbide.

VED IN PHARMSTANDARD GROUP SALES STRUCTURE

As of 1 March 2015, Pharmstandard Group has 406 SKUs (both organic and TPPs) with VED sale prices registered for 112 INNs (for the entire range of product forms and dosages).

VED sales reached RUB 28,160 million, accounting for 73% of the sales in the domestic market.

Own VED sales in 2015 reached RUB 4,724 million or 41% of total sales of own products.

The sales of the third-party VED in 2015 amounted to RUB 23,436 million.

The number of VED (including all dosages and forms) sold by Pharmstandard Group in 2015 increased and amounted 181 items vs 172 items in 2014.

The number of own VED decreased by 9 items while the number of the third-party VED increased by 18 items.

Prescription products (RX) hold the dominant position in Pharmstandard Group's VED sales. In 2015, Rx share increased from 88% to 92%.

Product type	Marketing status	2014		2015		Change	
		Number of products	% of total	Number of products	% of total	number	%
All types (own +third-party)	OTC	21	12%	14	8%	-7	(33%)
	RX	151	88%	157	92%	6	+4%
Total:		**172**	**100%**	**171**	**100%**	**-1**	**(1%)**
Own	OTC	16	15%	14	15%	-2	(13%)
	RX	94	85%	78	85%	-16	(17%)
Total:		**110**	**100%**	**92**	**100%**	**-18**	**+16%**
Third-party	OTC	5	8%	0	0%	-5	(100%)
	RX	57	92%	79	100%	22	+39%
Total:		**62**	**100%**	**79**	**100%**	**17**	**+27%**

PRICE CHANGES IN 2016

On the date of this Annual Report, the regulatory framework, in terms of registration/re-registration of maximum sale prices for the VED, was based on the statutory rules and methodologies enacted in 2012 as amended in 2015.

RE-REGISTRATION OF MAXIMUM SALE PRICES FOR THE VED IN 2016

In accordance with the law, Pharmstandard Group submitted appropriate sets of documents to the Russian Ministry of Health for price re-registration of 37 medicines manufactured or owned by Pharmstandard Group. The anticipated inflation rate (5.5 %) established by Federal Law # 359-FZ "On the Federal Budget for 2016" dated 14 December 2015 is 6.4%.

Out of all VED prices submitted for re-registration, 6 relate to the third-party products and 31 prices relate to own products

#	INN	Brand name	Number of re-registered inflation rate adjusted prices in 2016
1.	Aminophilline	Euphyllin	1
2.	Ascorbic acid	Ascorbic acid	1
3	Acetylsalicylic acid	Acetylsalicylic acid	1
4	Insulin soluble	Biosulin R	1
5	Insulin-isophan	Biosulin N	1
6	Potassium and magnesium aspartate	Asparcam	1
7	Calcium gluconate	Calcium gluconate	1
8	Co-trimoxazole	Co-trimoxazole	2
9	Lidocaine	Lidocaine	1
10	Losartan	Bloctran	3
11	Metronidazole	Metronidazole	2
12	Nilotinib	Tasigna	2
13	Nitroglycerin	Nitroglycerin	1
		Nitrospray	1
14	Pancreatin	Pancreatin	1
15	Paracetamol	Paracetamol	2
		Paracetamol for kids	2
16	Rituximab	Mabthera	3
17	Thioctic acid	Octolipen	2
18	Trihexyphenidyl	Cyclodol	1
19	Filgrastim	Neupomax	2
20	Formoterol	Atimos	1
21	Phospholipides + Glycyrrhizinic acid	Phosphogliv	1
		Phosphogliv forte	1
22	Enalapril	Renipril	2
Total			**37**

CHANGES IN THE VED LIST IN 2016

The VED list for 2016 was amended in accordance with the Decree #2724-r of the Russian Government dated 26 December 2015. The amendments to the VED List became effective on 1 March 2016 and till this date the VED list approved by Decree #2782-r of the Russian Government dated 30 December 2014 was in effect.

The changes made to the VED list which came into effect on 1 March 2016, relate to the medicines produced by Pharmstandard companies:

1. Drugs with Telaprevir INNs (brand name - Incivo) were excluded from the VED list

2 new INNs included in the VED list

3 A new dosage forms included in the VED list.

Maximum sale prices were registered for BIOLIK Tuberkulin PDD-L and Foster (5 prices)..

INN	Brand name	Manufacturer (secondary packaging)	Inclusion in the list	Note
Allergen bacterial	BIOLIK Tuberkulin PDD-L	Pharmstandard-UfaVITA OJSC	INN	
Beclometasone+ Fromoterol	Foster	Pharmstandard-Leksredstva OJSC	INN	
Beclometasone+ Fromoterol	Mabthera	Pharmstandard-UfaVITA OJSC	Dosage form	Solution for subcutaneous injection
Rituximab	Mabthera	Pharmstandard-UfaVITA OJSC	Dosage form	Solution for subcutaneous injection

3.4c MARKETING AND PROMOTION

MARKETING AND PROMOTION STRUCTURE

The marketing and promotion structure at Pharmstandard is based on specialised business units:

- Department for marketing and promotion of Hepatic drugs in Russia
- Department for marketing and promotion of Cardiac drugs in Russia
- Department for marketing and promotion of Neurology drugs in Russia.

This approach supports high expertise in each specialised group. The department structure did not change dramatically in 2015 and consists of highly competent marketing and regional promotion teams. As of 31 December 2015, the total headcount in marketing and promotion exceeded 400 people.

The total headcount in marketing and promotion exceeded

400
people

The marketing and promotion departments are responsible for original drugs, branded generics promoted for medical professionals, pharmaceutical personnel, and end customers.

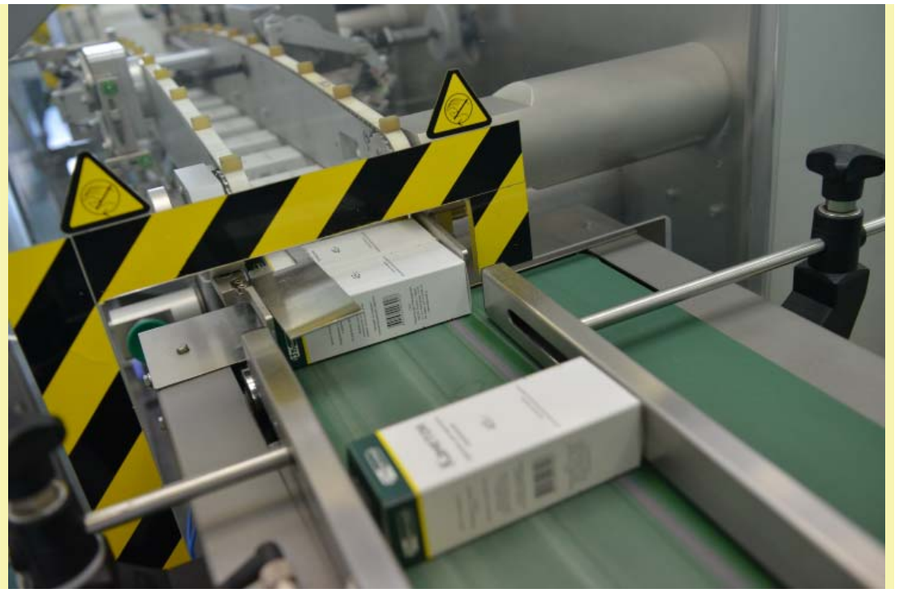
The list of promoted products in 2015 included 10 brands (13 dosage forms).

In 2015, the impact of promoted products on the total revenue from pharmaceuticals sales was 12% (or RUB 4.7 bn).

The strategic development of the promotion efforts in 2015 was based on the following principles:

- Ongoing analysis of the current demands of healthcare practitioners for expansion of specialised product portfolios in the long-term perspective;
- Improved performance of promotion teams by proactive implementation of the newest standardised analytical algorithms which include such aspects as: customer monitoring, planning of annual and monthly activities, follow up of marketing investment, sales planning per client with follow-up activities;
- Ongoing multi-level trainings for employees.

Adherence to the above principles forms the basis for long-term plans of increasing sales and profitability of Pharmstandard promoted products.



KEY PROMOTED BRANDS IN 2015

In 2015 key promoted brands were Phosphogliv, Combilipen, and Octolipen. The same brands are TOP-3 original drugs in terms of revenue. These brands relate to hepatic and neurological drugs.

#	BRAND	2015 Packs (m)	2015 RUB (m)	2015 % of original drugs sales	2014 Packs (m)	2014 RUB (m)	2014 % of original drugs sales	Variance, % Packs	Variance, % RUB
1	Phosphogliv	3,459	1 633,5	14,0%	3,844	1 610,8	12,9%	(10,0%)	+1,4%
2	Combilipen	7,328	998,3	8,6%	6,567	736,5	5,9%	+11,6%	+35,5%
3	Octolipen	1,747	487,6	4,2%	1,654	402,1	3,2%	+5,6%	+21,3%

According to IMS Health, Phosphogliv is the only TOP-7 brand (drugs with sales over 1 million packages annually) in the hepatoprotector market (government and business contracts) demonstrating a sales growth in volume terms in 2015 compared to 2014 and the only drug growing the third consecutive year.

Packs	2012	2013	2014	2015	Growth, % 13/12	14/13	15/14
ESSENTIALE	8 418 236	9 047 132	9 071 118	5 909 309	+7%	-	(35%)
CARSIL	5 945 215	5 114 986	4 965 493	4 121 483	(14%)	(3%)	(17%)
ESSLIVER	4 184 163	4 443 945	4 359 151	3 425 907	+6%	(2%)	(21%)
PHOSPHOGLIV	2 147 724	2 507 337	2 753 605	2 778 130	+17%	+10%	+1%
URSOSAN	1 516 927	1 666 684	1 918 269	1 812 933	+10%	+15%	(5%)
GEPTRAL	1 622 494	1 673 958	1 782 936	1 756 589	+3%	+7%	(1%)
OVESOL	2 710 799	2 684 596	2 196 387	1 754 851	(1%)	(18%)	(20%)

Phosphogliv is included in TOP-100 drugs in the Russian pharmaceutical market in terms of revenue for three consecutive years Phosphogliv is the first drug prescribed by general care physicians for hepatic diseases in major Russian cities (Moscow, St. Petersburg, Yekaterinburg, Nizhny Novgorod, Novosibirsk, Samara, Rostov-on-Don, Voronezh, Kazan, and Ufa)[10].

	Prindex[10] November 2015 A05B Hepatic drugs		
Moscow, St. Petersburg, Yekaterinburg, Novosibirsk, Nizhny Novgorod, Samara, Rostov-on-Don , Voronezh, Kazan, Ufa	thousand prescriptions per day	% of all prescriptions	# in rating
Phosphogliv (A05BA)	150	39,9	1
Essentiale forte N (A05BA)	129	34,2	2
Carsil (A05BA03)	34	9,0	3
Essentiale N (A05BA)	18	4,9	4
Hepa-Merz (A05BA)	12	3,1	5
Legalon 140 (A05BA03)	10	2,7	6
Liv 52 (A05BA)	8	2,2	7
Methionine (A05BA)	5	1,4	8
Legalon 70 (A05BA03)	5	1,3	9
Silimar (A05BA03)	3	0,7	10

Specialised neurological drugs brands included in promotion plans, such as Combilipen, Combilipen tabs, Octolipen, and Artrozan, and Convalis, are presented by a wide range of dosage forms. These drugs are in high demand by practical healthcare and are widely used by neurologists, surgeons, endocrinologists and therapeutics for the treatment of different pathologies.

According to IMS Health, in 2015 Combilipen accounted for 52% of the packaged neurotropic injection vitamins market (5.5 million packages). In 2015, Combilipen continued to sustainably expand its market share (10% growth). In value terms, the market share was 37% (RUB 915 million) with a +25.2% growth. This success was driven by high quality, efficacy and affordability of Combilipen.

According to IMS Health, the market of neurotropic vitamins in 2015 amounted to 4.5 million packages and demonstrated a negative trend of -11%, however Combilipen grew by 40% in volume terms and 59% in value terms (RUB 171 million).

Octolipen is one of the most affordable tioctic acid brands. It is a market driver with an active growth of tablets Octolipen, 600 mg. The brand continues to expand its market share, being 46% in 2015 keeping its competitors at bay.

(10) The information is based on the surveys conducted by Synovate Comcon and valid at November 2015. Prindex, or Prrescription index, a monitoring of pharmaceuticals prescriptions.

3.5 GOVERNMENT PROCUREMENT MARKET

GOVERNMENT PROCUREMENT MARKET: VOLUME AND DYNAMICS

According to IMS Health, in 2015 the government procurement market increased by 10 % and reached RUB 308 bn. The highest growth rate was shown by regional-level benefit (+30%) and high-cost nosologies procurements (+17%). Public Drug Benefit Program (PDBP) segment also demonstrates a significant growth (+13%). The Hospital Segment remained nearly unchanged (+2%).

However, the Government Procurement Market in volume terms decreased by 2% mainly due to the sales volume cut in the hospital segment

SALES STRUCTURE AND DYNAMICS IN THE GOVERNMENT PROCUREMENT MARKET IN VALUE TERMS, RUB BN INCLUDING VAT

SEGMENT	2014	2015	Δ 15/14, %	Share 2015
Hospital segment	157	161	+2%	52%
PDBP	46	52	+13%	17%
7 Nosologies	40	47	+17%	15%
Regional-level benefit	38	49	+30%	16%
Total	**281**	**309**	**+10%**	**100%**

SALES STRUCTURE AND DYNAMICS IN THE GOVERNMENT PROCUREMENT MARKET IN VOLUME TERMS, PACKS M

SEGMENT	2014	2015	Δ 15/14, %	Share 2015
Hospital segment	725	702	(3%)	+85%
PDBP	80	79	(1%)	+10%
7 Nosologies	3	3	+12%	-
Regional-level benefit	36	43	+18%	+5%
Total	**844**	**827**	**(2%)**	**100%**

KEY PLAYERS

Roche remains the leader in the government procurement market segment. Although, Roche lost more than 60% of its revenue from Mabthera drug sales due to the launch of Biocad's generic Rituximab, the company succeeded to hold the 1st position in the sales volume rating (RUB 19.3 bn).

Sanofi demonstrated insignificant growth (+3%) and holds the second position with sales volume of RUB 16 bn. Novartis moved forward by one position in the sales volume rating (RUB 11.3 bn) leaving behind Johnson&Jonson Company.

