

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

PRELIMINARY CONSOLIDATED ANNUAL STATEMENT OF COMPREHENSIVE INCOME	1
PRELIMINARY CONSOLIDATED ANNUAL STATEMENT OF FINANCIAL POSITION	2
PRELIMINARY CONSOLIDATED ANNUAL STATEMENT OF CASH FLOWS	3
PRELIMINARY CONSOLIDATED ANNUAL STATEMENT OF CHANGES IN EQUITY	4

**NOTES TO THE PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENTS**

1. BACKGROUND INFORMATION ON THE GROUP	5
2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE GROUP	15
3. REVENUE	52
4. OTHER OPERATING INCOME AND LOSSES, NET	53
5. RAW MATERIALS AND CONSUMABLES USED	54
6. HIRED SERVICES EXPENSE	55
7. EMPLOYEE BENEFITS EXPENSE	55
8. OTHER OPERATING EXPENSES	56
9. IMPAIRMENT OF ASSETS	57
10. FINANCE INCOME	58
11. FINANCE COSTS	58
12. OTHER COMPREHENSIVE INCOME	58
13. PROPERTY, PLANT AND EQUIPMENT	59
14. INTANGIBLE ASSETS	62
15. INVESTMENT PROPERTY	64
16. INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES	64
17. AVAILABLE-FOR-SALE INVESTMENTS	65
18. NON-CURRENT RECEIVABLES FROM RELATED PARTIES	69
19. OTHER NON-CURRENT RECEIVABLES	71
20. INVENTORIES	72
21. TRADE RECEIVABLES	73
22. RECEIVABLES FROM RELATED PARTIES	75
23. OTHER RECEIVABLES AND ADVANCE PAYMENTS	77
24. CASH AND CASH EQUIVALENTS	79
25. EQUITY	79
26. LONG-TERM BANK LOANS	80
27. RETIREMENT BENEFIT OBLIGATIONS	81
28. FINANCE LEASE LIABILITIES	82
29. GOVERNMENT GRANTS	82
30. SHORT-TERM BANK LOANS	83
31. TRADE PAYABLES	84
32. PAYABLES TO RELATED PARTIES	85
33. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY	85
34. TAX PAYABLES	85
35. OTHER CURRENT LIABILITIES	86
36. CONTINGENT LIABILITIES AND COMMITMENTS	86
37. FINANCIAL RISK MANAGEMENT	90
38. RELATED PARTY TRANSACTIONS	98
39. EVENTS AFTER THE REPORTING PERIOD	100

## **1. BACKGROUND INFORMATION ON THE GROUP**

Sopharma Group (the Group) is comprised of the parent company and its twenty-nine (31 December 2013: twenty-eight) subsidiaries. In addition, the Group has investments in four joint ventures (31 December 2013: two joint ventures). As at the date of preparation of the preliminary consolidated annual financial statement the Group has investments in an associated companies (31 December 2013: one associated company).

### ***Parent company***

Sopharma AD (the parent company) is a business entity registered in Bulgaria with a seat and address of management: Sofia, 16, Iliensko Shousse Str.

The court registration of the Company dates from 15 November 1991 – Decision No. 1/1991 of Sofia City Court.

### ***Subsidiaries***

The subsidiaries of the Group as at 31 December 2014 were as follows:

- Sopharma Trading AD – a business entity registered in Bulgaria by Decision No. 3594/16.10.1998 of Varna District Court, with a seat and address of management: Sofia, Izgrev District, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 12;
- Bulgarian Rose Sevtopolis AD – a business entity registered in Bulgaria by Decision No. 3912/1991 of Stara Zagora District Court, with a seat and address of management: Kazanluk, 110, 23<sup>rd</sup> Pehoten Shipchenski Polk Blvd.;

On 19 June 2014, between Sopharma AD and Bulgarian Rose Sevtopolis was signed a contract for transformation through merger, which governs the way in which the transformation will be performed through merger of Bulgarian Rose Sevtopolis AD into Sopharma AD. The Financial Supervision Commission approved the Contract for transformation through merger of Bulgarian Rose Sevtopolis AD (acquiree) in Sopharma AD (acquiring company) for accounting purposes from 1 January 2015. The entry in the Commercial Register has been conducted on 26 February 2015.

- Pharmalogistica AD – a business entity registered in Bulgaria by Decision of Sofia City Court dated 12 August 2002, with a seat and address of management: Sofia, 16, Rozhen Blvd.;
- Electroncommerce EOOD – a business entity registered in Bulgaria by Decision of Sofia City Court under Company File No. 24456 of 1991, with a seat and address of management: Sofia, 1, Samokovsko Shousse Str.;
- Biopharm Engineering AD – a business entity registered in Bulgaria by Decision No. 524/1997 of Sliven District Court, with a seat and address of management: Sliven, 75, Trakiya Blvd.;

- Momina Krepost AD – a business entity registered in Bulgaria by Decision No. 3426/1991 of Veliko Tarnovo District Court, with a seat and address of management: Veliko Tarnovo, 23, Magistralna Str.;
- Sopharma Buildings REIT – a business entity registered in Bulgaria by Decision No. 1/14.08.07 of Sofia City Court, with a seat and address of management: Sofia, Izgrev District, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 20;
- Unipharm AD – a business entity registered in Bulgaria by Decision of Sofia City Court under Company File No. 3685 of 1994, with a seat and address of management: Sofia, 3, Traiko Stanoev Str.;
- Phyto Palauzovo AD – a business entity registered in Bulgaria by Decision № 20120924105551 from 24 September 2012 of the Registry Agency and with a seat and address of management: Kazanluk, 110, “23 Pehoten shipchenski polk” Blvd.;
- Sopharma Poland ZOO, in liquidation – a business entity registered in Poland by Decision No. KRS 0000178554 of 4 November 2003 of XX Economic Division of Warsaw Regional Court Register, with a seat and address of management: Poland, Warsaw, 58, Shashkova Str.;
- Sopharma Warsaw SP ZOO – a business entity registered in Poland by Decision No. DSR 0000372245 of 17 December 2010 by XII Economic Division of the State Court Register of Warsaw, with a seat and address of management: Poland, Warsaw, 8, Halubinskiego Str.;
- OOO Sopharma Ukraine– a business entity, registered in Ukraine by Decision № 10691020000029051 from 07 August 2012 of Unified State Register Of Legal Entities and Physical Persons – Entrepreneurs and with a seat and address of management – Ukraine, Kiev, Obolonski district, 9, “Moskovskii” prospekt, corpus 4, floor 2, office 4 – 203.
- Sopharma USA – a business entity registered in USA by Decision No. 97227599 of 25 April 1997 in California State Secretary Office, with a seat and address of management: USA, California, Los Angelis, 4622, Hollywood Blvd.;
- Extab Corporation USA – a business entity registered in USA by Decision No. 090292393 of 6 November 2008 in the Delaware State Secretary Office, with a seat and address of management: USA, Delaware, Wilmington, New Castle Region, 1209 Orange Street;
- Extab Pharma Limited, United Kingdom – a business entity registered in England by Decision No. 06751116 of 17 November 2008, with a seat and address of management: Oxfordshire, RG9 1AY, Henlay on Thames, 10 Station Road;
- PAO Vitamini – a business entity registered in Ukraine by Decision No. 133 dated 15 April 1994 of Uman City Court, with a seat and address of management: Ukraine, Cherkasy Province, Uman, 31, Leninski Iskri Str.;

- Ivanchich and Sons DOO – a business entity registered in Serbia by Fi-11350/91 on 14 October 1991 by the Commercial Court of Belgrade with a seat and address of management: Republic of Serbia, Belgrade, 13, Palmoticheva Str.;
- Briz Ltd, Latvia – a business entity registered in Latvia by Decision No. 000302737 dated 18 September 1991 of the Commercial Registry of the Republic of Latvia, with a seat and address of management: Latvia, Riga, Rasas No. 5, LV – 1057;
- SOOO Brititrade, Belarus – a business entity registered in Belarus by Decision No. 1983 dated 24 September 2004 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 118, M. Bogdanovicha Str., office 303 – B;
- OOO Tabina, Belarus – a business entity registered in Belarus by Decision No. 1432 dated 29 December 1999 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 57, Kuybisheva Str., ap.1;
- ZAO Interpharm, Belarus - a business entity registered in Belarus in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 300000556, with a seat and address of management: Belarus, Vitebsk, Stroitelei Square, bl. 3 ap. 2;
- SOOO Brizpharm, Belarus - a business entity registered in the Minsk City Executive Committee in the Unified State Register Of Legal Persons and Physical Persons - Entrepreneurs under Decision No.800007989 form 07 July 2009 and with a seat and address of management: Belarus, Minsk, “Esenina” Str., d.16, room 1 H;
- ODO Alean, Belarus – a business entity registered in Belarus with decision №100160720 from 29 May 2001 in the Minsk City Executive Committee in the Unified State Register Of Legal Persons and Physical Persons – Entrepreneurs and with seat and address of management – Belarus, Minsk, 16 Tashkentskaia Str., corpus 1;
- OOO Pharmacist Plus, Belarus – a business entity registered in the Minsk City Executive Committee on 24 November 2000 / №1348 in the Unified State Register Of Legal Persons and Physical Persons - Entrepreneurs under №190174236 and with a seat and address of management – Belarus, Minsk, 1<sup>st</sup> Tverdii Pereulok, d.7.
- UAB TBS Pharma, Lithuania - a company registered in the Lithuanian Register of Legal Entities on 1 March 2013 / 303011389, with seat and address of management - Lithuania, Vilnius, 8 Vitauto Str. / 7 Liubarto Str., PO Box: 08118.
- ODO Vestpharm, Belarus - a business entity registered in Belarus by Decision №590002202 of the Grodno City Executive Committee and with a seat and address of management – Belarus, Grodno, “Dombrovskogo” Str., d.47, k.3;
- OOO NPK Biotest, Belarus - a business entity registered in Belarus by decision №48 from 24 July 1990 of the Lenin District Committee of the People’s Representatives, with seat and address of management – Belarus, Grodno, 2 Gojskaia Str.;

- ODO BelAgroMed, Belarus - a business entity registered in Belarus by decision №009126 from 29 June 2001 of the Grodno City Executive Committee and with a seat and address of management – Belarus, Grodno, “17 Sentiabria” Str..
- TOO Sopharma Kazakhstan, Kazakhstan - a company registered in Kazakhstan with decision № 5286-1910-04-TOO from 11 June 2014 by the Ministry of Justice, Auezovski area, with registered address – Kazakhstan, Almaty, Auezovski area, Mamir - 4 home 190.

### ***Joint ventures***

As at 31 December 2014 the joint ventures of the Group are:

- ООО Vivaton plus, Belarus - a business entity registered in Belarus by Decision №590004353 of the Grodno City Executive Committee and with a seat and address of management – Belarus, Grodno, pr. “Kletskovo”, d.13 B, office 2.
- ООО Med-dent, Belarus - a business entity registered in Belarus by decision № 0018240 from 11 March 2013 by Economy Management of Bobruisk City Executive Council with a seat and address of management – Belarus, Mogilev Region, Bobruisk, 120 K. Marks Str., office 4.
- BOOO SpecApharmacia, Belarus - a business entity registered in Belarus by decision № 22-8 from 30 October 2000 by Mogilev Region Executive Council with a seat and address of management – Belarus, Mogilev Region, Bobruisk, 120 K. Marks Str., office 2.
- ООО Bellerophon, Belarus – a business entity registered in Belarus by decision № 1193 from 17 July 2003, issued by Minsk City Executive Council with a seat and address of management – Belarus, Minsk, № 5-45 Storojevskaja Str..

The joint venture Sopharma Zdrovit SA, Poland has been erased from the National Court Register of Poland on 25 February 2013.

### ***Associated companies***

As at 31 December 2014 the associated company in the Group is Medica AD - a company registered in Bulgaria with the initial registration under company case № 99 from 1991 of the Blagoevgrad District Court, with registered address -Sofia, Oborishte district, bul. "Knyaz Alexander Dondukov" 82.

The companies ООО Med-dent, Belarus and BOOO SpetsApharmatsiya, Belarus, acquired by the Group in 2013, have had an initial status of “associated companies” (ООО Med-dent from 3 September 2013 until 17 December 2013, BOOO SpetsApharmatsiya – from 3 September 2013 until 20 January 2014). Subsequently the Group has increased its share in them and their status has been changed to “joint venture”.

In 2014, the Group acquired a stake in the company OOO Bellerophon, Belarus, which initially had the status of an “associated company” (28 August 2014 until 27 November 2014), and subsequently the Group increased its stake and its status was changed to a “joint venture”.

### ***1.1. Ownership and management of the parent company***

Sopharma AD is a public company under the Bulgarian Public Offering of Securities Act. As of November 2011, its shares started to be traded also in the Warsaw Stock Exchange.

The joint-stock capital structure of the parent company as at 31 December 2014 was as follows:

	%
Donev Investment Holding AD	25.27
Telecomplect Invest AD	20.42
Rompharm Company OOD	18.42
Sopharma AD (treasury shares)	3.87
Other legal persons	28.93
Physical persons	3.09

Sopharma AD has a one-tier management system with a five-member Board of Directors as follows:

Ognian Donev, PhD	Chairman
Vessela Stoeva	Member
Ognian Palaveev	Member
Alexander Chaushev	Member
Andrey Breshkov	Member

The parent company is represented and managed by its Executive Director Ognian Donev, PhD.

