Auditor’s report
on the consolidated financial statements of
OTCPharm PJSC and its subsidiaries
for the period from 23 December 2013
to 31 December 2014

April 2015

Translation from original in Russian

Translation from original in Russian

Contents | Page

Independent auditor’s report

Translation from original in Russian

To the shareholders and management of OTCPharm PJSC

We have audited the accompanying consolidated financial statements of OTCPharm PJSC and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the period from 23 December 2013 to 31 December 2014, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

The management of OTCPharm PJSC 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 the 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 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 applicable 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 OTCPharm PJSC and its subsidiaries as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to Note 6 to the financial statements which discloses significance of OTCPharm PJSC's transactions with related parties. This matter had no impact on our audit opinion.

A.B. KHOROVITCH
Partner
Ernst & Young LLC

28 April 2015

Details of the audited entity

Name: OTCPharm PJSC
Record made in the Unified State Register of Legal Entities on 23 December 2013; State Registration Number 1135047014145.
Address: Russia 123317, Moscow, Testovskaya St., 10.

Details of the auditor

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

Translation from original in Russian

OTCPharm PJSC

Consolidated statement of financial position

as at 31 December 2014

(thousands of Russian rubles)

	Notes	31 December 2014	23 December 2013
Assets			
Non-current assets			
Property, plant and equipment		1,660	–
Intangible assets	7	18,327,698	19,398,032
		18,329,358	**19,398,032**
Current assets			
Inventories	8	1,297,180	1,022,456
Trade and other receivables	9	11,122,013	866,329
VAT recoverable		241,321	–
Advances issued		64,019	639
Short-term loans	6	843,876	–
Cash	10	74,122	3,504,497
Other current assets		12,297	18
		13,654,828	**5,393,939**
Total assets		**31,984,186**	**24,791,971**
Equity and liabilities			
Equity attributable to the shareholders of the parent			
Share capital	13	14,542	14,542
Additional capital		38,840	–
Retained earnings		25,360,651	21,357,153
Total equity		**25,414,033**	**21,371,695**
Non-current liabilities			
Deferred tax liability	19	147,395	492,449
		147,395	**492,449**
Current liabilities			
Trade and other payables	12	6,171,419	2,801,790
Income tax payable		227,177	122,372
Other taxes payable	11	24,162	3,665
		6,422,758	**2,927,827**
Total liabilities		**6,570,153**	**3,420,276**
Total equity and liabilities		**31,984,186**	**24,791,971**

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

Chief Executive Officer O.B. Mednikova

Chief Financial Officer A.V. Kuznetsov

28 April 2015

The accompanying notes on pages 9 to 34 are an integral part of these consolidated financial statements.

Translation from original in Russian

OTCPharm PJSC

Consolidated statement of comprehensive income

for the period from 23 December 2013 to 31 December 2014

(thousands of Russian rubles)

	Notes	2014
Revenue	14	16,646,269
Cost of sales	15	(5,500,024)
Gross profit		**11,146,245**
Selling expenses	16	(5,878,440)
General and administrative expenses	17	(259,641)
Other income	18	1,185,347
Other expenses	18	(1,333,321)
Interest income		87,445
Profit before tax		**4,947,635**
Income tax expense	19	(944,137)
Profit for the period		**4,003,498**
Total comprehensive income for the period		**4,003,498**
Profit and comprehensive income attributable to the shareholders of the parent		4,003,498
		4,003,498
Earnings per share (in Russian rubles)		
- Basic and diluted profit for the period attributable to the shareholders of the parent	13	27.53

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

Chief Executive Officer O.B. Mednikova

Chief Financial Officer A.V. Kuznetsov

28 April 2015

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OTCPharm PJSC

Consolidated statement of cash flows

for the period from 23 December 2013 to 31 December 2014

(thousands of Russian rubles)

	Notes	2014
Cash flows from operating activities		
Profit before tax		**4,947,635**
Adjustments for:		
Depreciation of property, plant and equipment and amortization of intangible assets	15	1,045,356
Loss from the impairment of trade and other receivables, net	9	20,937
Write-down of inventories to net realizable value	8	4,505
Foreign exchange gain		(260,948)
Interest income		(87,445)
Cash flows from operating activities before working capital adjustments		**5,670,040**
Increase in trade and other receivables	9	(10,220,780)
Increase in advances issued		(63,380)
Increase in VAT recoverable		(241,321)
Increase in inventories	8	(254,251)
Increase in trade and other payables	12	3,370,963
Increase in taxes payable other than income tax	11	20,497
Cash used in operating activities		**(1,718,232)**
Income tax paid		(1,265,181)
Interest received		57,590
Net cash used in operating activities		**(2,925,823)**
Cash flows from investing activities		
Purchase of property, plant and equipment		(2,419)
Cash deposited with the related bank		(2,570,000)
Deposits repaid by the related bank		2,570,000
Loans issued to related parties	6	(502,133)
Net cash used in investing activities		**(504,552)**
Net decrease in cash and cash equivalents		**(3,430,375)**
Cash and cash equivalents at the beginning of the period	10	**3,504,497**
Cash and cash equivalents at the end of the period	10	**74,122**

The accompanying notes on pages 9 to 34 are an integral part of these consolidated financial statements.