Johnson&Jonson ended the year with a 30 percent sales fall (from RUB 14.4 bn to RUB 10 bn) mainly due the launch of Bortezomib generic by F-Syntez and Darunavir generic that emerged in the segment.

As a result of these generics launch, Biocad and F-Syntez companies managed to raise by 28 and 33 positions respectively and earned a place in top 10 Pharmaceutical Companies in the Russian government procurement market.

TOP 5 PHARMACEUTICAL COMPANIES IN THE GOVERNMENT PROCUREMENT MARKET

Rating position				RUB bn including VAT			
2015	2014	Δ	Corporation	2014	2015	Share'15	Δ 15/14
1	**1**	**0**	**ROCHE***	**24,3**	**19,3**	**6,3%**	**(21%)**
			HRECEPTIN (TRASTUZUMAB)	5,1	6,0	31%	+18%
			MABTHERA (RITUXIMAB)	9,1	3,5	18%	(62%)
			AVASTIN (BEVACIZUMAB)	2,9	3,1	16%	+7%
			PULMOZYME (DORNASE ALFA)	1,2	1,3	7%	+8%
			PEGASYS (PEGINTERFERON ALFA-2A)	1,6	1,1	6%	(31%)
			OTHER DRUGS	4,4	4,3	22%	(2%)
2	**2**	**0**	**SANOFI-AVENTIS**	**15,5**	**16,0**	**5,2%**	**+3%**
			LANTUS SOLOSTAR (INSULIN GLARGINE)	4,8	4,4	27%	(4%)
			CLEXANE (ENOXAPARIN SODIUM)	1,7	1,3	8%	(24%)
			CEREZYME (IMIGLUCERASE)	1,2	1,1	7%	(8%)
			TAXOTER (DOCETAXEL)	1,3	1,0	6%	(31%)
			ALDURAZYME (INSULIN GLARGINE)	0,1	0,7	5%	+815%
			OTHER DRUGS	6,5	7,5	47%	+16%
3	**4**	**+1**	**NOVARTIS***	**9,6**	**11,2**	**3,7%**	**+18%**
			TASIGNA (NILOTINIB)	1,1	1,3	12%	+18%
			AFINITOR (EVEROLIMUS)	0,9	1,3	11%	+44%
			LUCENTIS (RANIBIZUMAB)	0,9	0,9	8%	-
			VOTRIENT (PAZOPANIB)	0,6	0,8	7%	+33%
			MYFORTIC (MYCOPHENOLIC ACID)	0,7	0,7	7%	-
			OTHER DRUGS	5,4	6,2	55%	+15%
4	**3**	**-1**	**JOHNSON & JOHNSON***	**14,4**	**10,0**	**3,2%**	**(30%)**
			VELCADE (BORTEZOMIB)	7,0	2,4	24%	(66%)
			PREZISTA (DARUNAVIR)	2,3	1,7	17%	(27%)
			INTELENCE (ETRAVIRINE)	0,9	1,2	12%	+37%
			ZYTIGA (ABIRATERONE ACETATE)	0,5	0,8	8%	+64%
			RISPOLEPT CONSTA (RISPERIDONE)	0,5	0,6	6%	+2%
			OTHER DRUGS	3,2	3,4	34%	+7%
5	**6**	**+1**	**PFIZER***	**8,1**	**9,7**	**3,1%**	**+19%**
			PREVENAR 13 (VACCINE, PNEUMOCOCCAL CONJUGATE)	4,1	4,4	45%	+9%
			SUTENT (SUNITINIB)	0,8	1,2	12%	+52%
			ENBREL (ETANERCEPT)	0,6	1,0	10%	+69%
			ZIVOX (LINEZOLID)	0,5	0,6	6%	+23%
			VFEND (VORICONAZOLE)	0,4	0,4	5%	+9%
			OTHER DRUGS	1,9	2,2	22%	+15%
				71,80	**66,30**	**21,5%**	**(8%)**

Secondary package at Pharmstandard plants | Distribution through Pharmstandard

*** For the companies: the share is calculated as a percentage of the total market volume; for the drugs: the share is calculated as a percentage in the company's portfolio.**

Pharmstandard Group is specialized in manufacturing, selling and marketing of a significant volume of medical products produced by the Company's partners. According to IMS Health, one quarter of the TOP 15 best-selling medications in the government procurement market was Pharmstandard's medical products (RUB 15.4 bn).

In 2015, a significant growth was demonstrated both in Moscow and regions. Pharmstandard PJSC actively participates in the federal and municipal social programs such as National Project "Health", "Health to the Capital", "7 nosologies Program".

TOP 15 MEDICAL PRODUCTS IN THE GOVERNMENT PROCUREMENT MARKET (IN VOLUME TERMS)

Rating position						RUB bn including VAT		Share 2015	Δ 15/14
2015	2014	Δ	BRAND	INN	CORPORATIONN	2014	2015		
1	3	+2	HRECEPTIN	TRASTUZUMAB	ROCHE*	5,1	6,0	1,9%	+17%
2			BORAMILAN FS	BORTEZOMIB	F-SYNTEZ	–	5,4	1,7%	-
2	48	+46	ACELBIYA	RITUXIMAB	BIOCAD RF	–	5,4	1,7%	-
4	6	+2	SODIUM CHLORIDE*	SODIUM	***	4,6	5,1	1,7%	+12%
4	4	0	COPAXONE-TEVA	GLATIRAMER ACETATE	TEVA	5,0	5,1	1,6%	+1%
6	8	+2	KALETRA	LOPINAVIR* RITONAVIR	ABBVIE	3,9	5,0	1,6%	+30%
7	29	+22	REVLIMID	LENALIDOMIDE	CELGENE	1,3	4,8	1,5%	+280%
8	9	+1	SOLIRIS	ECULIZUMAB	ALEXION PHAR-MA SW	3,0	4,6	1,5%	+55%
9	7	(2)	PREVENAR 13	VACCINE, PNEU-MOCOCCAL CONJUGATE	PFIZER	4,1	4,4	1,4%	+9%

*** brand is produced by different corporations**

Rating position						RUB bn including VAT		Share 2015	Δ 15/14
2015	2014	Δ	BRAND	INN	CORPORATIONN	2014	2015		
9	5	-4	LANTUS SOLOSTAR	INSULIN GLAR-GINE	SANOFI-AVENTIS	4,8	4,4	1,4%	(9%)
11	1	-10	MABTHERA	RITUXIMAB	ROCHE	9,1	3,5	1,1%	(62%)
12	10	-2	REMICADE	INFLIXIMAB	MERCK SHARP DOHME	2,9	3,3	1,1%	+12%
13	11	-2	AVASTIN	BEVACIZUMAB	ROCHE	2,9	3,1	1,0%	+6%
14	12	-2	COAGIL-VII	EPTACOG ALFA (ACTIVATED)	GENERIUM ZAO RF	2,4	2,8	0,9%	+17%
15	15	0	SYMBICORT TURBUHALER	BUDESONIDE*-FORMOTEROL	ASTRAZENECA	1,9	2,6	0,8%	+35%
			TOTAL			**51,0**	**65,4**	**21,2%**	**+28%**

In 2015, 13 out of the top 15 third-party products (TPP) were sold by Parmstandard Group in the government procurement market. Revenue from sales of these pharmaceuticals reached RUB 26.4 bn, or 56% of the total consolidated revenue of the Group

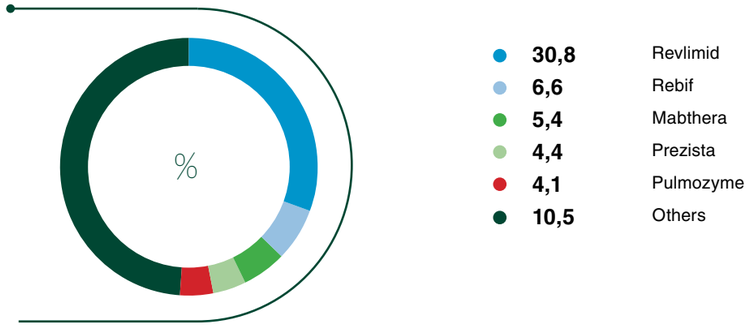
SALES OF TOP15 THITD-PARTY PRODUCTS BY PHARMSTANDARD GROUP

№		2015		2014		Change (%)	
		m. packs	RUB m	m. packs	RUB m.	packs	RUB
1	Revlimid	0,019	8 135,0	0,002	924,2	741,7%	780,2%
2	Rebif	0,211	1 749,1	0,000	3,2	49550,5%	45128,4%
3	Mabthera	0,044	1 433,0	0,071	2 716,0	-37,1%	(47,2%)
4	Prezista	0,069	1 152,5	0,111	1 996,7	-37,7%	(42,3%)
5	Pulmozyme	0,149	1 081,7	0,122	875,2	22,6%	23,6%
6	Tasigna	0,008	1 050,6	0,002	249,5	316,5%	321,1%
7	Imudon	3,171	893,2	3,171	865,8	-	3,2%
8	Kemeruvir	0,049	863,6	0,002	30,9	2752,8%	2697,7%
9	Intelence	0,051	849,6	0,046	742,6	10,1%	14,4%
10	Mildronate	3,346	827,3	5,018	1 188,0	-33,3%	(30,4%)
11	Cerezyme	0,012	750,3	0,015	984,4	-23,8%	(23,8%)
12	Velcade	0,019	707,3	0,051	2 191,7	-63,2%	(67,7%)
13	Octofactor	0,073	702,0	0,000	2,7	16596,6%	25771,7%
14	Actemra	0,043	642,6	0,021	297,0	109,0%	116,3%
15	Diaskintest	0,468	586,2	0,330	416,4	41,8%	40,8%
	Total top-15	**7,732**	**21 424,0**	**8,963**	**13 484,3**	**-14%**	**59%**
	Other third-party products	**23,546**	**4 984,1**	**14,275**	**5 540,6**	**65%**	**(10%)**
	Total third-party products	**31,278**	**26 408,1**	**23,238**	**19 024,9**	**35%**	**39%**

sold in the Government Procurement Market

Top 5 of TPP made 50% of the total Company's TPP revenue. All these pharmaceuticals were sold in the government procurement market

PRODUCT SHARE IN THE TOTAL THIRD-PARTY PRODUCT SALES



KEY DISTRIBUTORS

Due to effective cooperation with the company Celgene (INN Lenalidomid (brand name – Revlimid, included in the 7 Nosologies program), Pharmstandard PJSC reached the second position in the rating replacing the company Pharmimex (revenues of RUB 18.3 bn vs RUB 17.9 bn).

30% of all win tenders were taken by 5 largest distributors (about RUB 88 bn).

TOP 5 PHARMACEUTICAL DISTRIBUTORS IN THE RUSSIAN GOVERNMENT PROCUREMENT MARKET

Rating position				RUB bn including VAT				
2015	2014	Δ	Distributor/year	2013	2014	2015	Share'15	Δ 15/14
1	1	0	R-Pharm	38,5	33,2	34,0	11,7%	+3%
2	3	+1	Pharmstandard	17,7	10,8	18,3	6,3%	+70%
3	2	(1)	Pharmimex	10,2	17,1	17,2	5,9%	+1%
4	5	+1	Biotec	5,7	4,3	10,2	3,5%	+139%
5	4	(1)	Euroservice	8,8	7,0	8,1	2,8%	+16%
			TOTAL:	**80,9**	**72,3**	**87,9**	**30,2%**	**+22%**
			OTHER DISTRIBUTORS	**178,2**	**177,8**	**202,9**	**69,8%**	**+14%**

ТОП-5 7 NOSOLOGIES PROGRAM DISTRIBUTORS

Rating position				RUB bn including VAT				
2015	2014	Δ	Distributor/year	2013	2014	2015	Share'15	Δ 15/14
1	3	+2	PHARMSTANDARD	12,4	4,3	9,8	22,9%	+126%
2	4	+2	BIOTEC	3,6	3,3	8,9	20,7%	+168%
3	1	(2)	PHARMIMEX	1,5	9,4	8,5	19,8%	(9%)
4	2	(2)	IRVIN-2	7,7	6,2	4,2	9,8%	(32%)
5	5	0	NACIMBIO	0,0	2,4	3,0	7,0%	+27%
			TOTAL:	**25,3**	**25,6**	**34,5**	**80,2%**	**+35%**
			OTHER DISTRIBUTORS	**6,0**	**18,6**	**8,5**	**19,8%**	**(54%)**

3.6 MEDICAL EQUIPMENT

In 2015, revenue from sales of medical equipment amounted to RUB 1.575 million demonstrating a 41% growth year-over-year.

Growth in volume terms was 4%.

Medical equipement sales (units)	2014	2015	Growth in 2015/2014 (%)
Steam sterilisers (cap. more than 100L)	749	716	(4,4%)
Steam sterilisers (cap. less than 100L)	1 672	760	(54,5%)
Plasma sterilisers	18	20	+11,1%
Equipment for recycling and disinfection	135	117	(13,3%)
Water stills and water collectors	2.627	3.850	+46,6%
Disinfecting washing units	77	102	+32,5%
Disinfecting washing equipment for endoscopes	29	16	(44,8%)
Consumables	36 700 392	38 691 931	+5,4%
Others	30 485	47 327	+55,2%
Total	**36 736 184**	**38 744 839**	**–**

The main driver behind the growth was consistent implementation of the Company's strategy, which is aimed at upgrade and development of an extensive product portfolio as well as optimization of internal and external work.

Pharmstandard-Medtechnika's LLC share in the infection control medical equipment segment, which is calculated as a ratio of win tenders to the total number of tenders held, significantly increased to 37% in 2015 despite overall market reduction by 11% comparing to 2014.

The company's share has been growing for several years in a row and covers all types of the Company's basic manufactured equipment.