### ***1.2. Structure of the Group and principal activities***

The *structure* of the Group includes Sopharma AD as a parent company and the subsidiaries listed below:

<b><i>Subsidiaries</i></b>	<b>31 December 2014 <i>Interest</i> %</b>	<b>31 December 2013 <i>Interest</i> %</b>	<b><i>Acquisition of control date</i></b>
<b><i>Companies in Bulgaria</i></b>			
Sopharma Trading AD	71.89	75.92	08.06.2006
Bulgarian Rose Sevtopolis AD *	49.99	49.99	22.04.2004
Pharmalogistica AD	76.54	76.54	15.08.2002
Electroncommerce EOOD	100	100	09.08.2005
Biopharm Engineering AD	97.15	97.15	10.03.2006

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

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Sopharma Buildings REIT	40.75	42.89	04.08.2008
Momina Krepost AD *	53.28	53.29	01.01.2008
Unipharm AD *	51.78	51.87	27.10.2010
Phyto Palauzovo AD **	47.49	47.49	21.09.2012
<b><i>Companies abroad</i></b>			
Sopharma USA	100	100	25.04.1997
Extab Corporation	80	80	05.08.2009
Extab Pharma Limited **	80	80	05.08.2009
Briz Ltd	66.13	53.14	10.11.2009
SOOO Brititrade **	65.14	52.34	10.11.2009
PAO Vitamini	99.56	99.56	18.01.2008
Ivanchich and Sons DOO	51	51	10.04.2008
Sopharma Warsaw SP ZOO	100	100	23.11.2010
Sopharma Poland ZOO – in liquidation	60	60	16.10.2003
OOO Tabina **	58.86	47.29	08.04.2011
ZAO Interpharm **	33.07	29.71	17.12.2011
SOOO Brizpharm **	39.02	31.35	20.12.2012
ODO Alean **	46.95	37.73	07.02.2013
OOO Sopharma Ukraine	100	100	07.08.2012
OOO Pharmacist Plus **	33.73	27.10	31.05.2013
UAB TBS Pharma **	33.73	27.10	01.03.2013
ODO Vestpharm **	59.52	43.04	04.07.2013
OOO NPK Biotest **	46.29	30.29	02.09.2013
ODO BelAgroMed **	46.95	30.29	30.07.2013
TOO Sopharma Kazakhstan	100	-	06.11.2014

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\* *effective percentage of participation*

\*\* *indirect participation*

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- Bulgarian Rose Sevtopolis AD is a subsidiary to Sopharma AD, the control thereon being acquired and exercised through the direct participation of the parent company in the ownership of Bulgarian Rose Sevtopolis AD with 49.99%;

On 19 June 2014, between Sopharma AD and Bulgarian Rose Sevtopolis was signed a contract for transformation through merger, which governs the way in which the transformation will be performed through merger of Bulgarian Rose Sevtopolis AD into Sopharma AD. The Financial Supervision Commission approved the Contract for transformation through merger of Bulgarian Rose Sevtopolis AD (acquiree) in Sopharma AD (acquiring company) for accounting purposes from 1 January 2015. The entry in the Commercial Register has been conducted on 26 February 2015.

- Unipharm AD is a subsidiary to Sopharma AD, the control thereon being acquired and exercised through the direct participation of the parent company in the ownership of Unipharm AD with 49.99 % and the indirect participation of the parent company with 1.78% through the subsidiary Sopharma Trading AD holding 2.47% of the capital of Unipharm AD;
- Sopharma Buildings REIT is a subsidiary by virtue of a written control agreement concluded between Sopharma AD and other shareholders;
- Phyto Palauzovo AD is a subsidiary through Bulgarian Rose Sevtopolis AD - Bulgarian Rose Sevtopolis AD owns 95% of the capital of Phyto Palauzovo AD;
- Extab Pharma Limited, United Kingdom, is a subsidiary through Extab Corporation, USA, the latter company being 100% capital holder of Extab Pharma Limited, United Kingdom;
- SOOO Brititrade, Belarus, is a subsidiary of Briz Ltd, Latvia – Briz Ltd holds 98.50% of the capital of SOOO Brititrade;
- OOO Tabina, Belarus, is a subsidiary through Briz Ltd, Latvia – Briz Ltd holds 89% of the capital of OOO Tabina;
- ZAO Interpharm, Belarus, is a subsidiary through Briz Ltd, Latvia – Briz Ltd holds 50% of the capital of ZAO Interpharm;
- SOOO Brizfarm, Belarus is a subsidiary through Breeze OOD, Latvia - Breeze OOD holds 59% of the capital of SOOO Brizfarm;
- ODO Alean, Belarus is subsidiary through Briz Ltd, Latvia – Briz Ltd holds 71% of the capital of ODO Alean;
- OOO Pharmacist Plus, Belarus is a subsidiary through Briz Ltd, Latvia – Briz Ltd holds 51% of the capital of ODO Alean;
- UAB TBS Pharma, Lithuania is a subsidiary through Briz Ltd, Latvia – Briz Ltd holds 51% of the capital of UAB TBS Pharma;
- ODO Vestpharm, Belarus is a subsidiary through Briz Ltd, Latvia – Briz Ltd holds 90% of the capital of ODO Vestpharm;
- OOO NPK Biotest, Belarus is a subsidiary through Briz Ltd, Latvia – Briz Ltd holds 70% of the capital of OOO NPK Biotest;
- ODO BelAgroMed, Belarus is a subsidiary through Briz Ltd, Latvia – Briz Ltd holds 71% of the capital of ODO BelAgroMed.

The principal activities of the Group companies are focused on the pharmaceutical sector except for separate companies having principal activities also in the field of investment in real estate and securities.

The principal activities of the companies within the Group are as follows:

- Sopharma AD – production and trade in medicinal substances (active ingredients) and finished drug forms; research and development activities in the field of medicinal products;
- Sopharma Trading AD – trade in pharmaceutical products;
- Bulgarian Rose Sevtopolis AD – production of finished drug forms;
- Biopharm Engineering AD – production and trade in infusion solutions;
- Pharmalogistica AD – secondary packaging of pharmaceutical products and real estate leases;
- Electroncommerce EOOD – trade, transportation and packaging of radioactive materials and nuclear equipment for medicinal use, household electronics and electrical equipment;
- Sopharma Buildings REIT – investment of funds, accumulated by issuance of securities, in real estate (securitization of real estate) through purchase of title and other real rights over real estate, rent-out, lease, and/or sale;
- Momina Krepost AD – development, implementation and production of medical goods for human and veterinary medicine;
- Unipharm AD – production and trade in pharmaceuticals;
- Phyto Palauzovo AD – production, collection, purchasing, harvesting and marketing of herbs and medicinal plants;
- PAO Vitamini – production and trade in pharmaceuticals;
- Ivanchich and Sons DOO – production and trade in pharmaceuticals;
- Sopharma Poland ZOO, in liquidation – market and public opinion research;
- Sopharma Warsaw SP ZOO – market and public opinion research (a subsidiary as from 23 November 2010);
- OOO Sopharma Ukraine – trade in pharmaceuticals and market and public opinion research;
- Sopharma USA – trade in pharmaceuticals and food supplements;
- Extab Corporation, USA – market and public opinion research;
- Extab Pharma Limited, United Kingdom – market and public opinion research;
- Briz Ltd, Latvia – trade in pharmaceuticals;
- SOOO Brititrade, Belarus – trade in pharmaceuticals;
- OOO Tabina, Belarus – trade in pharmaceuticals;
- ZAO Interpharm, Belarus – trade in pharmaceuticals;
- Brizpharm SOOO, Belarus – trade in pharmaceuticals;
- ODO Alean, Belarus – trade in pharmaceuticals;

- OOO Pharmacist Plus, Belarus – trade in pharmaceuticals;
- UAB TBS Pharma, Lithuania – trade in pharmaceuticals, production of medicines and pharmaceutical products, R&D and experimenting in the field of biotechnologies;
- ODO Vestpharm, Belarus – retail trade in pharmaceuticals and medical equipment;
- OOO NPK Biotest, Belarus – production of phyto-based medicines;
- ODO BelAgroMed, Belarus – retail trade in medicines and pharmaceutical products;
- TOO Sopharma Kazakhstan – trade in pharmaceuticals (a subsidiary as from 6 November 2014);

The parent company and the subsidiaries Sopharma Trading AD, Bulgarian Rose Sevtopolis AD, Pharmalogistica AD, Electroncommerce EOOD, Biopharm Engineering AD, Sopharma Buildings REIT, Momina Krepost AD, Unipharm AD, Phyto Palauzovo perform their activities in Bulgaria; Sopharma Poland ZOO – in liquidation and Sopharma Warsaw SP ZOO operate in Poland, PAO Vitamini, OOO Sopharma Ukraine – in Ukraine, Ivanchich and Sons DOO – in Serbia, Briz Ltd – in Latvia, SOOO Brititrade, OOO Tabina, ZAO Interpharm, ODO Alean, Brizpharm SOOO, OOO Pharmacist Plus, ODO Vestpharm, OOO NPK Biotest, and ODO BelAgroMed – in Belarus, and UAB TBS Pharma – in Lithuania, Extab Pharma Limited – in the Great Britain, TOO Sopharma Kazakhstan – in Kazakhstan, and Sopharma USA and Extab Corporation, USA – in USA.

As at 31 December 2014, the interest of the Group in *joint ventures* is as follows:

- OOO Vivaton plus: 50% participation together with Apteka Group Holding. The principle activities of the joint venture is trade in pharmaceuticals and food supplements. The company is a joint venture of the Group as of 20 December 2012.
- OOO Med-dent, Belarus: 50% participation together with a physical person. The principle activities of the joint venture is trade in pharmaceuticals and food supplements. The company is a joint venture of the Group as from 17 December 2013.
- BOOO SpecApharmacia, Belarus – a 50% joint venture with a physical person. The principal activity of the joint venture is trade in pharmaceuticals and food supplements. The company is a joint venture of the Group as from 20 January 2014.
- OOO Bellerophon, Belarus – a 50% joint venture with a physical person. The principal activity of the joint venture is retail trade in pharmaceuticals, medicinal equipment, and food supplements. The company is a joint venture of the Group as from 27 November 2014.

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

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The joint venture Sopharma Zdrovit SA has been erased from the National Court Register of Poland – on 25 February 2013. The principle activities of the joint venture was R&D in the medical and pharmaceutical fields, wholesale of pharmaceutical products.

As at 31 December 2014 the participation of the Group in the *associated company* Medika AD amounts to 24.38%. The principle activities of the associated company is production and sale of bandages and sanitary materials, finished medicine forms, dental products and food supplements.

The companies OOO NPK Biotest, Belarus, ODO BelAgroMed, Belarus, acquired by the Group in 2013, initially had the status of “associated companies” respectively from 18 January 2013 until 02 September 2013 and from 18 January 2013 until 30 July 2013. After the control over them was gained, their status was changed to “subsidiaries”.

The companies OOO Med-dent, Belarus and BOOO SpetsApharmatsiya, Belarus, acquired by the Group in 2013, initially had the status of “associated companies” respectively from 3 September 2013 until 17 December 2013 and from 3 September 2013 until 20 January 2014. Subsequently the Group has increased its participation in them and their status has been changed to “joint ventures”.

As at the date of the current preliminary consolidated annual financial statement the average number of the Group’s personnel is 4,187 workers and employees (2013: 4,122).

### ***1.3. Main indicators of the economic environment***

The main economic indicators of the business environment that have affected the activities of the Group companies throughout the period 2012 – 2014, are presented in the table below:

<b>Indicator</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
USD/BGN average for the year/period	1.52180	1.47362	1.47437
USD/BGN at the end of the year/period	1.48360	1.41902	1.60841
PLN/BGN average for the year/period	0.46772	0.46600	0.46760
PLN/BGN at the end of the year/period	0.47926	0.47143	0.45376
RSD/BGN average for the year/period	0.01730	0.01729	0.01669
RSD/BGN at the end of the year/period	0.01720	0.01711	0.01617
UAH/BGN average for the year/period	0.19042	0.18425	0.12828
UAH/BGN at the end of the year/period	0.18561	0.17713	0.10169
GBP/BGN average for the year/period	2.41275	2.33839	2.42721
GBP/BGN at the end of the year/period	2.39406	2.33839	2.50010
EUR/BGN average for the year/period	1.95583	1.95583	1.95583
EUR/BGN at the end of the year/period	1.95583	1.95583	1.95583
LVL/BGN average for the year/period	2.80501	2.78820	-
LVL/BGN at the end of the year/period	2.80285	2.78410	-
1000 BRUB/BGN average for the year/period	0.18249	0.16573	0.14410
1000 BRUB/BGN at the end of the year/period	0.17256	0.14967	0.13554
LTL/BGN average for the year/period	0.56645	0.56645	0.56645
LTL/BGN at the end of the year/period	0.56645	0.56645	0.56645
KZT/BGN average for the year/period	-	-	0.00863
KZT/BGN at the end of the year/period	-	-	0.00880

*Source: BNB, National Banks of Ukraine, Poland, Serbia, Belarus, Latvia, Lithuania, and Kazakhstan.*

## **2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE GROUP**

### ***2.1. Basis for the preparation of the preliminary consolidated annual financial statement***

The current preliminary consolidated annual financial statement has been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting.