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OTCPharm PJSC

Consolidated statement of changes in equity

for the period from 23 December 2013 to 31 December 2014

(thousands of Russian rubles)

		Equity attributable to the shareholders of the parent		
	Share capital	**Additional capital**	**Retained earnings**	**Total**
At 23 December 2013	**14,542**	**–**	**21,357,153**	**21,371,695**
Profit for the period	–	–	4,003,498	**4,003,498**
Total comprehensive income for the period	**–**	**–**	**4,003,498**	**4,003,498**
Effect from reorganization (Note 1)	–	38,840	–	**38,840**
At 31 December 2014	**14,542**	**38,840**	**25,360,651**	**25,414,033**

The accompanying notes on pages 9 to 34 are an integral part of these consolidated financial statements.

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

1. Corporate information

OTCPharm PJSC (the "Company") and its subsidiaries (the "Group") are principally engaged in the production, marketing, promotion and wholesaling of pharmaceutical products. The Company is registered in Russia on 23 December 2013. The shares of the Company have been publicly traded on the Moscow Exchange since 30 December 2014 (Note 13). The Group's head office is registered at 10 Testovskaya St., Moscow, Russian Federation. The Company has interests in the following subsidiaries as at 31 December 2014 and 23 December 2013:

Company	Country of incorporation	Type of activity	31 December 2014 Effective ownership interest	23 December 2013 Effective ownership interest
Subsidiaries				
1. Aphopharm CJSC	Russian Federation	Owner of the asset	**100**	100
2. Vindexpharm CJSC	Russian Federation	Owner of the asset	**100**	100
3. Bever Pharmaceutical PTE Limited	Singapore	Owner of the asset	**100**	100
4. Donelle Company Limited	Кипр	Intermediate holding company	**100**	100

OTCPharm OJSC (since 10 December 2014, OTCPharm PJSC) was registered on 23 December 2013 due to the reorganization of Pharmstandard OJSC through the spin-off of its branded over-the-counter medicines business. Prior to 1 April 2014, all transactions of the branded over-the-counter medicines business representing the principal activities of the Group were conducted and accounted for by Pharmstandard OJSC. The Group began its own operating activities and related accounting in April 2014 when the rights to transferred trademarks were re-registered, when marketing and promotion personnel engaged in the promotion of transferred trademarks and the respective administrative personnel were transferred to the Company and when the Company re-signed the main contracts in its own name and entered into new contracts to meet the needs of its own business. Beginning 1 April 2014, the Group places orders for the contract manufacturing of finished goods at the factories of Pharmstandard OJSC, purchases goods from third-party producers, promotes branded over-the-counter medicines and sells those medicines under an agency agreement with Pharmstandard OJSC. During the period from 23 December 2013 to 1 April 2014, the branded over-the-counter medicines business was legally part of Pharmstandard OJSC and the respective trademarks were owned by the Group. Therefore, Pharmstandard OJSC accrued license payments in favor of the Group which were recorded in the consolidated statement of changes in equity as the effect from reorganization.

These consolidated financial statements were authorized for release by the Board of Directors of OTCPharm PJSC on 28 April 2015.

2. Basic principles of financial reporting

Statement of compliance

These consolidated financial statements have been prepared for the period from the date of the Company's registration on 23 December 2013 to 31 December 2014 in accordance with International Financial Reporting Standards (IFRS) as approved by the Ministry of Finance of the Russian Federation on the basis of International Financial Reporting Standards as approved by the International Accounting Standards Board (IASB).

Basis of preparation

The Russian companies of the Group maintain accounting records in Russian rubles ("RR") and prepare financial statements in accordance with Russian accounting and financial reporting legislation. The foreign companies of the Group registered in Cyprus and Singapore maintain accounting records in US dollars and prepare financial statements in accordance with IFRS and local legislation, respectively. If necessary, the financial statements prepared in accordance with local regulations are adjusted to present these consolidated financial statements in accordance with IFRS. The main adjustments relate to the valuation and amortization of intangible assets, certain provisions and the consolidation of subsidiaries.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in section 3, Summary of accounting policies.

The consolidated financial information on the Group's activities for the period from 23 December 2013 to 1 April 2014 was separated from the accounting records of Pharmstandard OJSC that were maintained to account for the Group's business transactions prior to 1 April 2014. As a result of such separation, these consolidated financial statements include the opening balance sheet of the Group as at 23 December 2013, comprising assets and liabilities directly related to the branded over-the-counter medicines business, including intangible assets and cash received from Pharmstandard OJSC in accordance with the conditions of the spin-off, as well as the respective inventories at production cost and trade payables. Revenue, cost of sales and advertising expenses (a major portion of the Group's selling expenses) for the period from 23 December 2013 to 1 April 2014 represent the direct income and expenses of the branded over-the-counter medicines business which were separated from the accounting records of Pharmstandard OJSC. Labor costs were presented on the basis of the rates of compensation and bonuses per quarter set for management and sales personnel in the branded over-the-counter medicines business. Beginning 23 December, Pharmstandard OJSC maintains separate accounting records of the costs relating to the branded over-the-counter medicines business, including selling and administrative expenses. Therefore, no assessment bases had to be used for the allocation of costs. Income tax expenses were separated on the basis of the established tax rate of 20%.