The outstanding results of 2015 were reached through:

- Launch of new equipment lines which were not previously manufactured in the Russian Federation that could replace advanced equipment of foreign origin;
- Increasing of expertise in integrated projects which made it possible to prepare and implement central sterilization departments for different healthcare facilities increasing the Company's presence in the segment;
- Successful participation in medical waste recycling projects; In 2015 the Company expanded its disinfection and destruction product range to cover almost all customer demands;
- Continuous and consistent implementation of the commercial department strategy which is aimed at concentrating efforts on the regions where the Company's share is unreasonably low;
- Strengthening of partnership relations with the Company's dealers;
- Increasing of customer's loyalty by improving service quality

In 2016, Pharmstandard-Medtechnika LLC will continue to actively develop its business and further expand its share in the segment. Company's plans are as follows:

- Launch of new equipment that have no analogues elsewhere in Russia, including a unique, low-temperature flame sterilizer;
- Introduction of the solution for infection control to the market which is designed for healthcare facilities and consists of cutting-edge domestic manufacture equipment.
- Performance optimization of the service department will be continued in 2016. Its main goal is to fully satisfy the customers that are using the equipment and to foster further sales to the current customers. The programme includes expansion of cooperation with authorized service centers, technical services automatization and increasing of quality control.

3.7 EXPORT SALES

Pharmstandard Group exports its products to 14 countries world-wide, mainly to the CIS and neighboring FSU countries, and is actively developing and expanding its export business.

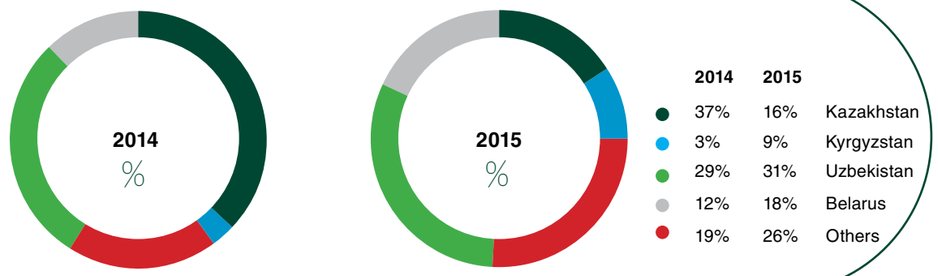
In 2015, exports sales revenue decreased by 42.8% year-over-year to RUB 382.1 million.

Factors that influence sales volume may include the following:

- The spin-off of the Group's branded OTC business into OTCPharm PJSC ;
- Economic downturn in most CIS countries;
- Escalation of political crisis in Ukraine;
- Devaluation of national currencies in some of the export countries;
- Tightening requirements for marketing authorization abroad;
- Government support of national manufacturers.

In 2015 Pharmstandard mainly exported to the CIS countries, where Uzbekistan, Belarus, and Kazakhstan being leaders in the export market. Export sales for 2014 and 2015 are presented below:

EXPORT SALES (BY COUNTRY), 2014/2015



KEY TRENDS IN MAJOR CIS MARKETS

Republic of Uzbekistan

- The pharmaceutical market in the Republic of Uzbekistan amounted to USD 1.16 billion in 2015;
- An annual market growth averaged 15-20%, except for 2015;
- Antimicrobial (AM) drugs have the largest market share;
- Localized manufacturing of drugs and medical products – 138 companies, market growth;
- registered drugs: 1,709 (CIS), 3,700 (foreign), 1,402 (Uzbekistan), medical products and equipment: 1,723.

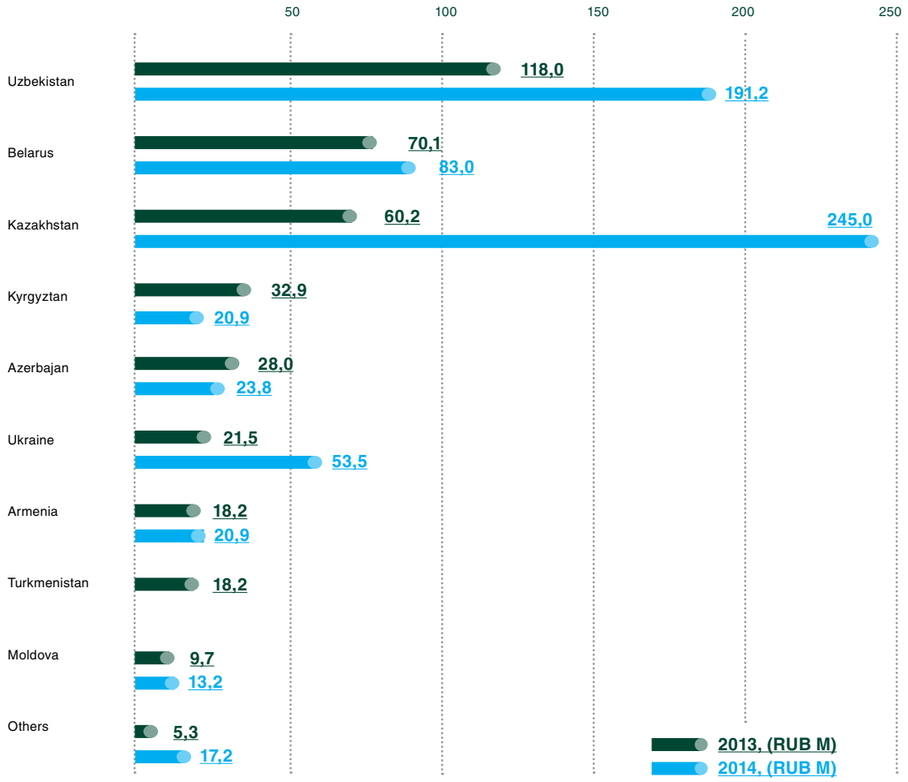
Republic of Belarus

- The pharmaceutical market in the Republic of Belarus amounted to USD 987 million in 2015;
- The pharmaceutical market in the Republic of Belarus in 2015 was presented by 577 corporations, 1,444 INNs, and 3,768 brands;
- The sales volumes growth in the mid-term, having almost the same amount increase every after year. Sales increase from 2013 to 2015 was driven by sales growth of Belorussian prescription drugs (made of the total increase) and sales growth of Belorussian over-the-counter drugs (made of the total increase) and overall import (equally).

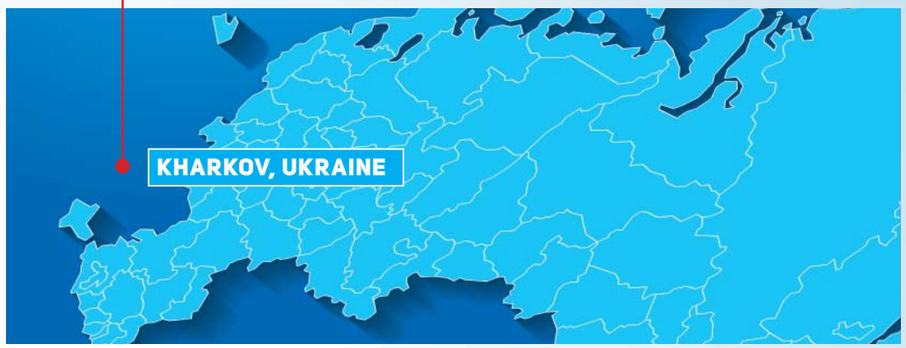
Republic of Kazakhstan

- The pharmaceutical market in the Republic of Kazakhstan amounted to USD 1.8 billion in 2015;
- Kazakhstan has one of the largest hospital market among CIS countries that makes near 45%-50% of the total national pharmaceutical market. Purchases are made by SK-Farmazia, state-owned company;
- Kazakhstan adheres to the GMP standards and is actively developing its national pharmaceutical manufacturing industry.

SALES DYNAMICS BY COUNTRY, 2014/2015



PHARMSTANDARD-BIOLIK



OJSC Pharmstandard-Biolik (Kharkov, Ukraine) is a Top-20 Ukrainian pharmaceutical company and specialises in the production of immunobiological products, vaccines, serums, diagnostic products, nutrient mediums, blood products, hormonal, antiviral, antibacterial and enzymatic drugs.

2015 PRODUCTION, million packs
1.6

LOCATION
KHARKOV

PRODUCT RANGE, items
22

MANUFACTURING CAPCACITY, million packs
7

STAFF, number of employees:
414

NUMBER OF SKU, items
44

4.0 CORPORATE GOVERNANCE

4.1 CORPORATE POLICY

The Company's corporate policy is based on a principle of respect for the rights and legitimate interests of its shareholders and is conductive to the efficient activity of the Company including equity value growth, new job creation and maintenance of the Company's financial stability and profitability.

The effective activity and investment attractiveness of the Company are supported by trust-based environment at all levels of corporate relations. The principles of the Company's corporate policy are aimed at establishing confidence in relations pertaining to the Company's management.

GENERAL SHAREHOLDERS' MEETING

The General Shareholders' Meeting is the Company's highest governance body. Based on the decision of the Board of Directors, the Company announces the date and venue of the General Meeting in a special press release. The Annual General Shareholders' Meeting shall be held within the period from 2 to 6 months after the relevant financial year end. The holders (a holder) of at least 2 % of the Company's voting shares are entitled to include items on the agenda of the Annual General Shareholders' Meeting and nominate candidates to the Board of Directors and the Audit Commission.

An extraordinary General Shareholders' Meeting shall be held upon the decision of the Board of Directors on its own initiative or at the request of the Company's Audit Commission, the Company Auditor or holders (a shareholder) of at least 10 % of the Company's voting shares as of the date of the request.

The notice of holding a General Shareholders' Meeting shall be provided at least 30 days prior to the date of the meeting, or in some cases according to regulatory requirements, at least 70 days prior to the date of the meeting. The competence of the General Shareholder's Meeting and the decision-making procedure are defined by the applicable legislation and the Company's Charter.

INFORMATION ON THE MEETINGS HELD IN 2015

The General Shareholders' Meeting on results of 2014 year was held on 29 May 2015 in Dolgoprudny of the Moscow Region. The Meeting was attended by shareholders holding 51.9561% of the total amount of voting shares of the Company. The General Meeting approved the Annual Company Report, the annual accounting reports, the Company's profit and loss accounts, the distribution of profits and losses for the reporting financial year of 2014. The General Meeting also elected members of the Board of Directors and the Audit Commission, approved the auditors for Russian and International financial statements for 2015 and a new edition of the Company's Charter and new editions of Regulations "On Preparation and Holding of the General Shareholders' Meeting", "On the Board of Directors", "On the General Director".

There were no extraordinary meetings held in 2015.

BOARD OF DIRECTORS

The Company's Board of Directors is responsible for general management of the Company's activities. The Board of Directors determines the Company's priorities and

approves business plans and feasibility studies for the Company's investment projects.

The Board of Directors professionalism, experience, efficiency and conformity to the Company's strategic objectives are annually evaluated. The members of the Board of Directors are experts in economics, finance, business administration and have an unique experience in managing Russian pharmaceutical companies, in determination and implementation of financial strategies and in economic system management.

The Board of Directors consists of 11 members and two of them are independent.

Board of Director for the 2015-2016 period

1. **Aleksandr Archakov** – an independent member of the Company's Board of Directors. Mr. Archkov graduated from the 2nd Moscow State Medical University named after N.I. Pirogov (at present – Pirogov Russian National Research Medical University (RNRMU)). From 2011 to 2014 Mr. Archakov was the Vice-President of the Russian Academy of Medical Sciences (RAMS) and since 2015 he has held the position of scientific supervisor of the Federal State Budgetary Scientific Institution "Institute of Biomedical Chemistry named after V.N. Orekhovich".

2. **Georgy Golukhov** - graduated from the 2nd Moscow State Medical University named after N.I. Pirogov (at present - Pirogov Russian National Research Medical University (RNRMU)). From 2012-2014, Mr. Golukhov held the post of Minister of the Moscow Government, Head of the Moscow Health Department. Since 2014 Mr. Golukhov has been holding the post of the President of the State Budgetary Healthcare Institution "City Clinical Hospital 31 of the Moscow Health Department".

3. **Sergey Dushelikhinsky** - has been the Commercial Director of the Company since 2016, and a member of the Board of Directors since June 2008. Mr. Dushelikhinsky graduated from the Moscow Technical University and has 13 years' experience in the sales of medicines.

4. **Egor Kulkov** - has been a member of the Company's Board of Directors since May 2006. Mr. Kulkov has occupied various executive and financial positions in various companies and now he holds the post of Deputy General Director of VITA RIELT LLC. Since 2005, Mr. Kulko has been a member of the Board of Directors of Pharmstandard-UfaVITA JSC. He graduated from Novosibirsk State University.

5. **Yury Ponomarev** - an independent member of the Company's Board of Directors. Since 2012 Mr. Ponomarev has held the post of the General Director of YuAERO LLC.

6. **Grigory Potapov** - Chief Executive Officer of the Company, since 2015 - Chairman of the Executive Board. In 2013-2014, Mr. Potapov held the post of First Deputy General Director for Economics and Investment of the Federal State Unitary Enterprise "Scientific and Production Association for Immunological Preparations "Microgen". He graduated from Moscow State University named after M.V. Lomonosov.

7. **Andrey Reus** - held the positions of General Director of "United Industrial Corporation "Oboronprom" JSC and General Director of "Managing Company "United Engine Corporation" JSC from 2008 - 2012. In 2012-2013 he held the post of General Director of Constanta Group LLC. Since 2013, Mr. Reus has been the General Director of the Non-profit Partnership Eurasian Center for Integrative Studies and Communications.

8. **Ivan Tyryshkin** - graduated from the Russian Economics Academy. In 2008-20015, Mr. Tyryshkin held the position of the President of Rusgrain Holding JSC and the General Director of Faberge LLC, concurrently. Today, Mr. Tyryshkin is the Development Director of SKRIN JSC and a member of the Board of Directors of the following companies: Self-Regulated Organization National Association of Stock Market Traders (NAUFOR SRO), Nonprofit Partnership for the Development of Financial Market RTS, RTS-Tender LLC, Independent Registrar Company JSC.

9. **Viktor Fedlyuk** - Deputy General Director for Legal Affairs since 2006 and a member of the Board of Directors of the Company since June 2008. Mr. Fedlyuk graduated from National Legal Academy of Ukraine and has 18 years' experience in legal practice. From 1996 to 2003 Mr. Fedlyuk worked for Sibneft JSC.

10. **Viktor Kharitonin** - Chairman of the Company Board of Directors since May 2006. Mr. Kharitonin graduated from Novosibirsk State University. Today, Mr. Kharitonin is the Executive Director of Pharmstandard OJSC and a member of the Board of Directors in Mosoblfarmacia JSC, OTCPharm PJSC, Trading Network Aptechka JSC, Tyumen Plant of Medical Equipment and Tools JSC.