In preparing the preliminary consolidated annual financial statement the same accounting policies, reporting and calculation methods and underlying assumptions have been consistently applied as in preparing the last annual consolidated financial statement for 2013.

The preliminary consolidated annual financial statement for period ended 31 December 2014 should be read in conjunction with the consolidated financial statement for the year ended 31 December 2013, prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC) and have been accepted by the Commission of the European Union.

For 2014 the Group has adopted all new and/or revised standards and interpretations, issued by the International Accounting Standards Board (IASB) and respectively, by the International Financial Reporting Interpretations Committee (IFRIC), which are relevant to its activities.

The adoption of these standards and/or interpretations, effective for annual periods beginning on 1 January 2012, has not resulted in changes in Group's accounting policies, except for some new disclosures and expanding of those already established, however, not resulting in other changes in the classification or valuation of individual reporting items and transactions.

These standards and interpretations are as follows:

- *IAS 27 (as revised in 2011) "Separate Financial statement" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC, mandatory application in the European Union for annual periods beginning on or after 1 January 2014).* The standard was reissued with a changed title as the part of it containing the framework regarding the content, criteria and technology of preparing of the consolidated financial statements was entirely separated in a new standard – IFRS 10 "Consolidated Financial statement". Thus the standard in the most part includes the rules on accounting and valuation of investments in subsidiaries, associated companies and joint ventures at the level of separate financial statement of investors in their capacity as parent companies, investors with substantial influence and controlling partners in joint ventures, as well as the typical announcements for this type of statements.
- *IAS 28 (as revised in 2011) "Investments in Associated companies and Joint Ventures" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC, mandatory application in the European Union for annual periods beginning on or after 1 January 2014 the*

*latest*). The title and the scope of the standard have been changed and the standard sets out rules for application of the equity method in consolidated financial statements when accounting for investments in associated companies as well as in joint ventures, which were previously included in the scope of IAS 31 "Interests in Joint Ventures", and as of 1 January 2013 in line with the new IFRS 11;

- *IAS 32 (revised) Financial Instruments: Presentation (effective for annual periods beginning on 01 January 2014 - endorsed by EC) - on netting (offset) of financial assets and financial liabilities.* These changes are related to clarifications of the application of the rules on offsetting financial instruments. Basically they are in four areas: a) clarification of the meaning of the concept of "current legally enforceable right to offset"; b) the application of simultaneous realization and settlement agreement; c) offsetting of cash provided as guarantee; d) measurement for the implementation of offsetting requirements - perspective;
- *IFRS 10 "Consolidated Financial statement" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC, mandatory application in the European Union for annual periods beginning on or after 1 January 2014). Transitional provisions (effective for annual periods beginning on or after 1 January 2013 - not endorsed by the EC) regarding the application of the standard for the first time.* This standard replaces a significant part of the old IAS 27 ("Consolidated and Individual Financial statement") and SIC-12 ("Consolidation - Special Purpose Entities"). Its main objective is to establish the improved principles and methods for the preparation and presentation of financial statement when an entity controls one or more other entities. It gives a new definition of control that contains three elements and establishes control as the sole basis for consolidation and provides more detailed rules and guidelines for assessing the existence of relations through controlling. The standard also sets out the main mandatory rules for the preparation of consolidated financial statement;
- *IFRS 11 "Joint Arrangements" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC, mandatory application in the European Union for annual periods beginning on or after 1 January 2014). Transitional provisions (effective for annual periods beginning on or after 1 January 2013 - not endorsed by the EC) regarding the application of the standard for the first time.* This standard replaces IAS 31 "Interests in Joint Ventures", including SIC-13 "Jointly Controlled Entities – Non-monetary Contributions by Venturers". It introduces only two types of joint arrangements – joint operations and joint ventures – whereas the classification criterion used is not the legal form but rather the rights and obligations of each party to an arrangement, i.e. whether they represent rights to the assets and liabilities and respectively, to the expenses and revenue from the joint arrangement (joint operation) or rights to the net assets of the joint arrangement (joint venture). The standard removes the option for proportionate

consolidation and requires application of the equity method for consolidation of jointly controlled entities.

- *IFRS 12 “Disclosing of Interest in Other Entities” (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC, mandatory application in the European Union for annual periods beginning on or after 1 January 2014). Transitional provisions (effective for annual periods beginning on or after 1 January 2013 - not endorsed by the EC) regarding the application of the standard for the first time.* This standard introduces a new framework of requirements for the scope of disclosure in the consolidated financial statement and requirements to the information included therein with regard to the interests of the reporting entity in other companies and entities, which are subsidiaries, associated companies, joint ventures, or unconsolidated structural entities, incl. to the content of the information, in order to facilitate fair assessment of the effects and the risks of those interests.
- *IAS 36 (amended) “Impairment of assets” (in force for annual periods beginning on or after 1 January 2014 – endorsed by EC) – regarding the disclosures of the recoverable part of non-financial assets).* This change is related to the need for limiting of certain disclosures regarding the recoverable part under IAS 36 in relation with the requirements of IFRS 13 in applying the methods for calculating the fair value of the recoverable part of non-financial assets excluding cost of sale;

The preliminary consolidated annual financial statement have been prepared on a historical cost basis except for: a/ property, plant and equipment, which are measured at revalued amount; and investment property and available-for-sale financial instruments, which are measured at their fair value as at the date of the preliminary consolidated annual statement of financial position. The figures of the companies, consolidated in these financial statement, which operate in the environment of hyperinflationary economy, have been restated for the effects of hyperinflation with the respective inflation index (Notes 2.6, 2.10, 2.12, 2.16).

The Bulgarian companies of the Group maintain their accounting books in Bulgarian Lev (BGN), which is accepted as being their functional and presentation currency. Foreign subsidiaries, associated companies and joint ventures abroad organize their accounting and reporting in accordance with the requirements of the local legislation (OOO Sopharma Ukraine and PAO Vitamini – Ukraine, Ivanchich and Sons DOO – Serbia, Extab Pharma Limited – United Kingdom, Briz Ltd – Latvia, SOOO Brititrade, OOO Tabina, ZAO Interpharm, Brizpharm SOOO, OOO Pharmacist Plus, ODO Alean, OOO NPK Biotest, ODO BelAgroMed, ODO Vestpharm – Belarus, TOO Sopharma Kazakhstan – Kazakhstan, UAB TBS Pharma – Lithuania, Sopharma USA and Extab Corporation – USA legislation and Sopharma Poland ZOO – in liquidation, Sopharma Warsaw SP ZOO and the joint venture Sopharma Zdrovit SA – erased from the National Court Register of Poland on 25 February 2013 – the Polish legislation, and the joint ventures: OOO Vivaton Plus, OOO Med-dent, BOOO SpetzApharmacia, and OOO Bellerophon -

Belarus) and keep their accounting ledgers in the respective local currency – Grivni (UAH), Serbian Dinar (RSD), Euro (EUR), British Pound (GBP), Belarus Ruble (BYR), US Dollars (USD), Polish Zloty (PLN), Kazakhstani Tenge (KZT), and Lithuanian Litas (LTL).

The data in the preliminary consolidated annual financial statement and the notes thereto are presented in thousand BGN (BGN'000), unless explicitly stated otherwise, and the BGN is accepted as reporting and presentation currency of the Group. According to the policies of the Group, the financial statement of the Group companies abroad are restated from the local currency to BGN for the purposes of the consolidated financial statement (Note 2.5). Until 2013 (including) the financial statements of the companies of the Group whose functional currency is a currency in hyperinflationary economy have been restated with an inflationary index so that they are expressed in measurement units valid at the end of the reporting period and after that they are restated from the local currency to BGN for the purposes of the Group consolidation.

The presentation of the preliminary consolidated annual financial statement in accordance with IFRS requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities and the disclosure of contingent receivables and payables as at the date of the financial statement, and respectively, on the reported amounts of income and expenses for the reporting year. These estimates, accruals and assumptions are based on the information, which is available at the date of the consolidated financial statement, and therefore, the future actual results might be different from them (whereas in the conditions of financial crisis the uncertainties are more significant). The items presuming a higher Level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the consolidated financial statement, are disclosed in Note 2.32, Note 13, Note 14, Note 15, and Note 18.

## ***2.2. Definitions***

### ***Parent company***

This is the company that has control over the economic and financial policies and the operation of the subsidiaries by holding more than 50% of their capital shares and/or voting rights or by virtue of a written control agreement concluded between the shareholders. The parent company is Sopharma AD, Bulgaria (Note 1.1).

### ***Subsidiaries***

These are companies, including non-legal entities, in which the parent holds directly or indirectly more than 50% of the voting rights in the General Meeting (in the joint-stock capital) and/or has the right to appoint more than 50% of the Board of Directors of the respective company or by virtue of a written control agreement concluded between the shareholders and can exercise control over their financial and operating policy (including by virtue of a concluded control agreement between shareholders). The

subsidiaries are consolidated as from the date on which the effective control over them has been acquired by the Group and are de-consolidated as from the date when the control over them ceases and is transferred outside the Group. The full consolidation method is applied for their consolidation.

The subsidiaries are presented in Note 1.2.

***Joint venture***

A joint venture is established by virtue of a contractual agreement based on which two or more parties (companies) start a common business undertaking, which is subject to joint control.

The joint control represents a contractual sharing of control on a particular business. It is determined by the requirement that strategic financial and operating decisions relating to the business activities and the development of the joint venture shall be taken with mandatory unanimous consent of the controlling shareholders.

A controlling shareholder in a joint venture is the party (company), which participates in the joint venture and shares the joint control on the latter.

The joint venture is included in the consolidated financial statements of the Group using the equity method, from the date on which joint control is acquired by the controlling shareholder (the parent company) and is no longer consolidated by this method from the date when the joint venture was transformed into a subsidiary, or the date on which it is assumed that joint control is transferred from the controlling shareholder of third parties.

The joint ventures are OOO Vivaton plus, Belarus, OOO Med-dent, Belarus, BOOO SpetzApharmacia, Belarus, OOO Bellerophon, Belarus, and Sopharma Zdrovit SA, Poland – until 25 February 2013 (Note 1.2).

***Associated companies***

An associated company is a company in which the investor (the parent company) exercises significant influence but is neither a subsidiary nor a joint venture with the investor.

Significant influence is the right of participation in decision-taking with regard to financial and operation policies of the entity, subject to investment, but not control or joint control over these policies. Usually it exists in case of: (a) possession by the investor, directly or indirectly, of 20% to 50% of the shares in the capital of the investee company (including by virtue of an agreement between shareholders), and (b) in addition, the investor is represented in the managing body of the investee and/or participates in the decision-taking process with regard to the policy and strategy of the investee, and/or significant transactions exist between the investor and the investee.

The associated company is included in the consolidated financial statement of the Group by applying the equity method – from the date on which the investor (the parent company) acquires significant influence and its consolidation under this method is ceased when the associated company is transformed into a subsidiary or when it is accepted that the significant influence is transferred from the investor to third parties.

As at 31 December 2014 the Group owns a stake in the associated company Medika AD, Bulgaria.

### ***2.3. Consolidation principles***

The preliminary consolidated annual financial statement includes the financial statements of the parent company, the subsidiaries, the joint venture and the associated companies, prepared as at 31 December 2014. The ‘economic entity’ assumption has been applied in the consolidation except for the measurement of non-controlling interest in business combinations and other forms of acquisition of subsidiaries for which the ‘proportionate share of net assets’ method has been chosen.

For the purposes of consolidation, the financial statement of the subsidiaries, the joint ventures and the associated companies have been prepared for the same reporting period as the parent company using uniform accounting policies.

#### ***2.3.1. Consolidation of subsidiaries***

In the preliminary consolidated annual financial statement, the financial statements of the included subsidiaries are consolidated under the ‘full consolidation’ method, line-by-line, by applying accounting policies that are uniform with regard to the significant reporting items. The investments of the parent company are eliminated against its share in the equity of the subsidiaries at the date of acquisition. Intra-group transactions and balances, including unrealized intra-group gains and losses, are eliminated in full. The effect of deferred taxes has been taken into account in these eliminating consolidation entries.

The shares of shareholders – third parties in the subsidiaries other than these of the shareholders of the parent company are presented separately in the consolidated statement of financial position, the consolidated statement of comprehensive income and the statement of changes in equity as ‘non-controlling interest’. Non-controlling interest includes: (a) the combined share of the shareholders – third parties at the date of initial consolidation in the fair value (deemed cost) of all identifiable assets acquired, liabilities and contingent (crystallized) liabilities of the respective subsidiaries assumed, determined (on share basis) through the proportionate method, and (b) the change in the share of these third parties in the equity of each respective subsidiary from their initial consolidation to the end of the reporting period.