Accounting policies

The adopted accounting policies have been prepared in accordance with International Financial Reporting Standards and the Interpretations of the IFRS Interpretations Committee (IFRIC).

2. Basic principles of financial reporting (continued)

Accounting policies (continued)

The following new and revised standards and amendments became effective as of 1 January 2014:

- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements − Investment Entities*;
- Amendments to IAS 32 *Financial Instruments: Presentation − Offsetting Financial Assets and Financial Liabilities*;
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement − Novation of Derivatives and Continuation of Hedge Accounting*;
- IFRIC 21 *Levies*;
- *Improvements to IFRSs − 2010-2012 Cycle:* Amendments to IFRS 13 *Fair Value Measurement − Short-term Receivables and Payables*;
- *Improvements to IFRSs − 2011-2013 Cycle:* Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards − Meaning of 'effective IFRSs'*.

The list of these limited amendments which apply to the Group but have no material impact on its financial statements is presented below:

Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements* and must be applied retrospectively, subject to certain transition relief.

Amendments to IAS 32 *Financial Instruments: Presentation* clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required.

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21.

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 *Fair Value Measurement*. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning on 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

2. Basic principles of financial reporting (continued)

Accounting policies (continued)

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. This standard will have no material impact on the Group's financial statements.

Amendments to IAS 19 − Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments 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. This amendment is effective for annual periods beginning on or after 1 July 2014. This standard will have no material impact on the Group's financial statements.

Annual improvements − 2010-2012 Cycle

These improvements are effective from 1 July 2014 and include:

- Amendment to IFRS 2 *Share-based Payment*;
- Amendment to IFRS 3 *Business Combinations*;
- Amendments to IFRS 8 *Operating Segments*;
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*;
- Amendment to IAS 24 *Related Party Disclosures*.

Annual improvements − 2011-2013 Cycle

These improvements are effective from 1 July 2014 and include:

- Amendment to IFRS 3 *Business Combinations*;
- Amendment to IFRS 13 *Fair Value Measurement*;
- Amendment to IAS 40 *Investment Property*.

These amendments will have no material impact on the Group's financial statements.

2. Basic principles of financial reporting (continued)

Accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted.

The management of the Company believes that the application of this standard may have an impact on the recognition of financial results in its consolidated financial statements.

Amendments to IAS 16 and IAS 38 − Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, 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. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will have no material impact on the Group’s financial statements.

3. Summary of accounting policies

3.1 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 that control ceases. All intra-group transactions, balances and unrealized gains on such transactions 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 are changed to ensure their consistency with the accounting policies adopted by the Group.

3.2 Cash and short-term deposits

Cash and short-term deposits recorded in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

3. Summary of accounting policies (continued)

3.3 Value-added tax

The Russian 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 provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of doubtful debt, including VAT.

3.4 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 includes the cost of raw materials and contract manufacturing expenses. The cost of third parties' products includes expenses directly related to the purchase of those 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.

3.5 Goodwill

Goodwill recorded in the Group's financial statements resulted from the spin-off of the branded over-the-counter medicines business of Pharmstandard OJSC. After 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 the respective units or groups of cash-generating units that are expected to benefit from 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 for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. An impairment loss is recognized when the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than its carrying amount. 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. 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 within the Group.

3.6 Intangible assets other than goodwill

Intangible assets acquired separately 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.

3. Summary of accounting policies (continued)

3.6 Intangible assets other than goodwill (continued)

Intangible assets with finite lives are amortized on a straight-line basis over the useful economic lives (the useful life for the exclusive contract for the delivery of substances is 20 years and the useful life for trademarks is from 15 to 20 years; the useful life for patents is equal to the period for which a patent is issued but may not exceed 20 years) and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization periods and the amortization methods for intangible assets are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered by modifying the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

3.7 Investments and other financial assets

Financial assets in 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 any held-to-maturity and available-for-sale 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 after 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 i.e. the date that the Group commits to purchase the respective asset. Regular way purchases and sales are purchases and sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less 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 are recorded within other receivables.

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 other payments 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.

3. Summary of accounting policies (continued)

3.7 Investments and other financial assets (continued)

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 is 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 value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in the statement of profit or loss.

3.8 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 liabilities may be offset only if (a) a Group entity has a 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.

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

3.9 Lease agreements

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

3. Summary of accounting policies (continued)

3.10 Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, 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 canceled or expires. When 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 the derecognition of the original liability and the recognition of a new liability, and the difference in the carrying amounts of liabilities is recognized in profit or loss.

3.11 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 embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Expenses relating to any provision are 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.

3.12 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 their payment is planned before the reporting date, or their payment or declaration is planned after the reporting date but before the financial statements are authorized for issue.

3.13 Revenue recognition

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 determined 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.