11. **Vladimir Chupikov** - graduated from Novosibirsk State University. Mr. Chupikov held the post of General Director of Pharmstandard LLC from 2007 to 2014. Since 2015 he has held the position of Operations Director of the Company

INFORMATION ON THE MEETINGS HELD IN 2015

In 2015, there were 95 meetings of the Board of Directors which were focused mainly on the consideration of related party transactions. Furthermore, during the meetings, decisions concerning the use of the Company's rights deriving from the Company's participation in other organizations (ownership of shares, stocks, parts) were made, including voting on issues of the agenda of the supreme management body of these organizations, and the internal documents were approved as well.

MANAGEMENT BOARD

The Management Board is a collective executive body acting in accordance with the interests of the Company's shareholders under the guidance of the General Shareholders' Meeting and the Company's Board of Directors. The Management Board of the Company is responsible for implementing the Company's objectives, development strategy and policy, and managing the Company's day-to-day operations within the competence specified by the Company's Charter.

The Management Board was established to:

- protect the Company shareholders' rights and legitimate interests;
- develop the Company's growth strategy solutions;
- implement the Company's financial and economic policy and develop solutions for important issues concerning the Company's day-to-day operations and coordinate the operation of its business units;
- improve the efficiency of the Company's internal control and risk monitoring systems;
- ensure high returns on the Company's assets and maximize the Company's operating profit.

The Management Board is headed by the Chief Executive Officer and includes the following members

Dmitry Zaytsev – graduated from Moscow State University of Railway Engineering, Moscow State Legal Academy. Since 2007, Mr. Zaytsev has held the post of Deputy Chief Executive Officer for Intellectual Property.

Grigory Potapov – Chief Executive Officer of Pharmstandard OJSC, Chairman of the Management Board. See the curriculum vitae in the Board of Directors Section.

Vladimir Chupikov – See the curriculum vitae in the Board of Directors Section.

AUDIT COMMITTEE

Members of the Audit Committee appointed in 2015:

Aleksandr Archakov –
Chairman

Yury Ponomarev

Andrey Reus

The Audit Committee was established mainly for developing and providing recommendations concerning the following issues to the Board of Directors:

- evaluation of candidates for the position of the Company Auditor,
- review of the auditor reports,
- assessment of the internal controls efficiency and development of recommendations for their improvement.

The Audit Committee acts within its competence in order to analyze the external audit and financial statements of the Company and to provide the Company's Board of Directors with corresponding recommendations. The Audit Committee also works in cooperation with the External Auditor and Audit Commission of the Company and with the Company's structural divisions if necessary.

4.2 INFORMATION FOR SHAREHOLDERS AND INVESTORS

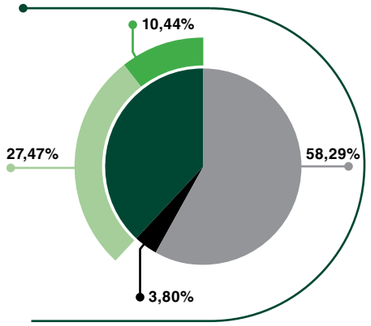
The total amount of ordinary Company's shares outstanding i s 37,792,603 shares. The total amount of GDRs (global depository receipts) giving the right to acquire the shares of Pharmstandard PJSC i s 41,519,804 GDRs. 4 GDRs are equal to one share of Pharmstandard PJSC.

On 27 September 2013, the Extraordinary General Shareholders' Meeting made the decision to reorganize Pharmstandard OJSC by spinning-off the branded OTC business into a separate entity – OTCPharm PJSC. As a result, at the end of December the Company acquired 670,787 common shares and 3,064,532 GDRs representing 3.8021% of the authorized capital of Pharmstandard PJSC to fulfill buyout obligations with respect to ordinary shares held by certain shareholders. In 2014, the mentioned number of shares was sold to a subsidiary company Pharmstandard-Leksredstva OJSC.

In March 2007, the Company's shares were successfully floated on the Russian Trading System (RTS), and in May 2007 Pharmstandard conducted an Initial Public Offering (IPO) of its shares (in the form of Global Depository Receipts (GDRs)) on the London Stock Exchange (LSE).

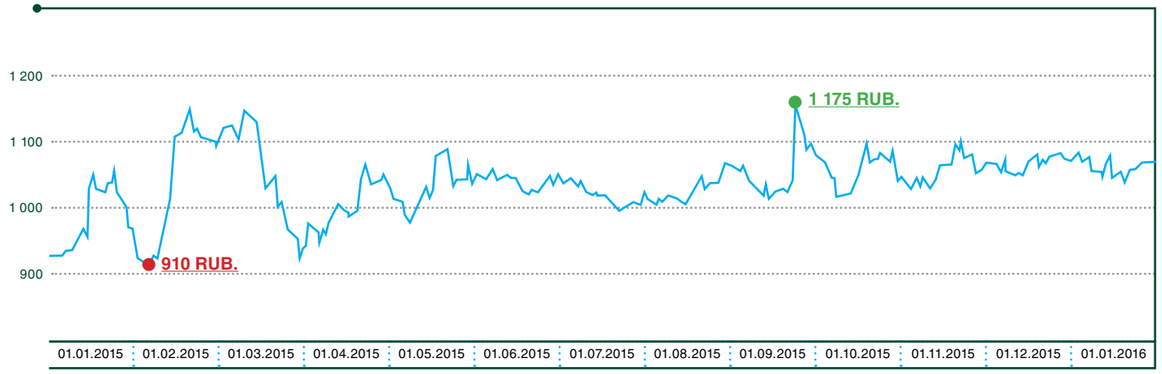
The Company's market capitalization on the Moscow Exchange increased by 17% in a year and amounted to RUB 39.3 bn as of the end of December 2015 (a share price correspondingly increased from RUB 925 to RUB 1,080). In 2015, a minimum price per share was RUB 910 on the 2nd of February and maximum price per share was RUB 1,175 on the 4th of September

SHAREHOLDERS STRUCTURE AS OF 31 DECEMBER 2015



- **58,29%** Augment Investments Limited (ordinary shares): **20 528 380**
- **3,80%** Pharmastanard-Leksredstva OJSC (subsidiary; ordinary shares)
- **37,91%** Free float
  - **27,47%** London Stock Exchange (Global depositary receipts)
  - **10,44%** Moscow Exchange (ordinary shares)

SHARE PRICE PERFOMANCE (MOSCOW EXCHANGE), RUB/SHARE



LEKKO

Lekko - Russian innovative company, specialized in R&D, production and promotion of highly efficient drugs. The company demonstrates 18 years of successful

2015 PRODUCTION, million packs

49.8

LOCATION

VLADIMIR REGION

PRODUCT RANGE, items

13

MANUFACTURING CAPCACITY, million packs

97

STAFF, number of employees:

281

NUMBER OF SKU, items

22

5.0 PERSONNEL AND SOCIAL RESPONCIBILITY

5.1 HUMAN RESOURCES

Successful development of Pharmastandard is a the continuous work of about 6,500 employees.

The table below shows the headcount for each operating company of the Pharmstandard Group as of 31 December 2015.

Company	Production/ logistics	Research& Development	Marketing/ promotion	Administrative staff	Total
Pharmastandard	142	62	415	433	**1052**
Leksredstva	1580	37	0	117	**1734**
UfaVITA	1444	37	0	141	**1622**
Tomskhimpharm	452	32	0	89	**573**
TZMOI	80	0	0	31	**111**
Lekko	229	0	0	52	**281**
Biomed	134	2	0	45	**181**
Selltera Pharm	47	12	0	32	**91**
Medtechnika	96	2	7	39	**144**
Pharmapark	107	40	0	57	**204**
Biolik	253	16	1	144	**414**
Other	35	0	0	8	**43**
TOTAL	**4599**	**240**	**423**	**1188**	**6450**

There were no significant changes in the headcount compared to 31 December 2014. The majority of the Pharmstandard Group staff (more than 4500 employees) is employed in operations and logistics. More than 80% of the Pharmstandard Group employees have higher education.

The Group-wide and operating companies' average headcount dynamics, absence of collective employment disputes or discontinued operations initiated by trade unions, and a low personnel turnover in the operating companies, indicate the competent human resource policy and sustainable development of the Company.

Pharmstandard Group heavily invests in the development of the human capital of the company. Health and professional growth of employees are the priority areas for investing.

Pharmstandard Group operating companies have the established continuous professional training and skill improvement system instrumental for maintaining a high level of personnel competence.

One of the priorities of the Pharmstandard Group strategic development is the increase of the local content in the joint projects with foreign top pharmaceutical companies. Thus, the key areas of advanced professional training include high-tech process line operation and maintenance skills, and GMP rules and regulations.

The Pharmstandard Group's costs of employees training in the amount of RUB 39 million remain at the level of prior year.

The incentive and compensation system existing in Pharmstandard Group encourages employees to do their best to achieve the Company's business objectives.

The Company is committed to maintain and provide:

- a competitive compensation level in the labour markets in the regions of the Company's operations;
- regular timely payroll payments and a reasonable wage increase;
- social benefits.

Pharmstandard Group employee's compensation includes fixed (70%) and variable (30%) components. The variable component is based on the employee motivation mechanisms providing for clear and transparent target bonus setting and calculation based on the key collective and individual performance indicators. Performance-linked monthly/ quarterly bonus payment is directly linked with the operating companies' performance in the respective accounting period.

Despite the difficult economic situation in Russia, the average payroll salary in Pharmstandard Group operating companies increased by more than 10 %.

With respect to the employees involved in core and support operations, the unified wage rate scale is applied, which is an effective tool for rate setting and labour compensation. It is based on wage grades and corresponding multipliers used to set a wage level for any employee depending on his/ her qualification.

5.2 SOCIAL RESPONSIBILITY

The management of Pharmstandard Group realizes the high level of its social responsibility to the its employees, consumers and society.

SOCIAL RESPONSIBILITY TO EMPLOYEES

The social package for Pharmstandard Group employees includes private medical insurance, life insurance, travel insurance for trips in Russia and abroad, payment for children recreation camp vouchers, health resort treatment and a targeted welfare assistance.

Health of employees is one of the company's core values. In 2015, the Company spent more than RUB 25 million on the voluntary medical insurance of employees.

The employees working in the manufacturing of medicines with harmful and dangerous conditions, undergo periodic medical examinations.

The largest operating companies have medical stations that allow the employees to receive first aid in shortest time possible.

The total social budget of the Company for 2015 exceeded RUB 57 million. In 2016, an increase in the social budget is planned.

SOCIAL RESPONSIBILITY TO CONSUMERS

Pharmstandard Group's mission is to maintain the health of the citizens of our country and provide the population with high-quality, effective and affordable medicines. To perform this mission, the Company actively participates in the state program aimed at medicines provision and substitution of expensive foreign medical products with affordable domestic medicines manufactured in accordance with international standards.

The Company highly appreciates the physicians' and patients' loyalty to the medicines marketed under the Pharmstandard trade name. More than 10% of employees of the Pharmstandard Group operating companies work in the quality control service.

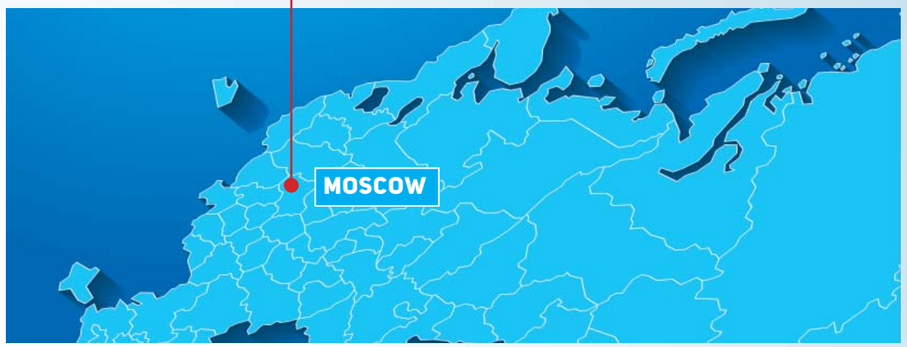
In order to ensure high quality of our pharmaceutical products, Pharmstandard consistently improves the manufacturing processes, expands and upgrades its manufacturing capacity.

CORPORATE SOCIAL RESPONSIBILITY TO SOCIETY

Pharmstandard Group operating companies are bona fide taxpayers. In 2015, Pharmstandard Group operating companies in the aggregate paid over RUB 4.1 billion to the budgets of at various levels.

Pharmstandard PJCS, and five major operating companies of the Group (Pharmstandard-Leksredstva OJSC, Pharmstandard-UfaVITA OJSC, Pharmstandard-Tomskhimpharm OJSC, Lekko CJSC, Tyumen Medical Equipment and Tools Plant CJSC) are amongst the largest taxpayers in the regions of their operations.

PHARMAPARK



Pharmapark - is privately-owned russian pharmaceutical company. Established in 2001 it is involved in full-cycle development and production of APIs and substances and finished pharmaceutical products . It also serves third parties in development of biotech drugs.

2015 PRODUCTION,
thousand packs

520

2015 PRODUCTION,
litres of substances

329*

MANUFACTURING CAPCACITY,
litres

634

LOCATION

MOSCOW

PRODUCT RANGE,
items

7

STAFF,
number of employees:

204

NUMBER OF SKU,
items

18

*** - where 242 litres for sales.**

6.0 FINANCIAL REVIEW

6.1 MANAGEMENT REVIEW AND ASSESSMENT OF FINANCIAL POSITION AND PERFORMANCE

THE COMPANY'S PERFORMANCE

The core operations of Pharmstandard Group include the manufacturing and sales of finished pharmaceutical products, substances and medical equipment. Pharmstandard Group revenue structure in 2015 looks as follows (in % of total sales; the aggregate % of sales may differ from 100% due to rounding of intermediate values):

- Pharmaceutical products sales – 84.9%
- Contract manufacturing income – 5.7%
- Agency fees– 4.2%
- Sale of finished product and raw material balances attributable to OTCPharm PJSC – 1.9%
- Medical equipment sales – 3.3%.

Phatmaceutical products and medical equipment are primarily marketed under direct contracts with wholesale distributors and/or healthcare institutions and procurement contracts awarded under public government tenders.

The table below summarises 2015 vs. 2014 comparative in absolute terms (RUB m) and as percentage of sales..

Third party product ("TPP") sales are shown separately in the Table to reflect the Group's business specifics in more detail. This approach to product portfolio structuring does not impact pharmaceutical sales results.