#### ***2.3.2. Acquisition of subsidiaries***

The acquisition (purchase) method of accounting is used on the acquisition of a subsidiary (entity) by the Group in business combinations. The consideration transferred includes the fair value at the date of exchange of the assets transferred, the incurred or assumed liabilities and the equity instruments issued by the acquirer in exchange of the control over the acquiree. It also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related direct costs are recognized as current expenses when incurred except for the issue costs of debt or equity instruments, which are recognized as equity components.

All identifiable assets acquired and liabilities and contingent liabilities assumed in the business combination are measured initially at their fair values at the date of exchange. Any excess over the sum of the consideration transferred (measured at fair value), the amount of non-controlling interest in the acquiree and the fair value at the acquisition date of any previous interest in the acquiree (in case of stepwise acquisition) over the acquired identifiable assets and assumed liabilities of the acquirer, is treated and recognized as goodwill. If acquirer's share in the fair value of acquired net identifiable assets exceeds the cost of acquisition of the business combination, this excess is recognized immediately in the consolidated statement of comprehensive income of the Group in the item 'gains/(losses) on acquisition and disposal of subsidiaries'. Any non-controlling interest in a business combination is measured based on the method of the 'proportionate share of the net assets' of the acquiree.

When a business combination for the acquisition of a subsidiary is achieved in stages, all previous investments held by the acquirer at the acquisition date are revalued to fair value and the effects of this revaluation are recognized in the current profit or loss of the Group, respectively in 'finance income' and 'finance costs' or 'gains/(losses) from an associate', including all previously recorded effects in other comprehensive income are recycled.

### ***2.3.3. Disposal of subsidiaries***

On sale or other form of loss (transfer) of control over a subsidiary:

- Assets and liabilities (including any goodwill) of the subsidiary are derecognized at their carrying values at the date when control is lost;
- The non-controlling interest in the subsidiary is derecognized at carrying value in the consolidated statement of financial position at the loss of control date, including all components of other comprehensive income related thereto;
- The fair value of the consideration received from the transaction, event or operation that resulted in the loss of control is recognized;

- All components of equity, representing unrealized gains or losses in accordance with the respective IFRS under the provisions of which these components fall, are reclassified to profit or loss for the year or are transferred directly to retained earnings;
- Any resulting difference as a ‘gain or loss from a disposal (sale) of a subsidiary’ attributable to the parent is recognized in the consolidated statement of comprehensive income.
- The remaining shares held that form investments in associated companies or available-for-sale investments are initially measured at fair value at the date of sale and subsequently – following the accounting policy adopted by the Group (Notes 2.14 and 2.15).

The acquisition (purchase) method is applied also in transactions for mergers and/or transformation of companies under common control if they represent direct acquisitions from the perspective of the parent company.

#### ***2.3.4. Transactions with non-controlling interests***

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. The effects from sales of parent company’s shares, without loss of control, to holders of non-controlling interests are not treated as components of the current profit or loss of the Group but as movements directly in its equity components, usually to the “retained earnings” reserve. And vice versa, when the parent company purchases additional shares from holders of non-controlling interest, without acquisition of control, the difference between the consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is also directly recognized in the consolidated statement of changes in equity, usually to the “retained earnings” reserve.

When the Group ceases to have control and significant influence, any retained minority investment as interest in the capital of the respective entity is remeasured to its fair value, with the change in carrying value recognized in profit or loss. Respectively, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of all components related to the initial investment (in a subsidiary or associate).

#### ***2.3.5. Consolidation of associated companies and joint ventures***

Associated companies and joint ventures are included in the consolidated financial statement by applying the equity method whereby the investment of the parent company is initially stated at cost and is subsequently recalculated to reflect the changes in investor’s (the parent company) share in the post-acquisition net assets of the associated companies and joint ventures. The Group’s investment in the

associated companies and joint ventures includes also the goodwill identified on their acquisition net of any recognized impairment.

The post-acquisition profits or losses for the Group (through the parent company) from the associated companies and joint ventures for the respective reporting period represent its share in the net financial results (after taxes) of its operating activities for the period, which share is recognized and presented on a separate line in the consolidated statement of comprehensive income.

Analogously, the Group's share in post-acquisition changes in other components of comprehensive income of the associated companies and joint ventures is also recognized and presented as movement in the other components of comprehensive income in the consolidated statement of comprehensive income, and respectively the consolidated reserves of the Group - in the statement of changes in equity. The Group recognizes its share of losses in the associated companies and joint ventures up to the amount of its investment and the internal loans granted.

The internal accounts between the Group and the associated companies and joint ventures are not eliminated. The unrealized gains or losses from transactions between them are eliminated to the percentage of Group's interest in the associated companies and joint ventures by also making checks for impairment in case of loss. The effect of deferred taxes on these consolidation procedures has also been taken into account.

#### ***2.4. Comparatives***

In this preliminary consolidated annual financial statement the Group presents comparative information for one prior period for the statements of comprehensive income, cash flows, and changes in owners' equity and as at the end of the prior reporting year for the statements of financial position.

Where necessary, comparative data is reclassified (and restated) in order to achieve compatibility in view of the current year presentation changes.

Due to changes in IAS 27, IFRS 10 and IFRS 11 in connection with the reporting of investments in joint ventures adjustments and reclassifications of comparable data for 2013 were made in the consolidated statement of comprehensive income, the consolidated statement of financial position, consolidated statement of cash flows, and the consolidated statement of changes in equity.

#### ***2.5. Functional currency and recognition of exchange differences***

The functional currency of the Group companies in Bulgaria being also presentation currency for the Group is the BGN. The BGN is fixed by the BNB Act to the Euro at the ratio BGN 1.95583:EUR 1.

Upon its initial recognition, a foreign currency transaction is recorded in the functional currency whereas the exchange rate to BGN at the date of the transaction or operation is applied to the foreign currency

amount. Cash and cash equivalents, receivables and payables, as monetary reporting items, denominated in foreign currency, are recorded in the functional currency by applying the exchange rate as quoted by the Bulgarian National Bank (BNB) for the last working day of the respective month. As at 31 December, these amounts are presented in BGN at the closing exchange rate of BNB.

The non-monetary items in the consolidated statement of financial position, which are initially denominated in a foreign currency, are accounted for in the functional currency by applying the historical exchange rate at the date of the transaction and are not subsequently re-valued at the closing exchange rate.

Foreign exchange gains or losses arising on the settlement or recording of foreign currency commercial transactions at rates different from those at which they were converted on initial recognition, are recognized in the consolidated statement of comprehensive income in the period in which they arise and are presented net under 'other operating income/(losses)'.

The functional currency of the companies in Poland (Sopharma Poland AD – in liquidation, Sopharma Warsaw SP ZOO and Sopharma Zdrovit SA – closed through liquidation on 25 February 2013) is the Polish Zloty, of the subsidiary in Russia (Rostbalkanpharm ZAO) – until 10 April 2012 – the Russian Ruble, of the subsidiaries in Ukraine (PAO Vitamini and OOO Sopharma Ukraine) – the Ukrainian Grivna, of the subsidiary in Serbia (Ivanchich and Sons DOO) – the Serbian Dinar, of the subsidiary in Latvia (Briz Ltd) – Lat, of the subsidiaries in Belarus (SOOO Brititrade, OOO Tabina, ODO Alean, ZAO Interpharm, Brizpharm SOOO, OOO Pharmacist Plus, ODO Vestpharm, OOO NPK Biotest, and ODO BelAgroMed) - Belarusian Ruble, of the subsidiary in Kazakhstan (TOO Sopharma Kazakhstan) – Kazakhstani Tenge, of the subsidiary Extab Pharma Limited (United Kingdom) – the British Pound, and of the companies in USA (Sopharma USA and Extab Corporation) – the US Dollar, the company in Lithuania (UAB TBS Pharma) – Lithuanian Litas.

For the purposes of the consolidated financial statement, the financial statement of the subsidiaries abroad are restated from the functional currency of the respective subsidiary to the presentation currency (BGN) accepted for the consolidated financial statement, whereas:

- (a) all assets and liabilities are restated to the currency of the Group by applying the closing exchange rate of the local currency as at 31 December;
- (b) all items of income and expenses are restated to the currency of the Group by applying an average rate of the local currency thereto for the reporting period or by applying the closing exchange rate of the local currency to the currency of the Group for companies whose financial statement are being restated for the effects of hyperinflation (Note 2.6);
- (c) all exchange differences resulting from the restatements are recognized and presented as a separate component of equity in the consolidated statement of financial position, net of deferred

tax effects – “reserve from recalculation in the representation currency of foreign operations”, and

- (d) the exchange differences resulting from the restatement of the net investment in the companies abroad together with the loans and other currency instruments, accepted as hedge of these investments, are presented directly in equity.

On disposal (sale) of a foreign operation (company), the cumulative amount of exchange differences that have been directly stated as a separate component of equity, are recognized as part of the profit or loss in the consolidated statement of comprehensive income on the line ‘gains/(losses) on acquisition and disposal of subsidiaries, net’, obtained on disposal (sale).

Goodwill and adjustments to fair value arising on acquisition of a company abroad are treated analogously to the assets and liabilities of this company and are recalculated in the representation currency at closing exchange rate.

***2.6. Restatement of figures in the financial statement of Group companies operating in the environment of hyperinflation (restatements for hyperinflationary economies) for the comparative period***

Until 2013 (inclusive) the financial statements of Group companies the functional currency of which has been the currency of a hyperinflationary economy are recalculated by an inflation index to be expressed in the measuring units, which are valid as at the end of the reporting period, and then are recalculated from the local currency in Bulgarian Lev for consolidation of the Group.

***2.7. Revenue***

Revenue in the Group is recognized on accrual basis and to the extent and in the way the economic benefits will flow to the Group and respectively, the business risks are born thereby, and as far as revenue can be reliably measured.

The types of Group’s revenue are presented in Notes 3, 4 and 11.

Upon sale of finished products, goods and materials, revenue is recognized when all significant risks and rewards of ownership have passed to the buyer.

Upon rendering of services, revenue is recognized by reference to the stage of completion of the transaction at the end of the reporting period, if this stage as well as the costs incurred for the transaction and the costs to complete the transaction, can be measured reliably.

Revenue is measured on the basis of the fair value of the products, goods and services sold, net of indirect taxes (excise duties and VAT) and any discounts and rebates granted.

Foreign exchange gains or losses related to cash, trade receivables and payables, denominated in foreign currency, are recognized in the consolidated statement of comprehensive income (within profit or loss for the year) in the period, in which they arise and are presented net under 'other operating income/(losses), net'.

The gains from revaluation of investment property to fair value are presented in the consolidated statement of comprehensive income (within profit or loss for the year) on the line 'other operating income/(losses), net'. Revenue from investment property leased-out under the terms of operating lease is also accounted for under this item of the consolidated financial statement.

Upon sale on an instalment plan, revenue is recognized on the date of sale, excluding the incorporated interest.

Finance income is included in the consolidated statement of comprehensive income when earned and comprises: interest income on granted loans and term deposits, interest income on receivables under special contracts, interest income on past due receivables, income/gains from deals with investments in available-for-sale securities including dividends, net gains on exchange differences under loans in foreign currency, income from debt settlement transactions, gain on measurement of available-for-sale investments at fair value when a subsidiary is being acquired in stages. They are presented separately from of finance costs on the face of the consolidated statement of comprehensive income.

## ***2.8. Expenses***

Expenses are recognized in the Group when they are incurred based on the accrual and matching concepts (to the extent that this would not lead to recognition of an asset or liability not satisfying the definitions for assets and liabilities in the (conceptual) Framework and IFRS themselves).

Deferred expenses are put off and recognized as current expenses in the period when the contracts, whereto they refer, are performed.

Losses from revaluation of investment property to fair value are presented in the consolidated statement of comprehensive income (within profit or loss for the year) on the line 'other operating income/(losses)'.

Finance costs are included in the consolidated statement of comprehensive income when incurred separately from finance costs and comprise: interest expense under loans received, bank fees and charges on loans and guarantees, net losses on exchange differences under loans in foreign currency, expenses/losses on deals with investments in available-for-sale securities, operating cost of debt settlement, loss on valuation at fair value of available-for-sale investments at the stepwise acquisition of a subsidiary.

### ***2.9. Statutory dividend for distribution***

The subsidiary company Sopharma Buildings REIT has the status of a joint-stock special-purpose investment-company within the meaning of the Bulgarian Special Purpose Investment Companies Act (SPICA). For this reason, the company has specific policy for distribution of dividends to shareholders in line with the requirements of the law, namely:

- the company is obliged by law to distribute as dividend not less than 90% of the generated profit for the respective financial year adjusted in accordance with SPICA; and
- the distribution of the remaining 10% is determined by a decision of the General Meeting of Shareholders as per the common procedure of the Bulgarian Commercial Act, including for dividend payment.

The statutory dividend at an amount of not less than 90% of the generated profit is recognized as a liability in the current year and in decrease (mandatory distribution) of the current profit for the year.

### ***2.10. Property, plant and equipment***

Property, plant and equipment (fixed tangible assets) are presented in the consolidated financial statement at revalued amount reduced by the accumulated depreciation and impairment losses in value.

#### ***Initial acquisition***

Upon their initial acquisition, property, plant and equipment are valued at cost, which comprises the purchase price, including customs duties and any directly attributable costs of bringing the asset to working condition for its intended use. The directly attributable costs include the cost of site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes etc.