3. Summary of accounting policies (continued)

3.14 Employee benefits

In 2014, pursuant to the Russian legislation, the Group made social tax payments allocated among several funds and calculated using the following rates: Pension Fund of the Russian Federation (PFR) − 22% applied to the compensation of each employee before tax amounting to not more than RR 624 per annum, up to 10% if the amount is more than RR 624; Social Insurance Fund (FSS) − 2.9% applied to the compensation of each employee before tax amounting to not more than RR 624 per annum, income above that amount is not taxable; Federal Compulsory Medical Insurance Fund (FFOMS) − 5.1% applied to the compensation of each employee before tax amounting to not more than RR 624 per annum, income above that amount is not taxable, and insurance against accidents and occupational diseases, FSS − 0.2% without any limitations as to the amount. The Group's social tax payments are expensed in the period in which they are incurred.

In 2015, the limit for applying the rate of 30% for social tax grew to RR 670 and RR 711 for FSS and PFR, respectively.

In 2014, social tax payments totaled RR 125,207 and were classified as labor costs in the consolidated financial statements.

3.15 Transactions in foreign currencies

The consolidated financial statements are presented in Russian rubles ("RR"), which is the functional currency of the Company and all its subsidiaries. Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange at the reporting date. Differences arising on translation are recognized in profit or loss. Non-monetary items recorded at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

As at 31 December 2014, the rates of exchange used to translate balances in foreign currency were as follows: RR 56.26/1 USD and RR 68.34/1 EUR (2013: RR 32.73/1 USD and RR 44.97/1 EUR).

3.16 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 may be impaired. Assets or cash-generating units subject to such assessment are primarily trademarks. If any such indication exists, the Group estimates the recoverable amount of such an asset or cash-generating unit. The recoverable amount of an asset or a cash-generating unit is the higher of the fair value of the asset or the cash-generating unit less selling costs and value in use. The recoverable amount is determined for an individual asset, unless the asset generates cash inflows that are largely independent of those from other assets. Where the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, the asset or the cash-generating unit 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 assessments of the time value of money and the risks relating to the assets or cash-generating units.

4. 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.

Useful life of intangible assets

The Group assesses the remaining useful lives of intangible assets at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Such estimates may have a material impact on the carrying amounts of intangible assets and on depreciation and amortization recognized in profit or loss.

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. Such 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:

- *Exclusive contract for the delivery of substances and trademarks:* changes in current competitive conditions, changes in the regulations, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, introduction of alternative products on the market and other changes in circumstances indicating that impairment exists.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires the determination of the benefit from the use of the cash-generating units to which the goodwill is allocated. Estimating the benefit from use requires the Group to make an estimate of the expected future cash flows from the unit and to choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2014, the carrying amount of goodwill was RR 835,000 (2013: RR 835,000). More details are provided in Note 7.

Allowance for doubtful receivables

The Group maintains an allowance for doubtful receivables to cover estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful receivables, management relies on its own estimates of the aging of outstanding receivable balances, historical write-down experience, customer creditworthiness and changes in payment terms. If the financial conditions of customers were to deteriorate, actual write-offs might be higher than expected. As at 31 December 2014, allowances for doubtful receivables have been created in the amount of RR 20,937 (2013: 0). More details are provided in Note 9.

4. Significant accounting judgments and estimates (continued)

Write-down of inventories to net realizable value

The Group determines the adjustments for the write-down of inventories to net realizable value based on 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 tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently. In addition, the interpretation of tax legislation by the tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of the Group's 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, the periods remain open to review by the tax and customs authorities for three calendar years preceding the year of review. Under certain circumstances, reviews may cover earlier periods. As at 31 December 2014, 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 20.

Lease agreements

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception 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.

5. Segment information

The principal business of the Group is the promotion and distribution of branded over-the-counter medicines. Management believes that the Group has one operating segment. Management uses IFRS consolidated financial statements to make decisions on the allocation of resources, the assessment of performance and the planning and analysis of the income and expense items in the budget. The main assets of the Group are located in the Russian Federation, and revenue is mainly received from transactions in the Russian Federation.

Revenue from sales to some customers for the reporting period approximated or amounted to more than 10% of the Group's total revenue:

Customer	
Customer 1	4,409,905
Customer 2	2,832,028
Customer 3	1,622,165
Customer 4	1,576,144

6. 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 relationships for those related parties with whom the Group entered into transactions or had balances outstanding as at 31 December 2014 and 2013 are presented below.

Balances with related parties

31 December 2014	Short-term loans (a)	Cash at the related bank, Note 10	Trade and other receivables − (b) Note 9	Trade and other payables − (c) Note 12
Major shareholder	843,876	−	−	−
Other related parties[1]	−	56,886	1,960,955	5,275,851
Total	**843,876**	**56,886**	**1,960,955**	**5,275,851**

23 December 2013	Trade and other receivables, and advances issued − (b) Note 9	Cash of the Company received in accordance with the conditions of the spin-off − Note 1	Trade and other payables − Note 12 (c)
Major shareholder	−	−	−
Other related parties[1]	866,329	3,500,650	2,341,860
Total	**866,329**	**3,500,650**	**2,341,860**

(a) See section *Loan provided to the major shareholder* below.