CONSOLIDATED REVENUE

In 2015 Pharmstandard consolidated revenue amounted to RUB 47,195 million versus RUB 41,223 million in 2014. A 14.5% YoY (or RUB 5,972 million) growth was driven by increase in TPP sales and proceeds from contract manufacturing for OTCPharm after OTCPharm spin-off into a separate legal entity from Q2 2014.

PHARMACEUTICAL PRODUCTS

Sales data under this category include fill-finish pharmaceutical products manufactured on Pharmstandard Group's manufacturing platform and products purchased from third parties for re-sale.

Pharmaceutical sales in 2015 increased by 22.3% up to RUB 40,073 million vs RUB 32,772 million in 2014, with sales of own pharmaceutical products accounting for 29%, TPPs for 66% and APIs for 5% of the pharmaceutical sales.

Organic pharmaceutical sales in 2015 amounted to RUB 11,660 m, which is in line with the prior-year results. Within organic pharmaceutical sales, shares of the OTC products and Rx products amounted to 44% and 56%, respectively.

Organic prescription product (Rx) sales in 2015 declined by RUB 365 m (-5% YoY) to RUB 6,566 m. The top decliners were Biosulin

2014-2015	Consolidated results of Pharmstandard					
	2015	% of sales	2014	% of sales	Growth, RUB m	Growth, %
Revenue	**47 195**	**100,0%**	**41 223**	**100,0%**	**5 972**	**+14,5%**
Pharmaceutical products[12]	**40 073**	**84,9%**	**32 772**	**79,5%**	**7 301**	**+22,3%**
Prescription (Rx)	6 566	13,9%	6 931	16,8%	(365)	(5,3%)
Branded	5 254	11,1%	5 924	14,4%	(670)	(11,3%)
Non-branded	1 312	2,8%	1 007	2,4%	305	+30,3%
Over the Counter (OTC)	5 094	10,8%	5 548	13,5%	(454)	(8,2%)
Branded	1 615	3,4%	2 766	6,7%	(1 151)	(41,6%)
Non-branded	3 479	7,4%	2 782	6,7%	697	+25,1%
Third party products (TPPs)	26 408	56,0%	19 025	46,2%	7 383	+38,8%
Other sales and substances (APIs)[12]	2 005	4,2%	1 268	3,1%	737	+58,0%
Contract manufacturing	2 690	5,7%	1 504	3,6%	1 186	+78,9%
Agency fees	1 979	4,2%	1 829	4,4%	150	+8,2%
Sales to OTCPharm[12]	878	1,9%	3 998	9,7%	(3 120)	(78,1%)
Medical equipment	1 575	3,3%	1 120	2,7%	455	+40,6%
Cost of sales	**(29 398)**	**(62,3%)**	**(23 007)**	**(55,8%)**	**(6 391)**	**+27,8%**
Gross profit	**17 797**	**37,7%**	**18 216**	**44,2%**	**(419)**	**(2,3%)**
Selling and distribution costs (S&D)	(2 534)	(5,4%)	(4 134)	(10,0%)	1 600	(38,7%)
General and administrative expenses (G&A)	(2 687)	(5,7%)	(2 300)	(5,6%)	(387)	+16,8%
Other income and expenses, net	4 623	9,8%	2 146	5,2%	2 477	+115,5%
Financial income and expenses, net	479	1,0%	(108)	(0,3%)	587	(542,2%)
EBITDA	**18 234**	**38,6%**	**14 873**	**36,1%**	**3 361**	**+22,6%**
Profit before income tax	**17 678**	**37,5%**	**13 820**	**33,5%**	**3 858**	**+27,9%**
Income tax	(3 747)	(7,9%)	(2 724)	(6,6%)	(1 023)	+37,5%
Profit for the year	**13 931**	**29,5%**	**11 095**	**26,9%**	**2 836**	**+25,6%**
Depreciation and amortisation	(1 035)	(2,2%)	(945)	(2,3%)	(90)	+9,6%
Foreign exchange gain/loss, net	4 323	9,2%	1 641	4,0%	2 682	+163,4%

(11) This section contains more detailed information on Group's revenues compared to Note 22 of the Consolidated financial statements. For example, API sales to OTCPharm PJSC are segregated into the separate line.

(12) Other income and expenses include Group's share in (loss)/profit of a joint venture and associates.

(13) EBITDA is Earnings before Interest, Taxes, Depreciation and Amortization.

(-27%), Terpincodum (15%) and Phosphogliv (-60%). Phosphogliv sales declined due to transfer of this product to the OTC segment in order to expand the distribution channels. Sales of Biosulin and Terpincodum decreased due to overall demand decline.

Organic over-the-counter (OTC) sales in 2015 declined by 8% to RUB 5,094 m. Revenue decline results from the transfer of the majority of the OTC product portfolio to OTCPharm PJSC. Validol (+56%), activated carbon (+48%), Corvalol (+31%) were the growth leaders in Pharmstandard Group's product portfolio.

In 2015 Third Party Products (TPP) segment sales grew by RUB 7,383 m to RUB 26,408 m (+39% YoY) vs RUB 19,025 m in 2014. Sales growth was mainly attributed to Revlimid ab Rebif medicines. In fact, TPP segment was the only growth drivers in the Pharmaceutical products. This relates to the fact that third party production is located at Pharmstandard's facilities (TPP sales revenue increased from 70% to 77%) and production in this segment becomes more localized. The more localized the production cycle is, the more support the producer gets from the state and more preferences gets during the auctions..

CONTRACT MANUFACTURING

Contract manufacturing revenue in 2015 grew by RUB 1,186 million YoY to RUB 2,690 million. The growth in contact manufacturing revenue is attributable to toll material manufacturing, including for OTCPharm PJSC.

AGENCY FEES

Agency fee income amounted to RUB 1,979 million in 2015 (+8% vs 2014). The increase in agrency fee income primarily relates to the distribution agency contracts for OTCPharm's products..

SALES OF RAW MATERIALS AND FINISHED GOODS TO OTCPHARM

The sales of raw materials and finished goods to OTCPharm PJSC in 2015 reduced by RUB 3,120 million (-78%) to RUB 878 million. The most part of raw materials and finished goods was sold to OTCPharm PJSC in 2014 as part of the spin-off of the Group's branded OTC business into the separate legal entity. The total revenue for these operations in 2014 amounted to RUB 3,998 million.

MEDICAL EQUIPMENT

In 2015 the sales of medical equipment grew by RUB 455 million YoY (+41%) to RUB 1,575 million vs RUB 1,120 million in 2014.

THIRD PARTY PRODUCTS

For a better visibility we move TPP sales into a separate section. TPPs are in particular represented by the drugs sold under federal programmes.

TPP LEADERS

The major growth drivers in the TPP segment are Revlimid, Rebif and Kemeruvir. A significant sales growth of Revlimid and Rebif was secured by the supplies under the 7 Nosologies Federal Program.

Overall, TPP sales grew by RUB 7,383 million to RUB 26,408 million in 2015, vs RUB 19,025 million in 2014 (+38.8%).

Product	2015		2014		Variance		% of the total growth
	Sales, RUB m	% of TPP sales	Sales, RUB m	% of TPP sales	RUB m	%	
Revlimid	8 135	30,8%	924	4,9%	+7 211	+780,2%	97,7%
Rebif	1 749	6,6%	3	-	+1 746	+54128,4%	23,6%
Kemeruvir	864	3,3%	31	0,2%	+833	+2697,7%	11,3%
Tasigna	1 051	4,0%	250	1,3%	+801	+321,1%	10,8%
Octofactor	702	2,7%	3	-	+699	+25771,7%	9,5%
Others	13 907	52,7%	17 814	93,6%	(3 907)	(21,9%)	(52,9%)
TPD, total	**26 408**	**100,0%**	**19 025**	**100,0%**	**+7 383**	**+38,8%**	**100,0%**

7 NOSOLOGIES

The government procurement of expensive drugs for the treatment of orphan diseases is centralized and funded through the Federal Program 7 Nosologies. Additionally to Revlimid and Rebif sales which were TPP growth leaders, 2015 saw a substantial growth in Octofactor sales (above 100%).

Velcade and Mabthera sales have been declining since 2014 due to the patent protection expiration and the launch of generics.

Overall, sales of the 7 Nosologies Federal Program grew by RUB 6,856 million to RUB 14,562 million in 2015 vs RUB 7,706 million in 2014 (+89%).

Drug	2015		2014		Variance		% of the total growth
	Sales, RUB m	% of TPD sales	Sales, RUB m	% of TPD sales	RUB m	%	
Revlimid	8 135	30,8%	924	4,9%	+7 211	+780,2%	97,7%
Rebif	1 749	6,6%	3	0,0%	+1 746	+54128,4%	23,6%
Octofactor	702	2,7%	3	0,0%	+699	+25771,7%	9,5%
Pulmozyme	1 082	4,1%	875	4,6%	+207	+23,6%	2,8%
Infibeta	4	0,0%	9	0,0%	(5)	(59,3%)	(0,1%)
Cerezyme	750	2,8%	984	5,2%	(234)	(23,8%)	(3,2%)
Mabthera	1 433	5,4%	2 716	14,3%	(1 283)	(47,2%)	(17,4%)
Velcade	707	2,7%	2 192	11,5%	(1 485)	(67,7%)	(20,1%)
Federal programme, total	**14 562**	**55,1%**	**7 706**	**40,5%**	**+6 856**	**+89,0%**	**92,9%**

COST OF SALES

Cost of sales include raw materials/ components costs, TPP purchase costs, production overheads, direct labour costs, trademark amortization and depreciation of fixed asset, and contract manufacturing related expenditure.

Cost of sales grew by RUB 6,391 million in 2015 (+27.8% YoY) to RUB 29,398 million vs RUB 23,007 million in 2014. An increase in the cost of sales in absolute terms was mainly driven by the overall increase of sales volumes.

The total share of major cost componets - Materials and components and Third Party Products - grew by 30% YoY and comprised 87% of the total cost of sales in 2015

(RUB m)	2015	% of sales	2014	% of sales	Variance, RUB m	Variance, %
Revenue	47 195	100,0%	41 223	100%	5 972	+14,5%
Cost of sales	29 398	62,3%	23 007	55,8%	6 391	+27,8%
Materials and components	7 333	15,5%	6 150	14,9%	1 183	+19,2%
Third party products	18 257	38,7%	13 571	32,9%	4 686	+34,5%
Productions overheads	2 422	5,1%	2 040	4,9%	382	+18,7%
Depreciation and amortization	869	1,8%	747	1,8%	122	+16,4%
Direct labour costs	517	1,1%	499	1,2%	18	+3,5%
Gross profit	**17 797**	**37,7%**	**18 216**	**44,2%**	**(419)**	**(2,3%)**

The overall increase in cost of sales in 2015 was caused by the following changes:

1. 1Materials and components costs grew from RUB 6,150 million in 2014 to RUB 7,333 million in 2015 (+19.2%) due to RUB devaluation effect on purchases of raw materials and components priced in foreign currencies, and high rates of inflation
2. Third Party Products costs in absolute terms grew by RUB 4,686 million from RUB 13,571 million in 2014 to RUB 18,257 million in 2015, mainly due to the growth of the TPP segment sales
3. Production overheads increased from RUB 2,040 million in 2014 to RUB 2,422 million in 2015 in line with the overall production Increase, including contract manufacturing arrangements
4. Depreciation and amortisation increased from RUB 747 million in 2014 to RUB 869 million in 2015
5. Direct Labour Costs grew from RUB 499 million in 2014 to RUB 517 million in 2015 (+3.5%) due to indexing of salaries

The table below shows the revenue, COGS and gross profit evolution by the following segments: Organic Pharmaceutical Products (including OTCPharm's sales and COGS in 2014), Third Party Products, Medical Equipment, Contract Manufacturing and Agency Fees.

Segment	2015			2014			Variances, RUB m			Variance, %		
	Revenue	Cost of sales	Gross profit	Revenue	Cost of sales	Gross profit	Revenue	Cost of sales	Gross profit	Revenue	Cost of sales	Gross profit
Organic pharmaceutical products	14 543	7 701	6 841	17 746	7 651	10 094	(3 203)	50	(3 253)	(18%)	+1%	(32%)
TPP	26 408	18 257	8 151	19 025	13 571	5 454	7 383	4 686	2 697	+39%	+35%	+49%
Medical equipment	1 575	1 177	399	1 120	702	418	455	474	(19)	+41%	+68%	(5%)
Contract manufacturing and agency fees	4 669	2 263	2 406	3 333	1 083	2 250	1 336	1 180	156	+40%	+109%	+7%
Total	47 195	29 398	17 797	41 223	23 007	18 216	5 972	6 391	(419)	+14%	+28%	(2%)

PHARMACEUTICAL PRODUCTS PRODUCED BY THE COMPANY

Cost of sales of pharmaceutical products produced by the Company in absolute terms grew by RUB 50 million YoY to RUB 7,701 million in 2015 (+1%) against the backdrop of 18% decline in the sales of these products. The largest impact on cost was from increase of the materials and components cost from RUB 4,888 million in 2014 to RUB 4,984 million in 2015 (+2%).

THIRD PARTY PRODUCTS

TPP costs increase by RUB 4,686 million from RUB 13,571 million in 2014 to RUB 18,257 million in 2015 (+35%) was driven by an overall increase in TPP sales (+39%) mainly due to Revlimid and Rebif.

GROSS PROFIT

Gross profit is calculated as sales revenue less cost of sales..

(RUB m)	2015	% of sales	2014	% of sales	Variance, RUB m	Variance, %
Revenue	47,195	100.0%	41,223	100.0%	5,972	+14,5%
Cost of sales	29,398	62.3%	23,007	55.8%	6,391	+27,8%
Gross profit	17,797	37.7%	18,216	44.2%	(419)	(2,3%)

The Group's gross profit decreased by 2.3% from RUB 18,216 million in 2014 to RUB 17,797 million in 2015. Gross profit decrease in absolute terms is explained by significant reduction of gross margin.

Gross margin decreased from 44.2% in 2014 to 37.7% in 2015 due to:

1. Forex effect on the cost of materials and components due to RUB devaluation and price inflation due to a changing macroeconomic environment;

2. Changes in the sales structure, namely TPP share increase (TPP is traditionally less profitable), decrease in highly profitable products share after the spin-off of OTCPharm PJSC;

3. Significant one-off sale of remaining finished goods to OTCPharm PJSC in 2014, no such revenue in 2015 (RUB 2,313 million in 2014).