Property, plant and equipment of acquired subsidiaries are measured at fair value at the transaction (business combination) date which is accepted as acquisition price for consolidation purposes.

Upon acquisition of property, plant and equipment under deferred settlement terms, the purchase price is equivalent to the present value of the liability discounted on the basis of the interest Level of the attracted by the Group credit resources with analogous maturity and purpose.

The carrying values of all items of property, plant and equipment of Group companies, operating in the environment of hyperinflationary economies, initially measured at cost less accumulated depreciation, are restated for the effects of hyperinflation by applying a general price index – from the date of the transaction (acquisition) to the end of the current reporting period or from the date of the last revaluation of the assets.

The Group has set a value threshold of BGN 500, below which the acquired assets, regardless of having the features of fixed assets, are treated as current expense at the moment of their acquisition.

#### ***Subsequent measurement***

The chosen by the Group approach for subsequent measurement of property, plant and equipment, is the revaluation model under IAS 16, i.e. measurement at revalued amount less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

It is adopted that the revaluation of property, plant and equipment shall be performed by certified appraisers normally in a period of five years. Where the fair value changes materially in shorter periods, revaluation may be performed more frequently.

#### ***Subsequent costs***

Repair and maintenance costs are recognized as current expenses as incurred. Subsequent expenses incurred in relation to property, plant and equipment having the nature of replacement of certain components, significant parts and aggregates or improvements and restructuring, are capitalized in the carrying value of the respective asset whereas the residual useful life is reviewed at the capitalization date. At the same time, the non-depreciated part of the replaced components is derecognized from the carrying value of the assets and is recognized in the current expenses for the period of restructure.

#### ***Depreciation methods***

The Group applies the straight-line depreciation method for property, plant and equipment. Depreciation of an asset begins when it is available for use. Land is not depreciated. The useful life of the groups of assets is dependent on their physical wear and tear, the characteristic features of the equipment, the future intentions for use and the expected obsolescence.

The useful life per group of assets is as follows:

- buildings – 20-70 years;
- facilities – 5 - 25 years;
- machinery and equipment – 7-25 years;
- computers and mobile devices – 2 - 5 years;
- motor vehicles – 7 - 17 years;
- furniture and fixtures – 6-12 years.

The useful life, set for any tangible fixed asset, is reviewed by the management of each company within the Group and respectively, by the parent company, at the end of each reporting period and in case of any material deviation from the future expectations of their period of use, the latter is adjusted prospectively.

### ***Impairment of assets***

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value might significantly differ from their recoverable amount. If any indications exist that the estimated recoverable amount of an asset is lower than its carrying value, the latter is adjusted to the recoverable amount of the asset. The recoverable amount of property, plant and equipment is the higher of fair value less costs to sell or the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions and assessments of the time value of money and the risks, specific to the particular asset. Impairment losses are recognized in the consolidated statement of comprehensive income (within profit or loss for the year) unless a revaluation reserve has been set aside for the respective asset. Then the impairment is treated as a decrease in this reserve (through other comprehensive income) unless it does not exceed its amount and the excess is included as expense in the consolidated statement of comprehensive income (within profit or loss for the year).

### ***Gains and losses on disposal (sale)***

Property, plant and equipment are derecognized from the consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of property, plant and equipment are determined as the difference between the consideration received and the carrying value of the asset at the date of sale. They are stated net under 'other operating income/(losses), net' in the consolidated statement of comprehensive income (within profit or loss for the year). The part of 'revaluation reserve' attributable to the sold asset is directly transferred to 'retained earnings' in the consolidated statement of changes in equity.

### ***2.11. Biological assets***

Biological assets (perennial plants) are measured at fair value less the estimated costs to sell.

The fair value of biological assets is determined on the basis of their present location and condition based on a price quoted in an active market or other alternative sources of current prices. Gain or loss on initial recognition of a biological asset at fair value less estimated costs to sell and changes in fair value less estimated costs to sell is recognized in the consolidated statement of comprehensive income (within profit or loss for the year) in the period in which it arises and is presented in 'other operating income/(losses),

net'. When the fair value of a biological asset cannot be reliably measured, it is measured at cost less accumulated depreciation or impairment losses. Subsequently, when the fair value of this biological asset becomes reliably measurable, the Group changes its approach and switches to measuring the asset at fair value less the estimated costs to sell.

## ***2.12. Intangible assets***

### ***Goodwill***

Goodwill represents the excess of the cost of an acquisition (the consideration given) over the fair value of the Group's share of the net identifiable assets of the acquired company at the date of acquisition. Goodwill is initially measured in the consolidated financial statement at cost and subsequently – at cost less accumulated impairment losses. Goodwill is not amortized.

Goodwill arising on the acquisition of a subsidiary is presented in the consolidated statement of financial position in the group of 'intangible assets' while goodwill arising on the acquisition of an associate (entity) is incorporated in the total amount of the investment and is stated in the group of 'investments in associated companies'.

The goodwill on the acquisition of associated companies (entities) is tested as part of the total balance (amount) of the investment. The individually recognized goodwill on the acquisition of subsidiaries (entities) is mandatory tested for impairment at least once in a year. Impairment losses on goodwill are not subsequently reversed. Gains or losses on the sale (disposal) of a particular subsidiary (entity) of the Group include the carrying value of the goodwill relating to the entity sold (disposed of).

On the realization of a particular business combination, each recognized goodwill is allocated to a particular cash generating unit and this unit is used for impairment testing. The allocation is made to those cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Impairment losses on goodwill are presented in the consolidated statement of comprehensive income (within profit or loss for the year) in the item 'depreciation and amortization expense'.

### ***Other intangible assets***

Intangible assets are stated in the consolidated financial statement at acquisition cost (cost) less accumulated amortization and any impairment losses in value except where they belong to companies operating in hyperinflationary economy whose intangible assets are restated for the effects of hyperinflation from the date of their acquisition by applying the changes in the general price index to the date of the financial statement. Intangible assets include mainly rights on intellectual property and software.

The Group applies the straight-line amortization method for the intangible assets with determined useful life from 5 to 10 years.

The carrying values of all intangible assets (including goodwill) of the companies of the Group operating in economies under conditions of hyperinflation, measured initially at acquisition cost less accumulated depreciation (impairment) are recalculated to reflect the effects of hyperinflation using common price index – from the date of transaction /acquisition/ to the end of the current reporting period or from the date of the last revaluation of assets.

The carrying value of the intangible assets is subject to review for impairment when events or changes in the circumstances indicate that the carrying value might exceed their recoverable amount. Then impairment is recognized as an amortization expense in the consolidated statement of comprehensive income (within profit or loss for the year).

Intangible assets are derecognized from the consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of intangible assets are determined as the difference between the consideration received and the carrying value of the asset at the date of sale. They are stated net under ‘other operating income/(losses), net’ in the consolidated statement of comprehensive income (within profit or loss for the year).

### ***2.13. Investment property***

Investment property is property lastingly held by the Group to earn rentals and/or for capital appreciation. They are presented in the consolidated statement of financial position at fair value. Gains or losses arising from a change in the fair value of investment property are recognized in the consolidated statement of comprehensive income (within profit or loss for the year) as ‘other operating income/(losses), net’ for the period in which they arise. The income gained on investment property is presented in the same item of the consolidated statement of comprehensive income.

Investment property is derecognized from the consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of investment property are determined as the difference between the disposal proceeds and the carrying value of the asset at the date of sale. They are presented under ‘other operating income/(losses), net’ in the consolidated statement of comprehensive income (within profit or loss for the year).

Transfers to, or from, the group of ‘investment property’ is made only when there is a change in the functional designation and the use of a particular property. In case of a transfer from ‘investment property’ to ‘owner-occupied property’, the asset is recognized in the new group at deemed cost, which is its fair value at the date of transfer. To the opposite, in case of a transfer from ‘owner-occupied property’ to

‘investment property’ the asset is measured at fair value at the date of transfer while the difference to its carrying value is presented as a component of the consolidated statement of comprehensive income (within other comprehensive income) and within ‘revaluation reserve – property, plant and equipment’ in the statement of changes in equity.

#### ***2.14. Investments in associated companies and joint ventures***

The long-term investments representing participations in associated companies and joint ventures are presented in the consolidated financial statement under the equity method – value that includes the acquisition price being the fair value of the consideration paid, including the direct costs on investment acquisition adjusted by investor's share of profits or losses and respectively the other reserves of the associated companies and joint ventures after the date of its acquisition.

The share of profits and losses after the date of acquisition of the associated companies and joint ventures is presented on a separate line in the consolidated statement of comprehensive income (within profit or loss for the year) while the share of other components of comprehensive income – on the respective line of the consolidated statement of comprehensive income (within other comprehensive income) and as a separate movement of the individual components of reserves in the consolidated statement of changes in equity.

The investments in associated companies and joint ventures held by the Group together with the included goodwill are subject to review for impairment at the date of the financial statement. Where conditions for impairment are identified and its amount is determined, the impairment is included in the consolidated statement of comprehensive income (within profit or loss for the year) in the item ‘gains/(losses) from associated companies and joint ventures’.

In purchases and sales of investments in associated companies and joint ventures the date of trading (conclusion of the deal) is applied.

Investments in associated companies and joint ventures are derecognized when the rights related thereto are transferred to third parties as a result of occurrence of legal rights for that and thus the substantial influence over the economic benefits from the investments are being lost. The income from their sale is presented in ‘gains/(losses) from associated companies and joint ventures’ of the consolidated statement of comprehensive income (within profit or loss for the year).

#### ***2.15. Available-for-sale investments***

Available-for-sale investments (financial assets) are non-derivative financial assets, representing shares and interests in the capital of other companies (minority interest).

### ***Initial measurement***

Available-for-sale investments (financial assets) are initially recognized at cost, being the fair value of the consideration paid including direct acquisition costs of the investment - (financial asset) (Note 2.26).

### ***Subsequent measurement***

The Group's available-for-sale investments (financial assets) are subsequently measured at fair value (Note 2.31) with the assistance of an independent licensed appraiser.

The effects of subsequent revaluation of securities to fair value are presented in a separate component of the consolidated statement of comprehensive income (within other comprehensive income) and recognized in the consolidated statement of comprehensive income (within profit or loss for the year) on disposal of the respective investment by being stated as 'finance income' or 'finance costs'.

Gains from dividends, related to long-term investments (financial assets) representing shares in other companies (minority interest), are recognized as current income and are presented in the consolidated statement of comprehensive income (within profit or loss for the year) under "financial income".

The delisting of shares upon sale is conducted by the weighted average price method as at the end of the month of delisting.

All purchases and sales of available-for-sale investments (financial assets) are recognized on the "trade date" of the transaction, i.e. the date, on which the Group commits to purchase or sell the asset.

The owned available-for-sale investments (financial assets) are reviewed for impairment at the date of each reporting period and if conditions for permanent impairment are identified, the latter is recognized in the consolidated statement of comprehensive income (within profit or loss for the year) under 'finance costs'.

Where conditions for impairment are identified, the latter is determined as the difference between the carrying value and the recoverable value of the investment and is recognized in the consolidated statement of comprehensive income (within profit or loss for the year) unless a positive reserve for this investment was formed in prior periods – then the impairment is at first covered at the account of this reserve and is presented net in the consolidated statement of comprehensive income (within other comprehensive income).

### ***2.16. Inventories***

Inventories are measured in the consolidated financial statement at the lower of acquisition cost (cost), including restated for the subsidiaries operating in the environment of hyperinflationary economy for the changes in the general price index from the transaction date to the date of the statement of financial position, and the net realizable value.

Expenses, incurred at bringing certain product to its current condition and location, are included in the acquisition cost (cost) as follows:

- raw materials, materials in finished form and goods – all delivery costs, including the purchase price, import customs duties and charges, transportation expenses, non-refundable taxes and other expenses, incurred for rendering the materials and goods ready for usage/sale;
- finished products and work in progress – cost of direct materials and labor and the attributable proportion of the manufacturing overheads, based on normal operating capacity of production facilities, but excluding administrative expenses, exchange rate gains and losses and borrowing costs.

The inclusion of fixed production overheads in the cost of finished and semi-finished products is based on normal production capacity.

They are allocated to finished products on the following bases chosen by the Group:

- for production of medicinal products – direct labor valued on the basis of labor norms;
- for production of infusion solutions – quantity of manufactured finished products.
- for production of plastic disposable medical devices – planned cost of production.

On use (sale) of materials and finished products the weighted average cost method is applied while on sale of goods – the first-in first-out (FIFO) method.

The net realizable value represents the estimated selling price of an asset in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

### ***2.17. Trade and other receivables***

Trade receivables are recognized in the consolidated financial statement and carried at fair value based on the original invoice amount (cost) less any allowance for uncollectable debts. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the receivables are initially valued at their fair value and subsequently – at amortized cost, after deducting the interest incorporated in their nominal value and determined following the effective interest rate method (Note 2.26).

An estimate of allowances for doubtful and bad debts is made when significant uncertainty exists as to the collection of the full amount or a part of it. Bad debts are written-off when the legal grounds for this are available. Writing-off is against the formed allowance and/or as expense in the consolidated statement of comprehensive income (within profit or loss for the year).