(b) This item mainly comprises: (i) amounts due for the raw materials delivered to a related party, (ii) receivables from the agent under the agency agreement with Pharmstandard OJSC for the sale of products, (iii) prepayment for rent and other services.

(c) This item mainly comprises (i) payables for the raw materials of a subsidiary of Pharmstandard OJSC, (ii) payables for contract manufacturing services, and storage and transportation services provided by the subsidiaries of Pharmstandard OJSC, (iii) payables for the purchase of the remaining products under the Group's trademarks from the subsidiaries of Pharmstandard OJSC to start independent operating activities (Note 1).

Significant transactions with related parties

Item of the consolidated statement of comprehensive income	Nature of relationship	2014
Cost of inventories (within cost) (A)	Other related parties	(1,021,819)
Cost of contract manufacturing (within cost) (A)	Other related parties	(1,197,274)
Expenses for leasing storage facilities and vehicles and for storing finished goods (within selling expenses)	Other related parties	(119,244)
Commissions under the agency agreement (within selling expenses) (B)	Other related parties	(857,827)
Expenses for repairing and servicing vehicles (within selling expenses)	Other related parties	(11,499)
Expenses for leasing office premises and vehicles (within general and administrative expenses)	Other related parties	(16,272)
Interest income on deposits placed with the related bank	Other related parties	58,070
Interest income on the loan provided to the major shareholder	Major shareholder	29,375

[1] Other related parties are represented by entities, mainly within Pharmstandard Group, controlled by the parent and key management personnel.

6. Balances and transactions with related parties (continued)

Balances with related parties (continued)

(A) Cost of sales

The cost of sales of the Group comprises (i) the cost of inventories purchased from the subsidiaries of Pharmstandard OJSC and (ii) expenses for manufacturing products at the factories of the subsidiaries of Pharmstandard OJSC. Prior to 1 April 2014, such expenses were equal to the respective amount representing the depreciation of property, plant and equipment, production personnel payroll and the overheads of the subsidiaries of Pharmstandard OJSC which were transferred to OTCPharm. On 1 April 2014, the Group started its own activities, and since then, the amount of these expenses has been determined under contract manufacturing agreements with the subsidiaries of Pharmstandard OJSC. The cost of purchasing goods and services from the subsidiaries of Pharmstandard OJSC within inventories amounted to 741,116.

(B) Commissions under the agency agreement

The Company entered into an agency agreement with Pharmstandard OJSC for the sale of medicines to third parties.

Loan provided to the major shareholder

In 2014, the major shareholder, Augment Investments Limited (Augment), asked the Company to provide a short-term interest-bearing loan for financing current business activities not related to the activities of the Group.

On 21 January 2014, the Group provided to Augment an unsecured short-term loan in US dollars totaling USD 15,000 (RR 504,644 at the exchange rate as at 21 January 2014), bearing a fixed interest rate of 5.25% p.a. and maturing in January 2015. On 19 January 2015, this loan was extended (Note 22).

Compensation to key management personnel

The total compensation to key management personnel for the reporting period ended 31 December 2014 amounted to RR 26,464. This compensation represents the payment of salary and bonuses recorded within general and administrative expenses, and selling expenses.

7. Intangible assets

At 31 December 2014	Goodwill	Trademarks, patents and exclusive rights	Total
Cost			
At 23 December 2013	**835,000**	**18,563,032**	**19,398,032**
At 31 December 2014	**835,000**	**18,563,032**	**19,398,032**
Accumulated amortization and impairment			
At 23 December 2013	**–**	**–**	**–**
Amortization charge	–	1,070,334	**1,070,334**
At 31 December 2014	**–**	**1,070,334**	**1,070,334**
Net book value			
At 23 December 2013	**835,000**	**18,563,032**	**19,398,032**
At 31 December 2014	**835,000**	**17,492,698**	**18,327,698**

The carrying amounts and the remaining amortization periods of the main trademarks and patents as at 31 December 2014 and 23 December 2013 are presented below:

	Carrying amount		Remaining amortization period (years)	
Name	**31 December 2014**	**23 December 2013**	**31 December 2014**	**23 December 2013**
Exclusive contract for the delivery of substances	13,221,362	13,936,029	19	20
Afobazol	1,380,972	1,482,639	14	15
Arbidol	1,238,470	1,344,624	12	13
Acipol	593,649	649,304	11	12
Flucostat	481,782	523,078	12	13

Impairment testing of goodwill

To test goodwill for impairment, the Group estimated the recoverable amount of the Group as a cash-generating unit. The recoverable amount was determined based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a five-year period, and cash flows beyond the five-year period were extrapolated using a 5% growth rate that is the mid-term average growth rate for the pharmaceuticals market. A rate of 18% was used to discount projected cash flows.

Key assumptions used in value in use calculations

The calculation of value in use for goodwill is most sensitive to the following assumptions:

- Discount rates;
- Growth of prices for raw materials;
- Changes in currency rates;
- Growth rates used to extrapolate cash flows beyond the budget period.