CONTRACT MANUFACTURING AND AGENCY FEES

The cost of contract manufacturing grew by RUB 1,180 million YoY to RUB 2,263 million in 2015 and related to manufacturing for OTCPharm PJSC..

MEDICAL EQUIPMENT

The cost of the sales of medical equipment grew year-over-year to RUB 1,177 million (+67.5%) with a sales growth of 40.5%. Leading cost growth rates in 2015 year-over-year are due to a change in the structure and range of sales and a significant growth of FX rates with a substantial import share in sales cost.

SELLING AND DISTRIBUTION COSTS

Selling and distribution costs (S&D) include expenses mainly related to promotion and advertising.

S&D costs reduced in absolute terms by RUB 1,599 million (-38.7%) from RUB 4,134 million in 2014 to RUB 2,534 million in 2015. YoY reduction was mainly caused by a decrease in advertising and promotion costs by RUB 1,347 million (-85.6%) and HR expenses by RUB 164 million (-10.9%) following the spin-off of OTCPharm PJSC.

Other commercial expenses (transportation and insurance, communications, travel, rental etc.) slightly decreased from RUB 1,057 million in 2014 to RUB 968 million in 2015 (8.4%, or RUB 88 million in absolute terms).

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses (G&A) include administrative personnel payroll expenses, information and consultancy service fees, and other expenses.

The Company's overall G&A expenses increased by RUB 387 million (+16.8%) from RUB 2,300 million in 2014 to RUB 2,687 million in 2015. G&A share in total sales remained flat at 5.7% in 2015 (vs 5.6% in 2014).

The key growth drivers are**:**

1. increase in payroll expenses from RUB 1,404 million in 2014 to RUB 1,696 million in 2015 (+20.7%), mainly due to salary indexation for the administrative personnel of Group companies;

2. rent expense increased from RUB 132 million in 2014 to RUB 224 million in 2015 (+69%). Several rent agreements are priced in foreign currency, therefore the growth of exchange rates impacted RUB rent.

NET OTHER INCOME[14]

Net other income grew by RUB 2,477 million to RUB 4,623 million in 2015 mainly due to the following factors:

1. recognition of foreign exchange gain of RUB 4,323 million in 2015 versus RUB 1,641 million in 2014 (+RUB 2,682 million) resulting from efficient liquidity management;

2. income from the sale of rights to Pentalgin® trademark to OTCPharm PJSC in amount of RUB 380 million in 2015;

3. growth of fines and penalties by RUB 152 million YoY;

4. higher R&D expenses for Biolik, NTS+, Biomed, Selltera: up to RUB 163 million in 2015 vs RUB 37 million in 2014, at that the Group capitalised RUB 636 million of R&D in 2015;

5. income from financial discounts of suppliers in 2015.

FINANCIAL INCOME AND EXPENSES

Financial income includes interest income on short-term financial instruments, cash deposists and loans issued. Financial income grew by RUB 622 million to RUB 946 million in 2015 versus RUB 323 million in 2014 (+192%).

Financial expenses are mainly related to interest expenses on borrowings. Financial expenses grew by RUB 35 million to RUB 467 million in 2015 versus RUB 432 million in 2014 (+8%).

EBITDA

EBITDA[15] increased from RUB 14,873 million in 2014 to RUB 18,234 million in 2015 (+22.6%). EBITDA margin in 2015 was 38.6% versus 36.1% in 2014. A 2.5% margin growth was driven by higher sales revenue, lower S&D expenses and efficient liquidity management.

INCOME TAX EXPENSE

Income tax in 2015 amounted to RUB 3,747 million versus RUB 2,724 million in 2014. The effective tax rate in 2015 was 21.2% versus 19.7% in 2014. A higher tax rate in 2015 was due to adjusted previous periods' taxes and recognition of non-deductible (increased additional capital of a joint venture, etc.).

NET INCOME

The Company's net income increased from RUB 11,095 million in 2014, to RUB 13,931 million in 2015 (+25.6%). The net profit margin grew by 2.6% from 26.9% in 2014, to 29.5% in 2015.

CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability

(14) Other income and expenses include Group's share in (loss)/profit of a joint venture and associates.
(15) EBITDA is Earnings before Interest, Taxes, Depreciation and Amortization.

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 Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company's policy is to keep the gearing ratio not more than 60%. The Company'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. The gearing ratio is reducing from year to year.

Our liquidity requirements are primarily caused by the need to increase the working capital of the Company, finance our own capital investment programmes, reconstruct the production, organise manufacturing in accordance with the GMP requirements, expand the range and improve the product portfolio yield based on point acquisitions of subsidiaries and intangible assets.

In 2014 and 2015, we financed our operations and invested funds using free cash and short-term borrowings. We intend to finance acquisitions and joint projects with other pharmaceutical companies in the future using our own free cash and external borrowings if necessary.

The table below summarises summary reports on cash movement in 2014 and 2015

Cash flows	Year ended 31 December 2015, RUB m	Year ended 31 December 2014, RUB m
Net cash from operating activities	15 625	9616
Net cash used in investing activities	(9 896)	(9 887)
Net cash from/(used in) financing activities	35	(6554)
Cash and cash equivalents at the end of the year	14 389	8 542

NET CASH FROM OPERATING ACTIVITIES

All our cash flows from operations over the periods covered by the Group's consolidated reporting were from the sale of pharmaceutical products, medical equipment, and as agency fees from the distribution of pharmaceutical products owned by our contractors and fees for services under contracted manufacturing agreements

Standard business contracts signed with distributors, usually provide for payment deferral for 90 to 120 days from the shipment date, but we offer individual services of trade credits to every distributor. The payment deferral under government-financed contracts does not exceed 90 days from the time of performance by the Group of its obligations under each government contract. With supplies under joint commercial projects with other third party manufacturers, the payment deferral is determined individually per contract from 6 to 150 days after delivery.

Net cash from operating activities in 2015 amounted to RUB 15,625 million.

In 2015, a revenue growth was observed in the following segments:

1) Non-branded prescription products:
A segment growth amounting to RUB 305 million mainly driven by an increase in Tuberculin sales by over RUB 300 million.

2) Third party products:
A segment growth amounting to RUB 7,383 million mainly driven by an increase in Revlimid sales by over RUB 7,211 million.

3) Medical equipment segment:
A segment growth amounted to RUB 455 million. The main growth driver was consistent implementation of the company's strategy aimed at upgrading and developing a full product portfolio, including a new range of national equipment in line with the national import substitution policy and optimisation of internal and external operations.

4) Revenue from agency fees and contract manufacturing for OTCPharm PJSC.

A cash inflow from reduction of receivables in 2015 amounted to RUB 997 million. As at 31 December 2015, a group of related parties partially repaid its debt due to the Company.

The Group's payables increased:

- The Group increased its payables for third party products due to larger purchases of Revlimid to be paid for in 2016 on contract conditions.
- Payables for purchased materials grew in the end of 2015 due to the supply of substances for Rebif full-cycle manufacturing with payment due in July 2016 on contract conditions.
- The Group increased its debt due to its related party OTCPharm PJSC under an agency agreement due to the better payment discipline of buyers for the goods shipped under agency agreements in the second half of 2015. This debt will be repaid to OTCPharm PJSC in Q1 2016.
- Foreign exchange gain/loss had a significant impact on the Group's cash flow.

THE CASH OUTFLOW FROM THE GROUP'S STOCK IN 2015 AMOUNTED TO RUB 3,359 MILLION

Changes in the Group's stock were mainly caused by:

- Growth of finished goods volume primarily due to larger stocks of Mabthera, Erbitux, Intelence, and Kemeruvir to be sold in 2016;
- Growth of finished goods value related to a higher cost of inventories priced in foreign currencies due to RUB devaluation..

Income tax paid by the Group in 2015 amounted to RUB 4,881 million vs RUB 2,308 million in 2014. The main reason for higher tax charges in 2015 was final income tax payments for 2014 made before 28 March 2015 and increase of interest income, forex gain and financial discounts received.

NET CASH USED IN INVESTING ACTIVITIES

Net cash used in the Group's investing activities in 2015 and 2014 amounted to RUB 9,896 million and RUB 9,887 million, respectively.

The most significant investment activities in these periods included:

transactions with long-term and short-term financial assets, mainly depositing of free cash in banks and loan issuance, including loans to related parties;

(ii) acquisition of property, construction and modernization of production capacities, purchase of equipment, including that to meet the current GMP requirements (RUB 2,300 million and RUB 2,381 million in 2015 and 2014, respectively)

These investments were mainly part of manufacturing and logistic asset development within the Group and required for our manufacturing sites equipment at in accordance with the GMP standards, including without limitation:

- Pharmstandard-UfaVITA (Ufa): A pre-filled syringe area was launched in 2015; reconstruction of the Mabthera line was continued and expected to be launched in Q2 2016. FPP line and a new boiler facility were under construction in 2015 to be started up in July 2016.
- Pharmstandard-Leksredstva (Kursk): - Reconstruction of the workshop 2 with a dosed spray line set up; reconstruction of area 5 in workshop 3, involving the installation of an air conditioning system; reconstruction of a finished products warehouse, involving setting up of a room with special temperature conditions. Significant investment is allocated to purchase cutting-edge equipment due to the expansion of a product range (including those for OTCPharm, Servier, and Nativa).
- Ongoing replacement of worn-out equipment at the Group's facilities, including equipment in accordance with the GMP requirements in Russia and Ukraine;
- Acquisition by Pharmstandard PJSC of vehicles for renovation of its car fleet and for further operational lease to OTCPpharm.

In 2015, the Company financed R&D for the total amount of RUB 603 million. Promising areas are as follows:

- Development of blood plasma products
- Development of a immunotherapy technology for oncology diseases.

In 2015, the Company invested RUB 678 million (USD 11 million) in the research companies located in the United States.

The Group granted RUB 4,675 million of loans in 2015 (vs RUB 3,335 million in 2014) to its related parties and RUB 1,850 million (vs RUB 1,864 million in 2014) of loans to third parties. More details are available in notes 15 and 16 of the Groups's consolidated financial statements. A total of RUB 1,298 million was repaid in 2015 under the loans granted previously to third parties.

The net cash outflow in 2015 as payments for promissory notes amounted to RUB 2,489 million - the Company acquired marketable promissory notes of banks.

The net cash outflow in 2015 to short-term deposits amounted to RUB 99 million

NET CASH FROM/USED IN FINANCING ACTIVITIES

Net cash inflow in 2015 from the Group's financial activities amounted to RUB 35 million (vs the net cash outflow in 2014 for financial activities of RUB 6,554 million).

In 2015, the Group fully repaid its short-term loan of RUB 4,001 million and borrowed RUB 4,083 million as short-term financing.

6.2 RISK MANAGEMENT

In the ordinary course of business, the Group is exposed to different risks that may have a significant impact on its operational and financial performance, reputation, and share price. Group management applies comprehensive approach to mitigate or eliminate risks, including monitoring, development of specific policies in the relations with different external parties, and contracted work aimed at protection of Group's interests. Responsibility for risk management policy is shared by the Audit Committee of the Board of Directors, Audit Commission, Controlling and Auditing Office, and Internal Audit and Control Department to the extent of authority of each of the listed bodies.

QUANTITY AND QUALITY REVIEW OF MARKET RISKS

Country risk	
Description: Russia 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 is exposed to the impact of external market factors, especially cost of energy supplies and declining growth rates of the global economy. A new risk appeared in 2014, in relation to significant deterioration of the political situation in Ukraine, followed by economic sanctions against Russia and a decrease in its sovereign credit ratings resulting in uncertainty about further economic growth, access to capital markets, and cost of capital. A significant oil price decrease in 2015 and substantial RUB devaluation, as well as sanctions against Russia imposed by a number of countries, had a negative effect on the economic situation in Russia. All of these factors together with limited access to capital, increased the cost of capital, high inflation rates, reduction of the national sovereign rating below the investment level and uncertainty that could have an adverse effect on the Group's financial position, performance, and development in the future. The Group has operations in Ukraine. In 2015 the Ukrainian hryvnia significantly devalued to major foreign currencies and the National Bank of Ukraine imposed certain restrictions on foreign currency operations. Restrictions have also been introduced for certain cross-border settlements, including payments of dividends. International rating agencies have downgraded sovereign debt ratings for Ukraine. Currently, a loan program extension, which may necessitate certain austerity measures, is being negotiated by Ukraine with the International Monetary Fund. From 1 January 2014 and until the date of the approval of financial statements, the UAH devaluation against major foreign currencies approximated 194% based on the official USD/UAH exchange rate set by the NBU, while the devaluation rate in 2015 was another 144%.	**Impact:** Pharmstandard's main operations are concentrated in Russia where its six out of seven production sites are located. Russia is the Group's main sales market. One of our facilities is located in Ukraine. The current crisis in Russia and in Ukraine may have an adverse effect on the Group's financial position, performance, and development in the future. **Solution:** Management monitors the situation closely and takes necessary measures to minimise any adverse impacts to the extent possible. Further negative trends in political, macroeconomic and/or foreign trade conditions may have an uncertain effect on the Group's financial position and performance later, the the uncertainty cannon be mitigated at the moment. Nevertheless, Pharmstandard management believes that it takes all necessary measures to support the stability in these conditions.

Credit risk	
Description: According to Pharmstandard's general business principles, we sell all our products on credit. Credit conditions depend on our crediting and marketing policy for a specific customer.	**Impact:** The main credit risk of the Group arises when distributors refuse to fulfil their payment obligations under sale and purchase agreements. **Solution:** We handle credit risks based on our policy that supports products sales only to the customers who have a relevant credit reputation. Furthermore, we perform daily monitoring of sales and receivables using efficient internal control procedures and take adequate measures based on results. Our credit committee, including the CEO, Deputy CEO for Finance and relevant directors, determine the Credit Policy which is revised as the case may be. The Credit Policy splits our clients into two categories: (i) customers served by the Group on the prepayment basis, and (ii) customers served by the Group on deferred payment basis within a credit limit approved for each specific customer. Limits for some customers are set, subject to the provision of the security of their payment obligations under the agreement, e.g. as a bank guarantee in the amount of an established credit limit, suretyship, or a letter of credit. The Company strives to diversify its commercial and credit risks. Thus, in 2015, about 30% of Group's sales were made through five major distributors. In 2014, the situation was the same, while in 2013 main distributors accounted for 50% to 60% of sales. The book value of receivables less allowances is the maximum credit risk exposure at the end of each quarter. We believe that we do not have other significant credit risk exposure, except for five or six customers. Allowance for bad debts grew substantially in 2015. Although collection of receivables may be attributable to different economic factors, Pharmstandard management believes that there is no significant risk of loss under relevant contracts. When forming an allowance for bad debts, the Company was sceptical and cautions and took into account the current economic environment in Russia and in the world. We do not see any significant credit risks during the sale of products under government contracts. As government financing of the healthcare industry of the Russian Federation is stable and adequate, the Group does not have any issues in settlements with government authorities, and the average receivable turnoves is about one month.