***2.18. Interest-bearing loans and other financial resources granted***

All loans and other financial resources granted are initially recognized at cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, net of the direct costs related to these loans and granted resources. After the initial recognition, the interest-bearing loans and other granted resources are subsequently measured and presented in the consolidated financial statement at amortized cost by applying the effective interest rate method. Amortized cost is calculated by taking into account all types of charges, commissions, and other costs, associated with these loans. Gains and losses are recognized in the consolidated statement of comprehensive income (within profit or loss for the year) as finance income (interest) or costs throughout the amortization period, or when the receivables are settled, derecognized or reduced.

Interest-bearing loans and other financial resources granted are classified as current ones unless (and for the relevant portion thereof) the Group has unconditionally the right to settle its obligation within a term of more than 12 months after the end of the reporting period (Note 2.26).

***2.19. Cash and cash equivalents***

Cash includes cash in hand and with current accounts while cash equivalents include short-term bank deposits the funds in which are freely available to the companies of the Group under the terms of the agreements with the banks for the duration of the deposit, regardless of the original term /maturity/ of the deposit. (Note 2.26).

For the purposes of the consolidated statement of cash flows:

- cash proceeds from customers and cash paid to suppliers are presented at gross amount, including value added tax (20%);
- interest on investment purpose loans received is reported as payments for financial activities while the interest on loans related to current activities (working capital) is included in the operating activities;
- short-term blocked funds (for up to 3 months) are treated as cash and cash equivalents. Long-term blocked funds (for more than 3 months) are not included as cash in the consolidated statement of cash flows but are stated as ‘other proceeds/(payments), net’;
- the interest received from short-term bank deposits is included in the cash from investing activities;
- VAT paid on fixed assets purchased from foreign suppliers is presented on the line ‘Taxes paid’ while that paid on assets purchased from local suppliers is presented as ‘Cash paid to suppliers’ in the cash flows from operating activities as far as it represents a part of the operating flows of the Group companies and is recovered therewith in the respective period (month).

***2.20. Trade and other payables***

Trade and other current amounts payable are carried to the consolidated financial statement at original invoice amount (acquisition cost), which is the fair value of the consideration to be paid in the future for goods and services received. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the payables are initially valued at their fair value and subsequently – at amortized cost, after deducting the interest incorporated in their nominal value and determined following the effective interest rate method (Note 2.26).

***2.21. Interest-bearing loans and other borrowings***

All loans and other borrowings are initially recognized in the consolidated financial statement at cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, netted of the direct costs related to these loans and borrowings. After the initial recognition, the interest-bearing loans and other borrowings are subsequently measured and presented in the consolidated financial statement at amortized cost by applying the effective interest rate method. The amortized cost is calculated by taking into account all types of charges, commissions and other costs, including any discount or premium on settlement associated with these loans. Gains and losses are recognized in the consolidated statement of comprehensive income (within profit or loss for the year) as finance income or costs (interest) throughout the amortization period, or when the liabilities are derecognized or reduced (Note 2.26).

Interest-bearing loans and other borrowings are classified as current ones unless (and for the relevant portion thereof) the Group has unconditionally the right to settle its obligation within a term of more than 12 months after the end of the reporting period.

***2.22. Capitalization of borrowing costs***

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset of the Group are capitalized as part of the cost of that asset. A qualifying assets is an asset that necessarily takes a period of at least 12 months to get ready for its intended use or sale.

The amount of borrowing costs eligible for capitalization to the value of a qualifying asset is determined by applying a capitalization rate. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when the following conditions are met: expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress.

Borrowing costs are also reduced by any investment income earned on the temporary investment of those borrowed funds.

## ***2.23. Leases***

### ***Finance lease***

#### ***Lessee***

Finance leases, which transfer to the Group a substantial part of all risks and rewards incidental to ownership of the leased property, plant and equipment, are recognized as assets in the statement of financial position of the lessee and are presented as leased item of property, plant and equipment at their immediate sale price or, if lower, at the present value of the minimum lease payments. The lease payments are apportioned between the finance cost (interest) and the attributable portion (reduction) of the lease liability (principal) so as to achieve a consistent interest rate on the remaining outstanding principal balance of the lease liability. Interest expense is included in the consolidated statement of comprehensive income (within profit or loss for the year) as finance costs (interest) based on the effective interest rate (Note 2.26).

Assets acquired under finance lease are depreciated on the basis of their useful economic life and within the lease term.

#### ***Lessor***

Finance lease where a substantial portion of all risks and rewards incidental to the ownership of the leased asset is transferred outside the Group, is written-off from the goods of the lessor and is presented in the statement of financial position as a receivable at an amount equal to the net investment in the lease. The net investment in the lease agreement represents the difference between the total amount of minimum lease payments under the finance lease agreement and the non-guaranteed residual value, accrued for the lessor and the non-earned financial income. The difference between the carrying value of the leased asset and the immediate (fair selling) value is recognized in the consolidated statement of comprehensive income (within profit or loss for the year) in the beginning of the lease term (when the asset is delivered) as sales income.

The recognition of the earned finance income as current interest income is based on the application of the effective interest rate method.

### ***Operating lease***

#### ***Lessee***

Leases where the lessor keeps a substantial part of all risks and economic benefits incidental to the ownership of the specific asset are classified as operating leases. Therefore, the asset is not included in the statement of financial position of the lessee.

Operating lease payments are recognized as expenses in the consolidated statement of comprehensive income (within profit or loss for the year) on a straight-line basis over the lease term.

#### ***Lessor***

Lessor continues to hold a significant part of all risks and rewards of ownership over the said asset. Therefore the asset is still included in the composition of property, plant and equipment while its depreciation for the period is included in the current expenses of the lessor.

Lease income from operating leases is recognized on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying value of the leased asset and recognized on a straight-line basis over the lease term.

### ***2.24. Pensions and other payables to personnel under the social security and labor legislation***

The employment and social security relations with workers and employees of the Group are based on the Labor Code and the provisions of the effective social security legislation for the companies operating in *Bulgaria*, the Polish Code – for the companies in *Poland*, the employment legislation and the Collective Labor Agreement – for the companies in *Ukraine*, the employment legislation, the General Collective Labor Agreement and the effective Employment Rules and Regulations – for the company in *Serbia*, the Labor Act – for the company in *Latvia*, the employment legislation – for the companies in *Belarus*, Law of the Republic of Kazakhstan for Social Security obligations – for the company in *Kazakhstan*, and Lithuanian Labor Code - for the company in *Lithuania*.

#### ***Short-term benefits***

Short-term employee benefits in the form of remunerations, bonuses and social payments and benefits (payable within 12 months after the end of the period when the employees have rendered the service or has met the required terms and requirements) are recognized as an expense in the consolidated statement of comprehensive income (within profit or loss for the year) in the period when the service thereon has been rendered or the requirements for their receipt have been met and as a current liability (less any amounts already paid and deductions due) at their undiscounted amount.

At each date of consolidated statement of financial position, the companies of the Group measure the estimated costs on the accumulating compensated absences, which amount is expected to be paid as a

result of the unused entitlement. The measurement includes the estimated expenses on the employee's remuneration and the statutory social security and health insurance contributions due by the employer thereon.

*Profit-based bonuses*

***Sopharma***

According to the Articles of Association and after a decision by the Annual General Meeting of Shareholders the Executive Director is entitled to receive a one-time remuneration (bonus) amounting to up to 1% of the net profit of the company, as well as to determine the group of employees, among which to be distributed as a bonus an amount of up to 2% of the net profit of the Company for each calendar year. When it is required that a particular part be differed for a period longer than 12 months, this part is valued based on its present value as at the date of the financial statement and is stated under non-current liabilities of category "Liabilities to personnel" in the statement of financial position.

***Sopharma Trading***

According to the Articles of Association of the company the Executive Director is entitled to receive a one-time remuneration (bonus) amounting to up to 1% of the net profit of the company, as well as to distribute among the members of the key management personnel an amount of up to 2% of the net profit of the Company when a positive financial result has been recorded and after a decision by the Annual General Meeting of Shareholders. When it is required that a particular part be differed for a period longer than 12 months, this part is valued based on its present value as at the date of the financial statement and is stated under non-current liabilities of category "Liabilities to personnel" in the statement of financial position. For the rest of the personnel, incl. the management personnel, the amounts for profit-based bonuses are accounted in the period of their earning.

***Bulgarian Rose Sevtopolis AD***

According to the Articles of Association of the company and after a decision by the Annual General Meeting of Shareholders the Executive Director is entitled to receive a one-time remuneration (bonus) amounting to up to 1% of the net profit of the company.

***Momina Krepost***

According to the Articles of Association of the company and after a decision by the Annual General Meeting of Shareholders the Executive Director is entitled to receive a one-time remuneration (bonus) amounting to up to 1% of the net profit of the company.

***Long-term retirement benefits***

*Defined contribution plans*

*For Bulgaria*

The major duty of companies-employers in Bulgaria is to make the mandatory social security contributions for the hired employees to the Pensions Fund, the Supplementary Mandatory Pension Security (SMPS) Fund, to the General Diseases and Maternity (GDM) Fund, the Unemployment Fund, the Labor Accident and Professional Diseases (LAPD) Fund, and for health insurance.

The rates of the social security and health insurance contributions are defined annually under the Law on the Budget of State Social Security and the Law on the Budget of National Health Insurance Fund for the respective year. The contributions are split between the employer and employee in line with rules of the Social Security Code (SSC) in a ratio of 60:40 (2103: 60:40).

These social security pension plans, applied by the Company in its capacity as an employer are defined contributions plans. Under these plans, the employer pays defined monthly contributions to the government funds as follows: Pensions Fund, GDM Fund, Unemployment Fund, LAPD Fund, as well as to universal and professional pension funds – on the basis of rates fixed by law, and has no legal or constructive obligation to pay further contributions if the funds do not hold sufficient assets to pay the respective individuals the benefits they have worked-out over the period of their service. The obligations referring to health insurance are analogous.

*For companies abroad*

The rates of the social security contributions in Poland are approved by the Law on the National Social Security System; in Russia – the Federal Law on Obligations for Pension Security in the Russian Federation and the Tax Code, in Ukraine – Law on Pension Provision, in Serbia – the Law on Labor in the Republic of Serbia, in Latvia – the Law on Social Security, in Lithuania – the National Social Security Act of the Republic of Lithuania, in Belarus – the Law on the Mandatory Contributions to the Fund for Social Security of the Population of the Ministry of Labor and Social Protection. The social security contributions are being apportioned between employer and employee at ratios regulated by the relevant local laws.

There is no established and functioning private voluntary social security scheme at the Group.

The payables of the companies in the Group for defined contribution social security and health insurance plans are recognized as a current expense in the statement of comprehensive income (under profit/loss), unless a particular IFRS does not require this amount to be capitalized in the prime cost of a particular asset, and current liability at an undiscounted amount, together with and in the period of the service and the accrual of the respective benefits of the hired employees, with which income the contributions are related.

*Defined benefit plans*

In accordance with the requirements of the Labor Code, the employer of the companies in *Bulgaria* is obliged to pay to its personnel upon retirement an indemnity, which depending on the length of service at the entity varies between two and six gross monthly salaries as at the termination date of the employment.

In accordance with the Law on Labor in *Serbia*, the employer of the Serbian company is obliged to pay to its personnel on coming of age for retirement an indemnity at the amount of at least three average salaries calculated at the time of payment. In accordance with the employment legislation in *Ukraine* and the Collective labor Agreement of the Ukrainian company, the employer is obliged to pay to its personnel on coming of age for retirement an indemnity, which depending on the length of service with the entity may vary between UAH 100 and UAH 200 (between BGN 10 and BGN 25). Also, the company in Ukraine accrues social indemnities, which are paid before retirement of employees due to specific labor conditions. According to the employment legislation in Poland, the employer is obliged to pay upon retirement one gross monthly salary. According to the employment legislation, there are no obligations to the personnel on retirement in Lithuania, Latvia and Belarus.

In their nature these are unfounded plans with defined benefits.

The calculation of the amount of these liabilities requires the participation of qualified actuaries in order to determine their present value at the date of the financial statements, at which they are presented in the consolidated statement of financial position, and respectively, the change in their value is presented in the consolidated statement of comprehensive income: a) the current and past service cost, interest cost and the effects of layoffs and settlements are recognized immediately in the period in which they arise, and presented in current profit or loss, under "personnel costs", and b) the effects of subsequent revaluations of liabilities are recognized immediately in the period in which they arise, and are presented in other comprehensive income under "revaluation of pension plans with defined benefits". Actuarial gains and losses arise from changes in actuarial assumptions and experience.

At the date of each consolidated financial statement, the companies of the Group assign certified actuaries who provide their report with calculations regarding the long-term retirement benefit obligations. For this purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows, which are expected to be paid within the maturity of this obligation, and using the interest rates of long-term government bonds with similar terms, offered in the respective country, where the particular company operates.

### ***Termination benefits***

In accordance with the local provisions of the employment and social security regulations of the Group companies, the employer is obliged, upon termination of the employment contracts prior to retirement, to pay certain types of indemnities.