7. Intangible assets (continued)

Key assumptions used in value in use calculations (continued)

Discount rates − discount rates reflect management's estimates of the risks specific to each unit. They are the benchmark used by management to assess operating performance and to evaluate future investment proposals. The discount rates for each group of units were determined taking into account the Capital Assets Pricing Model calculation at the reporting date.

Growth of prices for raw materials − past actual raw materials price movements, including the effect of the devaluation of the Russian ruble on the cost of US dollar-denominated raw materials, have been used as an indicator of future price movements.

Changes in currency rates − estimated values are based on current and projected currency market values.

Growth rate estimates − growth rates are based on published industry data.

Sensitivity to changes in assumptions

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying amount of the items in the group to materially exceed their recoverable amounts.

8. Inventories

Inventories comprise:

	31 December 2014	23 December 2013
Raw materials − at cost	684,087	−
Finished goods − at net realizable value	613,093	1,022,456
	1,297,180	**1,022,456**

Information on the write-down of inventories to net realizable value and its reversal is presented below:

At 23 December 2013	**−**
Additional write-down	4,505
At 31 December 2014	**4,505**

9. Trade and other receivables

	31 December 2014	23 December 2013
Trade and other receivables (less allowance for impairment in the amount of RR 20,937)	9,160,710	−
Trade and other receivables − related parties (Note 6)	1,919,200	866,329
Taxes receivable	348	−
Interest receivable from related parties (Note 6)	41,755	−
	11,122,013	**866,329**

9. Trade and other receivables (continued)

As at 31 December 2014, trade and other receivables in the amount of RR 1,337,474 were expressed in US dollars (23 December 2013: RR 840,082).

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

At 23 December 2013	**–**
Additional allowance	20,937
At 31 December 2014	**20,937**

10. Cash

Cash comprises:

	31 December 2014	23 December 2013
Cash of the Group in the accounts of Pharmstandard OJSC (Note 6)	–	3,500,650
Cash at banks in rubles	66,260	1,587
Cash at banks in US dollars and euro	7,862	2,260
	74,122	**3,504,497**

Almost all cash balances of the Group are placed with the related bank (Note 6). Cash balances with the related bank carry no interest.

11. Taxes payable other than income tax

Taxes payable, other than income tax, comprise:

	31 December 2014	23 December 2013
Value-added tax	3,641	3,665
Social taxes	13,872	–
Other taxes	6,649	–
	24,162	**3,665**

12. Trade and other payables

	31 December 2014	23 December 2013
Trade payables	755,392	451,164
Payables to related parties (Note 6)	5,275,851	2,341,860
Payables to employees	80,648	–
Other payables	59,528	8,766
	6,171,419	**2,801,790**

As at 31 December 2014, trade payables in the amount of RR 2,559,258 (23 December 2013: RR 113,220) were expressed in currencies other than the Russian ruble, primarily in US dollars (RR 2,437,531 (23 December 2013: RR 112,875)) and euro (RR 121,727 (23 December 2013: RR 345)).

13. Share capital

According to the incorporation documents of the Company, its share capital as at 23 December 2013 and 31 December 2014 amounts to RR 14,542. The authorized number of ordinary shares is 145,422,732 with a par value of 10 (ten) kopecks per share. All authorized shares have been issued and fully paid for.

As at 31 December 2014, 53.94% (23 December 2013: 53.94%) of the voting shares of OTCPharm PJSC were held by Augment controlled by Victor Kharitonin, a Russian citizen.

On 30 December 2014, all ordinary shares of the Company (145,422,732 shares) were accepted for organized trading in the Moscow Exchange.

Earnings per share were calculated by dividing the net income attributable to the holders of ordinary shares 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

An analysis of earnings per share is presented below:

	2014
Weighted average number of ordinary shares outstanding	145,422,732
Profit for the period attributable to shareholders	4,003,498
Basic and diluted earnings per share in Russian rubles	27.53

14. Revenue

Revenue breakdown by product groups for the reporting period was as follows:

Over-the-counter pharmaceutical products	
Products under the Group’s trademarks	14,438,647
Products of third parties	2,207,622
	16,646,269

15. Cost of sales

The components of cost of sales for the reporting period were as follows:

Materials (a)	1,744,332
Products of third parties	1,007,697
Cost of contract manufacturing services provided by related parties (Note 6)	1,197,274
Amortization of intangible assets	923,389
Production overheads (a)	405,972
Depreciation of property, plant and equipment (a)	121,967
Direct labor costs (a)	99,393
	5,500,024

(a) These expenses include cost of inventories received from Pharmstandard OJSC in the course of the spin-off of the branded over-the-counter medicines business on 23 December 2013.