Currency risk	
Description: A part of our payables, cash, and receivables, as well as some of our investments may be denominated in currencies other than Russian ruble which is the functional currency of all Russian companies and reporting currency of the Group.	**Impact:** We are exposed to the currency risk in transactions with foreign currencies which usually include: some purchases of main raw materials for Pharmstandard, acquisitions of subsidiaries, intangible assets, non-controlling interests and investments in associates; some long-term and short-term investments made in 2013 through 2015 are denominated in USD or EUR. Therefore, our cost of sales, operating expenses and costs reported in our consolidated financial statements, investments and payables recorded in Pharmstandard's balance sheet, may be exposed to the foreign exchange rates volatility **Solution:** Pharmstandard mitigates its currency risk by tracking exchange rates applicable to its cash, payables, loans and borrowings. In particular, this risk is mitigated through the use of new forecasting methods and personal control over each currency transaction. Our efficient budgeting system helps the management to make timely decisions on all companies of the Group.

Liquidity risk	
Description: A liquidity shortage may result in the Group's failure to fulfil its obligations to suppliers or crediting companies.	**Impact:** Management believes that Pharmstandard currently has sufficient amount of cash and cash deposits to maintain a relevant liquidity level. **Solution:** Our policy on minimization of liquidity risk involves maintaining adequate cash or ash equivalents or sufficient financing with external credits required to repay our operational and financial liabilities. We arry out ongoing monitoring of the cash shortage risk and of compliance with the target repayment dates. Furthermore, we implemented planing and control of daily cashflows.

Interest risk	
Description: Depending on the financial stability of the borrower and contract conditions, the borrowing rate for non-financial companies in January and February 2015 reached 20%–22% p.a. However, the Central Bank has gradually reduced the key financing rate since February 2015 to [11% as at the Annual Report date.].	**Impact:** Currently, we do not expect Pharmstandard to be exposed to a serious risk of changes in interest rates since all Group's financial instruments as at 31 December 2015 were received for a fixed interest rate and were short-term. **Solution:** Currently, we believe that there is no indication that the existing interest rates n deposits and borrowings in the market to be exposed to serious changes in the short-term perspective. However, in order to minimise the risk and due to a significant amount of internal resources, the Group management may decide to finance current investment activities with own cash or equity. Besides, the Group's credit policy is aimed at attracting borrowings at fixed rates.

TZMOI (TYUMEN MEDICAL EQUIPMENT PLANT)

OJSC Tyumen Plant of Medical Equipment and Tools (TZMOI) is a leader in the market of steam sterilisers.

2015 PRODUCTION,
number of equipment items:

859

MANUFACTURING CAPCACITY,
number of equipment units:

2 710

LOCATION

TYUMEN

STAFF,
number of employees

111

PJSC “PHARMSTANDARD”

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

CONTENTS

Independent auditors’ report 112
Consolidated statement of financial position 114
Consolidated statement of comprehensive income. 116
Consolidated cash flow statement 118
Consolidated statement of changes in equity 120
Notes to the consolidated financial statements 122

INDEPENDENT AUDITOR’S REPORT

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

To the Shareholders and Management
of PJSC “Pharmstandard”

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

AUDITED ENTITY’S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management of PJSC “Pharmstandard” is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR’S RESPONSIBILITY

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

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

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

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

OPINION

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

IMPORTANT FACTS

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

A.B. Khorovitch
Partner
Ernst & Young LLC

27 April 2016

Details of the audited entity

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

Details of the auditor

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(IN THOUSANDS OF RUSSIAN RUBLES)

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

Signed and authorized for release on behalf of the Board of Directors of PJSC “Pharmstandard”.

Chief Executive Officer G.A. Potapov

Chief Financial Officer M.A. Markova

27 April 2016 г.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

(IN THOUSANDS OF RUSSIAN RUBLES)

	Notes	2015	2014
Revenue	22	47 194 938	41 223 435
Cost of sales	23	(29 397 598)	(23 007 040)
Gross profit		**17 797 340**	**18 216 395**
Selling and distribution costs	24	(2 534 272)	(4 133 517)
General and administrative expenses	25	(2 687 072)	(2 300 426)
Other income	26	7 185 802	2 943 445
Other expenses	27	(2 191 341)	(1 032 936)
Interest income		945 840	323 446
Interest expense		(466 942)	(431 739)
Share in (loss)/profit of a joint venture and associates, net	6, 7	(371 479)	235 062
Profit before income tax		**17 677 876**	**13 819 730**
Income tax expense	28	(3 746 776)	(2 724 267)
Profit for the year		**13 931 100**	**11 095 463**
Other comprehensive income			
To be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations		208 136	682 853
Revaluation of investments available for sale (no effect on the income tax)		515 608	–
Total other comprehensive income		**723 744**	**682 853**
Total comprehensive income for the year, net of tax		**14 654 844**	**11 778 316**

	Notes	2015	2014
Profit for the year			
Attributable to:			
Equity holders of the parent		13 749 466	10 841 234
Non-controlling interests		181 634	254 229
		13 931 100	**11 095 463**
Total comprehensive income for the year, net of tax			
Attributable to:			
Equity holders of the parent		14 489 565	11 545 948
Non-controlling interests		165 279	232 368
		14 654 844	**11 778 316**
Earnings per share (in Russian rubles)			
basic and diluted, based on profit for the year attributable to equity holders of the parent	21	378,2	298,2

Signed and authorized for release on behalf of the Board of Directors of PJSC “Pharmstandard”.

Chief Executive Officer G.A. Potapov

Chief Financial Officer M.A. Markova

27 April 2016 г.

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

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

(IN THOUSANDS OF RUSSIAN RUBLES)

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

(IN THOUSANDS OF RUSSIAN RUBLES)

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

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

1. CORPORATE INFORMATION

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

Entity	Country of incorporation	Activity	2015 effective share	2014 effective share
Subsidiaries				
1. Pharmstandard LLC	Russian Federation	Central procurement	100	100
2. Pharmstandard-Leksredstva OJSC	Russian Federation	Manufacturing of pharmaceutical products	100	100
3. Pharmstandard-Tomskhimpharm OJSC	Russian Federation	Manufacturing of pharmaceutical products	90,78	90,78
4. Pharmstandard-Ufavita OJSC	Russian Federation	Manufacturing of pharmaceutical products	100	100
5. Pharmstandard-Biolik PJSC	Ukraine	Manufacturing of pharmaceutical products	96,93	96,93
6. TZMOI OJSC	Russian Federation	Manufacturing of medical equipment	100	100
7. MDR Pharmaceuticals	Cyprus	Finance and holding company	50,05	50,05
8. Bigpearl Trading Limited (d)	Cyprus	Intermediary holding company	50,005	50,005
9. Pharmapark LLC (d)	Russian Federation	Manufacturing of pharmaceutical products	50,005	50,005
10. Biomed named after I.I. Mechnikov JSC (d)	Russian Federation	Manufacturing of pharmaceutical products	49,845	49,845
11. Pharmatsevticheskiye innovatsii OJSC (d)	Russian Federation	Asset holder	50,005	50,005
12. EKK OJSC (d)	Russian Federation	Sundry activity	35,29	35,29
13. Lekko CJSC	Russian Federation	Manufacturing of pharmaceutical products	100	100
14. Moldildo Trading Limited	Cyprus	Intermediate holding company	75	75
15. Pharmstandard-Medtechnika LLC	Russian Federation	Sales of medical equipment	75	75

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

Entity	Country of incorporation	Activity	2015 effective share	2014 effective share
16. Pharmstandard International S.A.	Luxembourg	Venture investments	100	100
17. Sellthera Pharm LLC	Russian Federation	Development and manufacturing company	75	75
18.Pharmstandard-Plazma LLC (b)	Russian Federation	Manufacturing of pharmaceutical products	100	–
19. MasterPlazma LLC (c)	Russian Federation	Manufacturing of pharmaceutical products	52	–
Joint ventures and associates				
20. NauchTechStroy Plus LLC (NTS+)	Russian Federation	Research and development company	37,5	37,5
21. Argos Therapeutics Inc. (a)	USA	Research and development company	27,65	30,40
22. Biocad Holdings Limited	Cyprus	Research, development and manufacturing of pharmaceutical products	20	20

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

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

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

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

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

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

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

STATEMENT OF COMPLIANCE

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

BASIS OF ACCOUNTING

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

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

3. CHANGES IN ACCOUNTING POLICIES

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

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

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

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

- IFRS 2 Share-based Payment: The amendments are applied prospectively and clarify various issues relating to the definitions of performance and service conditions, which are vesting conditions. The Group did not provide any share-based remunerations, therefore, this improvement had no impact on the financial statements or accounting policy of the Group.
- IFRS 3 Business Combinations: The amendments are applied prospectively and clarify that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Group’s current accounting policy and, thus, these amendments did not impact the Group’s accounting policy.
- IFRS 8 Operating Segments: The amendments are applied retrospectively and clarify that:
  - An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8;
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

  The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 8 to these financial statements, as the reconciliation is reported to the chief operating decision maker for the purpose of decision making.
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: The amendments are applied retrospectively and clarify that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying amount and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. These amendments did not have any impact to the indicators recorded by the Group during the current period.
- IAS 24 Related Party Disclosures: The amendments are applied retrospectively and clarify that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. These amendments are not relevant for the Group as it does not receive any management services from other entities.

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

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

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

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

- IFRS 13 Fair Value Measurement: The amendments are applied prospectively and clarify that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Group does not apply the portfolio exception in IFRS 13.
- IAS 40 Investment Property: The amendments are applied prospectively and clarify that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, these amendments did not impact the accounting policy of the Group.

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRSS AND INTERPRETATIONS ISSUED BY THE INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) BUT ARE NOT YET EFFECTIVE

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

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

- IFRS 14 Regulatory Deferral Accounts (issued in January 2014 and effective for annual reporting periods beginning on or after 1 January 2016). IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Since the Group is an existing IFRS preparer, this standard would not apply.
- IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted). The new standards will supersede all current IFRS requirements to revenue recognition. Either a full or modified retrospective application is required, with early adoption permitted. IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Currently, the Group plans to choose a full retrospective application of the new standard on the required effective date. The Group is analyzing existing contracts for the purpose of the impact of IFRS 15 and is assessing its impact on the consolidated financial statement.
- IFRS 16 Leases (issued in January 2016 and becomes effective for annual periods beginning on or after 1 January 2019. The standard has not been approved to apply in the Russian Federation yet). IFRS 16 replaces existing IFRS requirement in respect of lease accounting and requires a lessee to recognize assets and liabilities for major part of its leases. The new standard’s requirements to lessees are significantly different from those contained in the existing IFRS. Except for certain cases, the lessees will have to apply a single lessee accounting model for all leases. Currently, the Group evaluates possible effect of this standard on its financial position and performance.
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests (issued in May 2014 and become effective for annual periods beginning on or after 1 January 2016, with early adoption permitted). The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. These amendments are not expected to have any impact on the Group
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization (issued in May 2014 and become effective for annual periods beginning on or after

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

1 January 2016, with early adoption permitted). The amendments clarify that a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. These amendments are not expected to have any impact on the Group since the Group does not use a revenue-based method to depreciate its non-current assets.

- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (issued in June 2014 and become effective for annual periods beginning on or after 1 January 2016, with early adoption permitted). The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. These amendments are not expected to have any impact on the Group, as the Group does not have any bearer plants.
- Amendments to IAS 27 Equity Method in Separate Financial Statements (issued in August 2014 and become effective for annual periods beginning on or after 1 January 2016, with early adoption permitted). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. The amendments will have no impact on the Group’s consolidated financial statements.
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014 and become effective for annual periods beginning on or after 1 January 2016, with early adoption permitted). The amendments clarify that gains or losses arising as a result of the sale or contribution of assets that constitute a business, as defined in IFRS 3, in a transaction between an investor and its associate or joint venture are recognized in full. However, gains or losses arising as a result of the sale or contribution of assets that do not constitute a business are recognized only to the extent of interests of investors, other than the entity, in an associate or a joint venture. These amendments are not expected to have any impact on the Group.
- Amendments to IAS 1 Disclosure Initiative (issued in December 2014 and become effective for annual periods beginning on or after 1 January 2016, with early adoption permitted). The amendments clarify:
  - The materiality requirements in IAS 1;
  - That specific line items in the statement of profit or loss and other comprehensive income (OCI) and the statement of financial position may be disaggregated;
  - That entities have flexibility as to the order in which they present the notes to financial statements;
  - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

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

- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (issued in December 2014 and become effective for annual periods beginning on or after 1 January 2016, with early adoption permitted). The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments must be applied retrospectively. These amendments are not expected to have any impact on the Group as none of its subsidiaries, associates or joint ventures is an investment entity.
- Amendments to IAS 12 Recognition of Deferred Tax Assets on the Unrealized Loss (issued in February 2016 and become effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The amendments have not been approved to apply in the Russian Federation yet). The amendments clarify that deductible temporary differences may arise on the basis of unrecognized loss from debt instruments recorded at fair value that are carried at cost for the taxation purposes. The Group is analyzing effect of the amendments on its consolidated financial statements.
- Amendments to IAS 7 Disclosure Initiative (issued in January 2016 and become effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The amendments have not been approved to apply in the Russian Federation yet). The amendments require to disclose changes in the financial liabilities. The Group is analyzing effect of the amendments on its consolidated financial statements.
- Annual improvements 2012-2014 cycle (effective for annual periods beginning on or after 1 January 2016). These amendments are not expected to have any impact on the Group:
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.
  - IFRS 7 Financial Instruments: Disclosures
    (i) Servicing contracts: The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendment.
    (ii) Application of amendments to IFRS 7 in the condensed interim financial statements: The offsetting disclosure requirements are not applicable to the condensed interim financial statements unless the respective information is significantly updated in the last annual report. This amendment must be applied retrospectively.
  - IAS 19 Employee Benefits. The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. This amendment must be applied prospectively.
  - IAS 34 Interim Financial Reporting. The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms and at the same time as the interim financial statements. This amendment must be applied retrospectively.