The Group recognizes employee benefit obligations on employment termination before the normal retirement date when it is demonstrably committed, based on announced plan, incl. for restructuring,, to terminating the employment contract with the respective individuals without possibility of withdrawal or in case of formal issuance of documents for voluntary redundancy. Termination benefits due more than 12 months are discounted and presented in the consolidated statement of financial position at their present value.

### ***2.25. Share capital and reserves***

Sopharma AD (the parent company) is a joint-stock company and is obliged to register with the Commercial Register a specified ***share capital***, which should serve as a security for the creditors for execution of their receivables. The shareholders are liable for the obligations of the Company up to the amount of the share of the capital held by each of them and may claim refunding of this share only in case of liquidation or bankruptcy proceedings. The parent company reports its share capital at the nominal value of the shares registered in the court.

According to the requirements of the Commercial Act and the Articles of Association, the parent company is obliged to set aside a ***Reserve Fund (statutory reserves)*** by using the following sources:

- at least one tenth of the profit, which should be allocated to the Fund until its amount reaches one tenth of the share capital or any larger amount as may be decided by the General Meeting of Shareholders;
- any premium received in excess of the nominal value of shares upon their issue (share premium reserve);
- other sources as provided for by a decision of the General Meeting.

The amounts in the Fund can only be used to cover annual loss or losses from previous years. When the amount of the Fund reaches the minimum value specified in the Articles of Association, the excess may be used for increasing share capital.

The ***treasury shares*** are presented in the consolidated statement of financial position at cost and Group's equity is decreased by their gross purchase price. Gains or losses on sales of treasury shares are carried directly to Group's equity in the 'Retained earnings' component.

***Revaluation reserve – property, plant and equipment*** is set aside from:

- the revaluation mark-up between the carrying value of property, plant and equipment and their fair values at the revaluation date;
- the positive difference between the carrying value of property stated as owner-occupied property and their fair value at the date when they are transferred to investment property.

Deferred tax effect on the revaluation reserve is directly carried at the account of this reserve.

Revaluation reserve is transferred to accumulated profits when the assets are derecognized from the consolidated statement of financial position of the Group or are fully depreciated.

The revaluation reserve covers the impairment of the assets to which it relates. It may be used in the implementation of Group's dividend and capital policies only after it is transferred to the 'retained earnings' component.

*Available-for-sale financial assets reserve* is being set aside from the difference between the carrying value of the available-for-sale financial assets and their fair values at the revaluation date. This reserve is transferred to current profit and loss in the consolidated statement of comprehensive income (within profit or loss for the year) when the financial assets are disposed of (sold) by the Group and/or on identified permanent impairment of particular financial assets.

The *Translation of foreign operations reserve* includes the effects of restating the financial statement of the companies abroad from local currency to the presentation currency of the Group. This reserve is recognized as a separate component of equity in the consolidated statement of financial position and as part of the profit or loss in the consolidated statement of comprehensive income on the line 'gains/(losses) on acquisition and disposal of subsidiaries, net' on disposal (sale) of a foreign operation (company) (Note 2.5).

## **2.26. Financial instruments**

### **2.26.1. Financial assets**

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale assets. The classification depends on the nature and purpose (designation) of the financial assets at the date of their acquisition. The management of the parent company together with the management of the respective subsidiary determine the classification of the financial assets for the purposes of the Group at the date of their initial recognition in the statement of financial position.

The Group companies usually recognize their financial assets in the statement of financial position on the trade date, being the date on which they commit to purchase the respective financial assets. All financial assets are initially measured at their fair value plus the directly attributable transaction costs.

Financial assets are derecognized from the Group's consolidated statement of financial position when the rights to receive cash from these assets have expired or have been transferred, and the Group has transferred substantially all the risks and rewards of ownership of the asset to another entity (person) external thereto. If the Group retains substantially all risks and rewards associated with the ownership of a particular transferred financial asset, it continues to recognize the transferred asset in its consolidated statement of financial position but also recognizes a secured liability (a loan) for the consideration received.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured in the consolidated statement of financial position at their amortized cost using the effective interest method less any allowance for impairment. These assets are included in the group of current assets when having maturity within 12 months or within a common operating cycle of the respective Group company while the remaining ones are carried as non-current assets.

This group of financial assets includes: loans granted, trade receivables, other receivables from counterparts and third parties, cash and cash equivalents from the consolidated statement of financial position (*Notes 2.17, 2.18, and 2.19*). Interest income on loans and receivables is recognized by applying the effective interest rate except for short-term receivables (less than three months) where the recognition of such interest would be unjustifiable as immaterial and within the common credit terms. It is presented in the consolidated statement of comprehensive income (within profit or loss for the year) under the item 'finance income'.

At the date of each statement of financial position, the Group companies assess whether events and circumstances have occurred that indicate the existence of objective evidence necessitating loans and receivables to be impaired (*Note 2.32*).

*Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative assets that are either acquired for the purpose of being sold or are not classified in any other category. For the Group, these are usually shares, bonds or interest in other (third) companies, acquired for investment purposes (available-for-sale investments), and are included within non-current assets, except where a Group company intends to sell them in the following 12 months and is actively searching for a buyer (*Note 2.15*).

Available-for-sale financial assets are initially measured at acquisition price, which is the fair value of paid amount, including acquisition cost, included in the investment.

The subsequent of the available-for-sale financial assets is at fair value, except for shares/interests in closed companies, which are not traded on a stock exchange (*Note №2.15*).

The effects, gains or losses, of revaluation to fair value of the available-for-sale investments are included in the consolidated statement of comprehensive income (within other comprehensive income) under the item 'net change in fair value of available-for-sale financial assets' and are accrued to a separate equity component – 'available-for-sale financial assets reserve'.

Where subsequent permanent impairment is identified or on sale of an available-for-sale investment, the amount of impairment and all previously accumulated losses (net) to the reserve are recognized in the consolidated statement of comprehensive income (within profit or loss for the year) as 'finance costs'. Analogously, on each sale of investment of this type, the unrealized gains accumulated in the reserve are recognized in the consolidated statement of comprehensive income (within profit or loss for the year) as 'finance income'.

The recycling of accumulated effects from change in the fair value of available-for-sale investments are presented with other comprehensive income (in 'net change in fair value of available-for-sale financial assets'), net of those resulting from new revaluations for the period.

Dividends on shares, classified as available-for-sale financial assets, are recognized in the consolidated statement of comprehensive income (within profit or loss for the year) when the company's right to receive the dividends is established.

The available-for-sale investments are reviewed at each date of the statement of financial position for events or circumstances indicating the existence of objective evidence for impairment of a particular financial asset or group of assets. Financial assets are impaired if their carrying value is higher than the expected recoverable amount. The recognized impairment loss is equal to the difference between the acquisition cost less the repayments and their recoverable amount, which is accepted to be equal to the present value of the expected future cash flows, discounted at the current interest rate or through the yield for similar financial assets.

#### ***2.26.2. Financial liabilities and equity instruments***

The Group classifies debt and equity instruments either as financial liabilities or as equity in accordance with the substance of the contractual arrangements with the respective counterparty regarding these instruments.

#### ***Financial liabilities***

The financial liabilities of the Group include loans and payables to suppliers and other counterparts. They are initially recognized in the consolidated statement of financial position at fair value net of the directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method (Note 2.20, 2.21 and 2.23).

#### ***2.27. Provisions***

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle (repay) the obligation.

The provisions are valued based on the best estimate of the respective company management and the Group at the date of the consolidated statement of financial position of the expenses necessary to settle the respective obligation. The estimate is discounted if the obligation is long-term. When part the resources required to settle the obligation are expected to be recovered from a third party, the respective company of the Group recognizes a receivable if it is virtually certain that reimbursement will be received, its amount can be reliably measured and income (credit) is recognized in the same item of the consolidated statement of comprehensive income (within profit or loss for the year) where the provision itself is presented (Note 2.32).

## **2.28. Income taxes**

*Current income taxes* of the Bulgarian companies of the Group are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act (CITA). The nominal income tax rate in Bulgaria for year 2014 was 10 % (2014: 10%).

The subsidiaries, joint ventures and associated companies abroad are charged in accordance with the requirements of the respective local tax regulations by applying the following tax rates:

<i>Country</i>	<i>Tax rate</i>	
	<i>2014</i>	<i>2013</i>
Ukraine	18%	19%
Serbia	15%	15%
USA	15.35%	15.35%
UK	21%	23%
Latvia	15%	15%
Belarus	18%	18%
Lithuania	15%	15%
Poland	19%	19%
Kazakhstan	20%	-

*Deferred income taxes* are determined using the balance method for determining the liabilities on all temporary differences of each consolidated company existing at the consolidated financial statement date, between the carrying values of the assets and liabilities and their tax bases, including for those arising from consolidation adjustments.

Deferred tax liabilities are recognized for all taxable temporary differences, with the exception of those originating from recognition of an asset or liability, which has not affected the accounting and the taxable profit/(loss) as at the date of the transaction.

Deferred tax assets are recognized for all deductible temporary differences and the carry-forward of unused tax losses, to the extent that it is probable they will reverse and a taxable profit will be available or taxable temporary differences might occur, against which these deductible temporary differences can be utilized, with the exception of the differences arising from the initial recognition of an asset or liability, which has affected neither the accounting nor taxable profit or loss as at the date of the transaction.

The carrying value of all deferred tax assets is reviewed at each date of the balance and reduced to the extent that it is no longer probable that they will reverse and sufficient taxable profit to be generated or occurring in the same period taxable temporary differences to allow the deferred tax asset to be utilized (deducted or compensated).

Deferred taxes, related to items that are accounted for as other components of comprehensive income or capital position in the consolidated statement of financial position, are also reported directly in the respective component or item.

Deferred tax assets and liabilities are measured based on tax rates and bases, which are expected to be applied for the period and type of operation when the assets are expected to be realized and the liabilities – settled (repaid) on the basis of the tax laws that are effective or likely to be effective, and at tax rates of the country under the jurisdiction of which the respective deferred asset or liability is expected to be realized.

Deferred tax assets of a Group company are presented net against the deferred tax liabilities of this company when it is the tax payer in the respective jurisdiction, and this is only in cases where the company is legally entitled to perform or receive net payments of current tax liabilities or income tax receivables.

### ***2.29. Government financing***

Grants from public institutions (municipal, state and international institutions, incl. by the order of appropriation of European funds and programs) are initially recognized as deferred income (financing) when there is reasonable assurance that it will be received by the Group and that the latter has complied and complies with the associated thereto requirements.

Government financing that compensates the Company for expenses incurred is recognized in current profit or loss on a systematic basis in the same period in which the expenses are recognized.

Government financing that compensates investment expenses incurred to acquire an asset is recognized in current profit or loss on a systematic basis over the useful life of the asset usually proportionately to the amount of the recognized depreciation charge.

### ***2.30. Earnings per share***

Basic earnings per share are calculated by dividing net profit or loss attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the period.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding during at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. This factor represents the number of days that the shares are outstanding as a proportion of the total number of days in the period.

In case of a capitalization, additional issue or split, the number of the outstanding ordinary shares as at the date of such event, is adjusted as to reflect the proportional change in the number of outstanding ordinary shares as if the event has occurred in the beginning of the earliest presented period.

Diluted earnings per share are not calculated because no dilutive potential ordinary shares have been issued within the Group.

### **2.32. Fair value measurement**

Some of Group's assets and liabilities are measured and presented and/or just disclosed at fair value for financial reporting purposes. Such are (a) on a recurring basis – *available-for-sale financial assets, investment property, granted and received bank loans and loans from third parties, certain trade and other receivables and payables, finance lease receivables and payables; and other* (b) on a non-recurring basis – *non-financial assets such as property, plant and equipment*.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is an exit price and is based on the assumption that the sale transaction will take place either in the principal market for this asset or liability or in the absence of a principal market – in the most advantageous market for the asset of liability. Both the designated as a principal market and the most advantageous market are markets to which the Group companies must have an access.

Fair value is measured from the perspective of using the assumptions and judgments that potential market participants would use when pricing the respective asset or liability assuming that market participants act in their economic best interest.

In measuring the fair value of non-financial assets the starting point is always the assumption what would be the highest and best use of the particular asset for the market participants.

The Group applies various valuation techniques that would be relevant to the specific features of the respective conditions and for which it has sufficient available inputs while trying to use at a maximum the publicly observable information, and respectively, to minimize the use of unobservable information. It uses the three acceptable approaches – *the market approach, the income approach and the cost approach* – whereas the most frequently applied valuation techniques include direct and/or adjusted quoted market prices, market comparables (analogues) and discounted cash flows, including based on capitalized rental income.

All assets and liabilities that are measured and/or disclosed in the consolidated financial statements at fair value, are categorized within the following fair value hierarchy, namely:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

- Level 2 – Valuation techniques that use inputs other than directly quoted prices but are observable, either directly or indirectly, including where the quoted prices are subject to significant adjustments; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Group applies mainly Level 2 and Level 3 fair value.

For assets and liabilities that are recognized at fair value in the consolidated financial statements on a recurring basis, the Group determines at the date of the consolidated financial statement whether transfers between levels in the fair value hierarchy are deemed to be made for a particular asset or liability depending on the inputs available and used at that date.