16. Selling and distribution expenses

Selling and distribution expenses for the reporting period comprise:

Advertising	3,861,757
Agency fee paid to Pharmstandard OJSC (Note 6)	857,827
Labor costs	790,655
Freight, communication and insurance of goods in transit	63,241
Trainings and other services	5,201
Rent	96,485
License fees	55,522
Materials, maintenance and utilities	87,862
Travel and representative expenses	58,525
Other expenses	1,365
	5,878,440

17. General and administrative expenses

General and administrative expenses for the reporting period were as follows:

Labor costs	188,700
Legal, audit and advisory services	32,165
Travel and representative expenses	1,136
Rent	16,405
Materials, maintenance and utilities	14,147
Other	7,088
	259,641

18. Other income and expenses

Other income comprises:

	2014
Foreign exchange gain	1,185,106
Other income	241
	1,185,347

Other expenses for the reporting period comprise:

Foreign exchange loss	1,323,347
Charity	1,159
Research expenses (a)	4,337
Bank fees and commissions	854
Other	3,624
	1,333,321

(a) These expenses are represented by non-recurring expenses related to the research project on innovative medicines.

19. Income tax

Current income tax expense	1,289,191
Deferred tax benefit − origination and reversal of temporary differences	(345,054)
Income tax expense	**944,137**

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

Profit before tax	**4,947,635**
Theoretical tax charge at Russian statutory rate of 20%	**989,527**
Effect of the difference in tax rates in countries other than the Russian Federation	(33,547)
Tax effect on items which are not deductible or assessable for taxation purposes	
Non-taxable income	(169,175)
Non-deductible expenses	157,332
Income tax expense	**944,137**

Movements in deferred tax balances were as follows:

	At 23 December 2013	Temporary differences recognition and reversal in profit and loss	At 31 December 2014
Tax effects of taxable and deductible temporary differences − asset (liability)			
Intangible assets	(492,449)	57,689	(434,760)
Trade and other receivables	−	6,931	6,931
Inventories	−	93,720	93,720
Trade and other payables	−	186,714	186,714
Total net deferred tax liability	**(492,449)**	**345,054**	**(147,395)**

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

- Amortization of intangible assets in excess of the amortization for tax purposes;
- Impairment of trade receivables;
- Write-down of inventories to net realizable value;
- Unrealized profit from intragroup purchases of raw materials;
- Foreign exchange gains or losses relating to trade accounts payable which will be taken into account for tax purposes in the period of sale.

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized was approximately RR 2,234,081 as at 31 December 2014 (23 December 2013: RR 605,007).

20. Contingencies, commitments and operating risks

Operating environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by 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 2014 the Russian economy was negatively impacted by a plunge in crude oil prices, a serious devaluation of the Russian ruble, and sanctions imposed on Russia by a number of countries. In December 2014, ruble interest rates rose significantly after the CBR raised the key interest rate to 17%. Together, these trends have resulted in reduced capital availability, higher costs of capital, growing inflation and uncertainty regarding economic growth, which could adversely affect the Group's financial position, performance and business prospects.

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

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of legislation as applied to the Company's transactions and activities may be challenged by the relevant regional and federal authorities. In 2014, tax law was amended to counter the use of low tax jurisdictions and aggressive tax planning structures. These amendments are effective from 2015. These changes and recent trends in application and interpretation of certain provisions of the Russian tax legislation indicate that the tax authorities may take a tougher stance with regard to the interpretation of legislation and review of tax returns. The tax authorities may thus challenge transactions and accounting methods that they have never challenged before. As a result, significant taxes, penalties and interest may be assessed. It is not possible to determine the amounts of potential claims or assess the probability of an unfavorable outcome. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer tax periods.

As at 31 December 2014, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Because of the uncertainties associated with Russia's tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may exceed the amount paid to date and assessed as at 31 December 2014. It is not possible to determine the amount of unasserted claims that may be made, if any, or the likelihood of an unfavorable outcome. 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, which in Russia amount to 20% of such amount, and interest at the rate of 1/300 of the Central Bank of 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 allowance for these contingencies was recorded in these consolidated financial statements.

20. Contingencies, commitments and operating risks (continued)

Russian transfer pricing legislation

Under the new Russian transfer pricing legislation that entered into force on 1 January 2012, the Russian tax authorities may make adjustments to transfer prices and assess additional corporate income tax on a controlled transaction if a transaction price fails to correspond to the market level. Controlled transactions include transactions with related parties under both foreign trade agreements and domestic agreements as well as certain types of foreign trade transactions with independent parties. The turnover threshold beyond which transfer pricing rules apply to a controlled transaction within the country was RR 1 billion in 2014 (the Russian Tax Code includes a number of exceptions to this rule); all foreign trade transactions are controlled, regardless of the amount of income. In cases where a domestic controlled transaction results in additional tax charges for one party to the transaction, the other party may make symmetrical tax adjustments after an authorized body confirms that such adjustments may be made.

Current transfer pricing rules are considerably more demanding in terms of taxpayer compliance than the rules in effect until 2012, partly because the burden of proof has been shifted from the tax authorities to taxpayers. These rules apply not only to transactions concluded after 2012, but also to transactions with related parties in previous periods, provided that income and expenses are recognized in the period after 2013. Special transfer pricing rules apply to transactions with securities and derivatives.

In 2014 the Group determined its tax liabilities arising from controlled transactions using actual transaction prices.

Due to the uncertainty of transfer pricing law in Russia and the lack of law enforcement practice, the Russian tax authorities may challenge the level of prices that the Group sets in controlled transactions and assess additional tax, unless the Group can prove that these prices correspond to the market level and that tax reports were properly prepared and submitted along with the relevant transfer pricing documentation.