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

4.1. BASIS OF CONSOLIDATION

SUBSIDIARIES

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

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

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

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

4.1. BASIS OF CONSOLIDATION (CONTINUED)

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

.

4.2. CASH AND SHORT-TERM DEPOSITS

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

4.3. VALUE ADDED TAX

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

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

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

4.4. INVENTORIES

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

4.5. PROPERTY, PLANT AND EQUIPMENT

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

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

.

(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;

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

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

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

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

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

4.8. INVESTMENTS AND OTHER FINANCIAL ASSETS

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

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

.

LOANS AND RECEIVABLES

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

AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

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

4.8. INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

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.

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

4.8. INVESTMENTS AND OTHER 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.

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.

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

4.11. LEASES

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

4.12. DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

FINANCIAL ASSETS

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

FINANCIAL LIABILITIES

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

4.13. PROVISIONS

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

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

.

4.14. EQUITY

SHARE CAPITAL

Ordinary shares are classified as equity.

DIVIDENDS

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

TREASURY SHARES

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

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

4.15. REVENUE

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

4.16. EMPLOYEE BENEFITS

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

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

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

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

4.17. FOREIGN CURRENCY TRANSACTIONS

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

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

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

4.18. IMPAIRMENT OF NON-FINANCIAL ASSETS

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

4.19. GOVERNMENT GRANTS

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

4.20. SHARE-BASED PAYMENTS

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

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

IMPAIRMENT OF NON-FINANCIAL ASSETS OTHER THAN GOODWILL

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

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.

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

IMPAIRMENT OF GOODWILL

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE

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

WRITE-DOWN OF INVENTORIES TO NET REALIZABLE VALUE

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

CURRENT TAX LIABILITIES

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

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

LEASES

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

(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:

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

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

	2015	2014
Current assets including cash and cash equivalents of RR 37,413 (2014: RR 39,205)	222 189	83 299
Property, plant and equipment, and other non-current assets	2 089 307	1 371 115
Current liabilities	(1 147 128)	(193 173)
Long-term loans and other non-current liabilities	–	(329 368)
Equity	**1 164 368**	**931 873**
Share of the Group’s ownership	37,5%	37,5%
Carrying amount of the investment	**436 638**	**349 452**

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

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

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

7. INVESTMENTS IN ASSOCIATES

7.1 INVESTMENTS IN ARGOS THERAPEUTICS, INC.

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

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

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

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

Movements in the carrying amount of investments were as follows:

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

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

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:

	2015	2014
Cash and cash equivalents	449 187	2 094 140
Other current assets	193 186	1 141 691
Property, plant and equipment, and other non-current assets	1 626 553	385 346
Current liabilities	(594 928)	(185 470)
Non-current liabilities	(3 729 395)	(1 671 905)
(Equity deficit)/equity	**(2 055 397)**	**1 763 802**
Share of the Group’s ownership as at 31 December	27,65%	30,44%
Carrying (deficit)/net assets	**(568 284)**	**536 196**
Goodwill arising from acquisition of the associate	1 293 048	1 093 699
Carrying amount of investments	**724 764**	**1 629 895**

Summarized statement of comprehensive income of Argos is detailed below:

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

7. INVESTMENTS IN ASSOCIATES (CONTINUED)

7.2. INVESTMENTS IN BIOCAD HOLDING LIMITED

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

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

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

Movements in the carrying amount of investments were as follows:

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

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

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

7. INVESTMENTS IN ASSOCIATES (CONTINUED)

7.2. INVESTMENTS IN BIOCAD HOLDING LIMITED (CONTINUED)

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

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

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

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

8. SEGMENT INFORMATION

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

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

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

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

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

There were no significant intercompany transactions between these operating segments.

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

8. SEGMENT INFORMATION (CONTINUED)

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

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

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

8. SEGMENT INFORMATION (CONTINUED)

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

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

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

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

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

8. SEGMENT INFORMATION (CONTINUED)

The table below shows the revenue from these customers:

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

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

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

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

9. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

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

BALANCES WITH RELATED PARTIES

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

2015	Short-term financial assets – (a), Note 15	Long-term financial assets – (b)	Cash and short-term deposits placed with the related bank – Note 14	Trade and other receivables and prepayments – (c) Note 13	Trade and other payables – (d) Note 19
Parent	4 050 605	–	–	152 904	–
Other related parties[2]	172 000	42 900	6 455 195	5 939 141	2 509 714
Joint venture	37 000	–	–	79 540	–
Total	**4 259 605**	**42 900**	**6 455 195**	**6 171 585**	**2 509 714**

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

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

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

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

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

9. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

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

9. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

(A) AGENCY FEE INCOME

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

(B) CONTRACT MANUFACTURING REVENUE

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

(C) REVENUE FROM SALES TO OTCPHARM

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

(D) COST OF SALES

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

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

(E) CONSULTING ON VENTURE INVESTMENTS

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

(F) OTHER INCOME

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

(G) CESSION OF RIGHTS FOR LOAN ISSUED TO A THIRD PARTY

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

9. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

(F) PURCHASE OF PROMISSORY NOTES

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

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

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

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

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

LOANS ISSUED TO THE PARENT

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

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

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

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

9. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

LOANS ISSUED TO OTHER RELATED PARTIES

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

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

PROMISSORY NOTES OF RELATED PARTIES

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

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

COMPENSATION TO KEY MANAGEMENT PERSONNEL

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

REPAYMENT OF THE DEBT TO OTCPHARM AROSE DURING SPIN-OFF

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

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

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

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

Balance at 31 December 2015	Land	Buildings	Plant and machinery	Equipment, motor vehicles and other	Assets under construction	Total
Cost						
Balance at 1 January 2015	**442 564**	**5 025 080**	**5 939 127**	**920 834**	**2 012 973**	**14 340 578**
Additions	9 156	35 974	155 585	284 256	1 765 827	**2 250 798**
Transfers	–	436 637	1 231 139	4 437	(1 672 213)	**–**
Disposals	–	(1 657)	(130 631)	(125 746)	(13 516)	**(271 550)**
Foreign exchange differences	–	(20 171)	(24 253)	(1 635)	(20 782)	**(66 841)**
Balance at 31 December 2015	**451 720**	**5 475 863**	**7 170 967**	**1 082 146**	**2 072 289**	**16 252 985**
Accumulated depreciation and impairment						
Balance at 1 January 2015	**–**	**807 136**	**3 199 550**	**417 051**	**99 510**	**4 523 247**
Depreciation charge	–	162 486	654 988	170 743	–	**988 217**
Disposals	–	(1 025)	(66 499)	(115 173)	–	**(182 697)**
Impairment charge/(reversal)	–	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**

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

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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

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

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

11. INTANGIBLE ASSETS

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

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

11. INTANGIBLE ASSETS (CONTINUED)

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

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

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

IMPAIRMENT TESTING OF GOODWILL

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

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

Carrying amount of goodwill allocated to each cash generating unit:

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

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

11. INTANGIBLE ASSETS (CONTINUED)

IMPAIRMENT TESTING OF GOODWILL

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

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

KEY ASSUMPTIONS USED IN VALUE-IN-USE CALCULATIONS

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

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

Discount rates discount rates reflect management's estimate of the risks specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

In determining appropriate discount rates for each unit, regard has been given to the Capital Assets Pricing Model calculation at the reporting date.

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

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

Growth rate estimates – rates are based on published industry research

SENSITIVITY TO CHANGES IN ASSUMPTIONS

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

12. INVENTORIES

Inventories consist of the following:

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

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

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

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

13. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

14. CASH AND SHORT TERM DEPOSITS

Cash and short-term deposits consist of the following:

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

(a) Deposits denominated in Russian rubles bear interest rates of 6.5% to 10.65% p.a. (2014: 1.5% to 20% p.a.). Deposits denominated in US dollars and euro bear interest rates of 0.2% to 1.17% p.a. (2014: 3.6% p.a.)
(b) These cash deposits are restricted for use and are placed to secure the Group's participation in open public tenders.

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

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

15. SHORT-TERM FINANCIAL ASSETS

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

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

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

.

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

16. LONG-TERM FINANCIAL ASSETS

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

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

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

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

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

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

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

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

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

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

17. SHORT-TERM BORROWINGS AND LOANS

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

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

18. TAXES PAYABLE OTHER THAN INCOME TAX

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

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

19. TRADE AND OTHER PAYABLES

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

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

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

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

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

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

20. OTHER NON-CURRENT LIABILITIES

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

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

21. SHARE CAPITAL

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

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

EARNINGS PER SHARE

Earnings per share are as follows:

	2015	2014
Weighted average number of ordinary shares outstanding	36 355 683	36 355 683
Profit for the year attributable to the ordinary shareholders	13 749 466	10 841 234
Basic and diluted earnings per share, Russian rubles	378,2	298,2

22. REVENUE

Revenue breakdown by product groups comprised the following:

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

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

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

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

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

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

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

23. COST OF SALES

The components of cost of sales were as follows:

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

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

24. SELLING AND DISTRIBUTION COSTS

Selling and distribution costs were as follows:

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

25. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were as follows:

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

26. OTHER INCOME

Other income comprised the following:

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

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

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

27. OTHER EXPENSES

Other expenses comprised the following:

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

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

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

.

28. INCOME TAX

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

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

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

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

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

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

28. INCOME TAX (CONTINUED)

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

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

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

29. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

OPERATING ENVIRONMENT OF THE GROUP

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

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

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

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

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

29. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)

TAXATION

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

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

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

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

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

29. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)

RUSSIAN TRANSFER PRICING LEGISLATION

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

В 2012–2015 годах Группа определяла размер налоговых обязательств по «контролируемым» сделкам на основании фактических цен сделок.

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

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

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

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

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

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

US dollar/ruble exchange rate	-13.00%	(2 472 356)	

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

FAIR VALUES

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

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

FAIR VALUE HIERARCHY

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

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

31 DECEMBER 2015

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

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

31 DECEMBER 2014

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

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

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(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)

INTEREST RATE RISK

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

FOREIGN EXCHANGE RISK

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

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

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

	Increase/decrease in US$ rate	Effect on profit before tax
As at 31 December 2015		
US dollar/ruble exchange rate	+40,00%	7 607 250
US dollar/ruble exchange rate	-13,00%	(2 472 356)

	Increase/decrease in US$ rate	Effect on profit before tax
As at 31 December 2014		
US dollar/ruble exchange rate	+28,54%	2 657 819
US dollar/ruble exchange rate	-28,54%	(2 657 819)

(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/ruble exchange rate	+43,00%	1 511 501
Euro/ruble exchange rate	-15,00%	(527 268)

	Increase/decrease in euro rate	Effect on profit before tax
As at 31 December 2014		
Euro/ruble exchange rate	+29,58%	383 984
Euro/ruble exchange rate	-29,58%	(383 984)

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

	Increase/ decrease in US$ rate	Effect on profit before tax
As at 31 December 2014		
US dollar/Ukrainian hryvnia exchange rate	+28,93%	(152 991)
US dollar/Ukrainian hryvnia exchange rate	-28,93%	152 991

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

	Increase/ decrease in euro rate	Effect on profit before tax
As at 31 December 2014		
Euro/Ukrainian hryvnia exchange rate	+28,96%	(153 796)
Euro/Ukrainian hryvnia exchange rate	-28,96%	153 796

(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)

LIQUIDITY RISK

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

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

As at 31 December 2015	Total	Less than 4 months	4 to6 months	6 to12 months	More than 12 months
Borrowings and loans (Note 17)	**4 446 600**	124 307	119 393	4 202 900	–
Trade and other payables	**20 427 656**	20 427 656	–	–	–
Other non-current liabilities	**15 813**	–	–	–	15 813
Total	**24 890 069**	**20 551 963**	**119 393**	**4 202 900**	**15 813**

As at 31 December 2014	Total	Less than 4 months	4 to6 months	6 to12 months	More than 12 months
Borrowings and loans (Note 17)	**4 342 739**	151 451	75 725	4 115 563	–
Trade and other payables	**15 402 950**	15 402 950	–	–	–
Other non-current liabilities	**23 472**	–	–	–	23 472
Total	**19 769 161**	**15 554 401**	**75 725**	**4 115 563**	**23 472**

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CREDIT RISK

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

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

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

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

	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 2015	**17 187 541**	12 966 706	2 242 195	269 450	182 784	620 688	905 718
31 December 2014	**19 432 066**	14 242 641	814 441	733 756	480 738	2 728 979	431 511

SALES CONCENTRATION TO A SMALL GROUP OF CUSTOMERS

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

CAPITAL MANAGEMENT

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

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

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

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CAPITAL MANAGEMENT (CONTINUED)

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

31. MATERIAL PARTLY-OWNED SUBSIDIARIES

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

Name	Country of incorporation and operation	2015 % share	2014 % share
Pharmstandard-Tomskhimpharm OJSC	Russian Federation	9,22	9,22
Other			
Pharmstandard-Biolik PJSC	Ukraine	3,07	3,07
MDR Pharmaceuticals	Cyprus	49,95	49,95
Bigpearl Trading Limited	Cyprus	49,995	49,995
Pharmapark LLC	Russian Federation	49,995	49,995
Biomed named after I. I.Mechnikov JSC	Russian Federation	50,155	50,155
Pharmatsevticheskiye Innovatsii LLC	Russian Federation	49,995	49,995
EKK JSC	Russian Federation	64,71	64,71
Moldildo Trading Limited	Cyprus	25	25
Pharmstandard-Medtechnika LLC	Russian Federation	25	25
Cellthera Pharm LLC	Russian Federation	25	25
MasterPlazma LLC	Russian Federation	48	–

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

31. MATERIAL PARTLY-OWNED SUBSIDIARIES (CONTINUED)

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

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

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

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

DIVIDENDS PAID BY A SUBSIDIARY

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

32. EVENTS AFTER THE REPORTING PERIOD

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

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

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

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

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

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

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