Operating lease agreements

The Group leases a number of warehouses and offices, as well as equipment and vehicles under operating lease agreements. Lease agreements are revised on an annual basis.

21. Financial Instruments and financial risk management objectives and policies

Fair values

Management believes that fair values of cash, loans issued, trade and other receivables, as well as trade and other payables approximate their carrying amounts due to their short maturity.

As at 23 December 2013 and 31 December 2014, the Group had no financial assets at fair value.

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

Fair values (continued)

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 in the market;
- Level 3: valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

At 31 December 2014

	Total	Level 1	Level 2	Level 3
Assets for which fair values are disclosed				
Short-term loans	**843,876**	–	–	843,876

Loans issued are non-derivative financial assets carried at amortized cost, which generate a fixed interest income for the Group. Their carrying value might be affected by changes in the credit risk of the counterparties.

Financial risk management objectives and policies

The Group's main financial instruments include cash and loans issued. The Group has a number of other financial assets and liabilities, such as trade and other receivables as well as trade and other payables, which arise directly from its operations. During the reporting year, the Group did not undertake trading in financial instruments.

The main risks arising from the Group's financial instruments are liquidity risk, foreign exchange risk and credit risk. Management reviews and approves policies for managing each of the risks listed below.

Currency risk

The Group has cash in USD and EUR (Note 10), short-term loans granted to the principal shareholder (Note 6), trade and other payables (Note 12), and trade and other receivables (Note 9). Therefore, the Group is exposed to foreign currency risk.

The Group monitors foreign currency risks by keeping track of the exchange rates of the currencies in which its cash and payables are denominated. However, the Group does not have formal arrangements to mitigate foreign currency risks inherent in Group's operations.

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

Currency risk (continued)

The tables below show 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:

At 31 December 2014	Increase/decrease in USD exchange rate	Effect on profit before tax
USD/RR exchange rate	+30%	(144,775)
USD/RR exchange rate	-30%	144,775

At 23 December 2013	Increase/decrease in USD exchange rate	Effect on profit before tax
USD/RR exchange rate	+20%	121,344
USD/RR exchange rate	-10%	(60,672)

At 31 December 2014	Increase/decrease in euro exchange rate	Effect on profit before tax
EUR/RR exchange rate	+30%	(36,517)
EUR/RR exchange rate	-30%	36,517

At 23 December 2013	Increase/decrease in euro exchange rate	Effect on profit before tax
EUR/RR exchange rate	+20%	90
EUR/RR exchange rate	-10%	(45)

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 continuously monitors both cash-deficit risks and the timely repayment of its financial liabilities. The Group carries out daily planning procedures and cash-flow control procedures.

The table below summarizes the maturity profile of the Group's non-derivative financial liabilities based on contractual undiscounted payments:

At 31 December 2014	Total	Less than 4 months	4 to 6 months
Trade and other payables (Note 12)	**6,171,419**	6,087,920	83,499
Total	**6,171,419**	**6,087,920**	**83,499**

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

Liquidity risk (continued)

At 23 December 2013	Total	Less than 4 months	4 to 6 months
Trade and other payables (Note 12)	**2,801,790**	2,801,790	–
Total	**2,801,790**	**2,801,790**	**–**

Credit risk

Financial assets, which potentially expose the Group to credit risk, consist mainly of trade receivables. The Group has policies in place to ensure that sales of goods 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 effective internal control procedures.

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

The Group places cash and deposits with a related bank and estimates credit risk to be low.

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

			Past due but not impaired				
	Total	Neither past due nor impaired	Less than 1 month	1 to 2 months	2 to 3 months	3 to 6 months	More than 6 months
At 31 December 2014	**11,122,013**	**10,346,570**	**485,698**	**141,069**	**131,135**	**17,541**	**–**
At 23 December 2013	866,329	859,674	6,655	–	–	–	–

Capital management

The Group's objectives in managing capital are to enable the Group to continue as a going concern, thus ensuring returns for shareholders, and to maintain an optimal capital structure for the purposes of reducing the cost of capital. The Group manages its capital structure and makes adjustments thereto in the light of changes in economic conditions. The Group may maintain or adjust its capital structure by adjusting the amount of dividends paid to shareholders, returning capital to shareholders, issuing new shares or selling assets to reduce debt.

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

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to maintain a debt-to-equity ratio of 60% or less. The Group's net debt includes loans and borrowings and accounts payable, less cash and cash equivalents. Capital includes equity attributable to the shareholders of the parent.

	31 December 2014	**23 December 2013**
Trade and other payables	6,171,419	2,801,790
Less: cash	(74,122)	(3,504,497)
Net debt	**6,097,297**	**(702,707)**
Capital	25,414,033	21,371,695
Capital and net debt	**31,511,330**	**20,668,988**
Gearing ratio	**19%**	**-3%**

22. Events after the reporting period

On 19 January 2015, the loan provided to Augment in the amount of USD 15 million maturing on 20 January 2015 (Note 6) was extended through 19 January 2016 on the same terms.