Internal rules and procedures for measuring the fair value of various types of assets and liabilities have been developed centrally in the parent company. For the purpose, a specifically designated individual, subordinated to the Finance Director of the Group, organized the performance of the overall valuation process and also coordinates and observes the work of the external appraisers.

The Group uses the expertise of external certified appraisers to determine the fair value of the following assets and liabilities: available-for-sale financial assets, investment properties, property, plant and equipment. The choice of such appraisers is made on an annual basis using the following criteria: applied professional standards, professional experience and knowledge, reputation and market status. The need for rotation of external appraisers is periodically assessed – every three to five years. The applied valuation approaches and techniques as well as the used inputs for each case of fair value measurement are subject to mandatory discussion and coordination between the external experts – appraisers and the specifically designated individual, engaged with measurements, and so is the acceptance of the issued appraiser's reports – especially with regard to the significant assumptions and the final conclusions and proposals for the fair value amount. The final fair value measurements are subject to approval by the Finance Director / Chief Accountant, Executive Director and the Board of Directors of the respective company and the Finance Director of the Group.

In accordance with Group accounting policy, at the end of each reporting period the specifically designated individual, engaged with measurements, performs a general analysis of collected in advance information about the movement in the values of assets and liabilities of the Group companies that are subject to valuation or to a disclosure at fair value, the type of available data and the possible factors for the observed changes, and proposes for approval to the Finance Director, the approach for measuring the fair value of the respective assets and liabilities at that date. Where necessary, this is explicitly consulted with the involved external appraisers.

The results of the assessment of the fair value measurement procedure are presented to the audit committee and to the independent auditors of the respective companies as well as to the Finance Director and the independent auditors of the Group.

For the purposes of fair value disclosures, the Group has classified the respective assets and liabilities on the basis of their nature, basic characteristics and risks as well as of the fair value hierarchical level.

***2.32. Critical accounting judgments on applying the Group's accounting policies. Key estimates and assumptions of high uncertainty.***

***2.32.1. Group companies operating in the environment of hyperinflationary economies***

The management of the parent company has performed an analysis of the consumer price index in Belarus and the trend of sustained decrease and has concluded that as far as the Belarusian economy ceases to be hyperinflationary, no annual hyperinflationary adjustments in the indicators of the financial statements of companies operating in Belarus will be made. For this reason, for 2014 for the purposes of these preliminary consolidated annual financial statements no hyperinflationary adjustments of the indicators of the financial statements of these companies have been made and the final values of assets, liabilities, and respectively net assets as at 31 December 2013, recalculated with the inflation index, relevant for the period (2013), are adopted as the basis for their book value as at 01 January 2014.

For the previous period the comparatives were not restated, but were used the already restated ones with the relevant inflation rate for the respective period (2013). The general index of consumer prices officially determined and published by the National Statistics Committee of Belarus was applied in these restatements.

Gain on the net monetary position from restatements for hyperinflationary economies amounts to 1,556 thousand BGN for 2013 and includes gain from recalculation of goodwill of the companies in Belarus at the amount of 150 thousand BGN.

***2.32.2. Comparative data***

The Group's management has performed an analysis of the effect in the consolidated statement of 2013 of the change in the requirements of IAS 27, IAS 10 and IAS 11 in connection with the reporting of investments in joint ventures and has taken a decision to conduct adjustments and reclassifications of comparable data for 2013 in the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, and the consolidated statement of changes in equity.

***2.32.3. Inventories***

***Normal capacity***

The normal production capacity of the companies of the Group is determined on the following basis: a) monthly weighted average man-hours worked; b) monthly weighted average capital-hours worked; c) monthly weighted average production volume in quantitative, natural indicators.

Normal capacity is determined by type of production and on the basis of observations on the movement of the respective index over a period of three to five years.

The choice of the specific basis for the respective company depends on the specifics of the organization of production, including its labor intensity, respectively capital intensity.

#### ***Allowance for impairment***

At the end of the accounting period the companies of the Group companies review the state, useful life and usability of the existing inventories. Where inventories are identified that are potentially likely to not be realized at their current carrying value in the following reporting periods, the Group companies impair the inventories to net realizable value.

As a result of conducted reviews and analysis as at 31 December 2014 the recognized impairment of inventories in the consolidated statement of comprehensive income (in profit or loss for the year) amounts to 98 thousand BGN. (2013: the amount of recognized impairment net of recovered impairment is 23 thousand BGN) (Note 9).

#### ***2.32.4. Impairment of receivables***

The losses from doubtful and bad debts are estimated at the date of the consolidated financial statement on individual basis for each receivable. Where difficulties in collecting certain receivables are observed, they are subject to analysis in order to determine the actually collectable portion thereof while the remaining portion to the nominal value is recognized in the consolidated statement of comprehensive income (within profit or loss for the year) as impairment (Note №9).

After 180 days of delay it is already considered that indicators for impairment may exist. In the judgment of collectability of receivables, the management of the Group companies perform analysis of the total exposure of each counterparty in order to establish the actual possibility for their collection and not only at the Level of past due individual receivables from the total amount due by the counterparty, including potential possibilities for collecting of possible compensation interest. When the collectability of a receivable (a group of receivables) is highly uncertain, an assessment is made what part thereof is secured by collateral (pledge, mortgage, guarantees) and thus with ensured collection (through future realization of the collateral or guarantee payment). Where the management has judged that a very high uncertainty exists as to the collectability of certain receivables or part of them and they are not secured by collateral, the receivables are impaired to 100% (Notes 22, 23, 24).

For 2014 the amount of recovered impairments (net of recognized) is 289 thousand BGN (2013: the amount of recognized impairments net of recoveries is 1,615 thousand BGN) (Note № 9).

#### ***2.33.5. Actuarial calculations***

Calculations of certified actuaries have been used every year when determining present value of long-term payables to personnel upon retirement on the basis of assumptions for mortality rate, staff turnover rate, future salaries level and discount factor (Note 28).

### **2.32.6. Operating lease**

The Group classified a building, part of which had been leased to related parties under operating lease terms, in the 'property, plant and equipment' section of the consolidated statement of comprehensive income. Since a significant part of the building was used by the Group as well, the management decided that the building should not be treated as investment property.

### **2.33.7. Litigation provisions**

With regard to the pending litigations against companies of the Group, the management of the respective companies, jointly with their lawyers, have judged that at this stage the probability and risks of a negative outcome is still below 50% and therefore, no provisions have been included for litigation liabilities in the consolidated statement of financial position as at 31 December 2014 (31 December 2013: none) (*Note 37*).

## **3. REVENUE**

*Group revenue* includes:

	<i>1 January – 31 December 2014 BGN '000</i>	<i>1 January – 31 December 2013 BGN '000</i>
Goods	584,558	493,483
Finished products	257,485	267,653
<b>Total</b>	<b>842,043</b>	<b>761,136</b>
<i>Sales of goods by type</i>	<i>1 January – 31 December 2014 BGN '000</i>	<i>1 January – 31 December 2013 BGN '000</i>
Tablet dosage forms	288,679	230,277
Ampoule dosage forms	154,070	135,074
Consumables, dressing materials and apparatuses	36,683	36,640
Drops	34,115	24,755
Syrup dosage forms	25,139	13,203
Ointments	17,543	11,921
Cosmetic products	7,931	12,318
Food supplements and herbs	3,568	9,954
Suppositories	3,341	3,287
Infusion solutions	2,721	2,615
Food products	2,276	2,123
Isotopes	2,030	1,855
Other	6,462	9,461
<b>Total</b>	<b>584,558</b>	<b>493,483</b>

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

<i>Sales of finished products by type</i>	<i>1 January – 31 December 2014 BGN '000</i>	<i>1 January – 31 December 2013 BGN '000</i>
Tablet dosage forms	170,954	170,741
Ampoule dosage forms	34,572	44,979
Syrup dosage forms	14,263	14,951
Lyophilic products	11,064	9,198
Ointments	8,998	7,725
Drops	4,813	4,552
Syringes	1,678	3,319
Suppositories	1,077	999
Infusion solutions	861	2,773
Blow-molded articles	833	1,136
Other	8,372	7,280
<b>Total</b>	<b>257,485</b>	<b>267,653</b>

**4. OTHER OPERATING INCOME AND LOSSES, NET**

*Other operating income and losses, net* include:

	<i>1 January – 31 December 2014 BGN '000</i>	<i>1 January – 31 December 2013 BGN '000</i>
Services rendered	8,441	4,588
Marketing and advertisements	1,583	744
Social services and events	785	168
Financing from public institutions	751	573
Rentals	696	776
Gain/(loss) on sale of long-term assets	392	23
Income from forfeits	389	132
Sale of materials	(155)	(268)
Net gains on exchange rate differences on commercial receivables and payables and current accounts	(9,608)	(2,775)
Other	770	932
<b>Total</b>	<b>4,044</b>	<b>4,893</b>

## 5. RAW MATERIALS AND CONSUMABLES USED

*Expenses on materials* include:

	<i>1 January – 31 December 2014 BGN '000</i>	<i>1 January – 31 December 2013 BGN '000</i>
Basic materials	70,244	62,401
Spare parts, laboratory and technical materials	7,579	6,427
Electricity	5,367	5,597
Heating	4,448	4,364
Fuels and lubricating materials	3,578	3,931
Stationary	878	678
Water	849	889
Labor clothing	706	594
Merchandising	441	233
Scrapping of materials	437	129
Samples	410	347
Low value and perishable items	132	326
Impairment of materials	98	226
Other	530	1,006
<b>Total</b>	<b>95,697</b>	<b>87,148</b>

Expenses on *basic materials* include:

	<i>1 January – 31 December 2014 BGN '000</i>	<i>1 January – 31 December 2013 BGN '000</i>
Substances (active ingredients)	34,720	31,226
Packaging materials	12,509	9,498
Liquid and solid chemicals	8,394	6,371
Aluminum foil	3,848	5,472
Ampoules	3,089	2,384
Herbs	3,110	2,242
Polypropylene, polyethylene, polystyrene	1,202	1,583
Bags for solutions	646	1,120
Other	2,726	2,505
<b>Total</b>	<b>70,244</b>	<b>62,401</b>

## **6. HIRED SERVICES EXPENSE**

*Hired services expense* includes:

	<i>1 January – 31 December 2014</i>	<i>1 January – 31 December 2013</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Advertising	18,635	17,660
Consulting services	7,650	7,729
Rentals	6,208	6,004
Buildings and equipment maintenance	6,112	3,061
Forwarding and transportation services	3,892	2,984
Manufacturing of medicines	3,639	2,970
Services related to the registration of medicines	1,929	1,282
Subscription fees	1,739	1,555
Local taxes and fees	1,723	1,400
Services under civil contracts with physical persons	1,648	1,518
Insurance	1,443	987
Logistics	1,243	522
Security	1,213	1,266
Expense taxes	1,141	704
Communications	980	951
Service fees of current bank accounts	972	796
Car repairs	847	835
Medical services	751	733
State and regulatory fees	557	952
Service fees	286	370
Translation of documents	267	366
Destruction of medicines	241	445
Other	4,667	4,020
<b>Total</b>	<b>67,783</b>	<b>59,110</b>

## **7. EMPLOYEE BENEFITS EXPENSE**

	<i>1 January – 31 December 2014</i>	<i>1 January – 31 December 2013</i>
	<i>BGN '000</i>	<i>BGN '000</i>
<i>Personnel costs</i> include:		
Current wages and salaries	61,305	55,941
Social security/health insurance contributions	12,519	11,492
Social benefits and payments	3,726	3,805

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

Performance-bases bonuses	979	1,179
Accruals for unused paid leaves	780	713
Accrued provisions for long-term benefits to personnel upon retirement (Note №28)	436	978
Accruals for social security on unused paid leaves	153	227
<b>Total</b>	<b>79,898</b>	<b>74,335</b>

**8. OTHER OPERATING EXPENSES**

	<i>1 January – 31 December 2014 BGN '000</i>	<i>1 January – 31 December 2013 BGN '000</i>
Charged/(reversed) impairment of current assets, net (Note 9)	2,264	3,794
Entertainment allowances	3,462	3,296
Business trips	1,888	1,596
Unrecognized tax credit	1,551	213
Scrapping and shortages of goods	784	1,215
Training	472	382
Donations	400	541
Scrapping of finished products and work in progress	338	649
Payments to the budget for taxes and interest on taxes	60	776
Other	2,147	1,650
<b>Total</b>	<b>13,367</b>	<b>14,112</b>

## **9. IMPAIRMENT OF CURRENT ASSETS**

*Expenses on impairment* of receivables, unfinished products, finished products, and goods, net include:

	<i>1 January – 31 December 2014 BGN '000</i>	<i>1 January – 31 December 2013 BGN '000</i>
<i>Impairment of receivables</i>	140	3,561
<i>Recovered impairment of receivables</i>	(429)	(1,202)
Net change of impairments of receivables (Notes №8, №21, №22, and №23)	(289)	2,359
Impairment of products (Note №8)	2,563	901
Impairment of goods (Note №8)	(101)	429
Impairment of materials (Note №5)	98	226
<i>Impairment of receivables on provided commercial loans</i>	62	7
<i>Recovered impairment of provided commercial loans</i>	-	-
Net change in impairment of provided commercial loans	62	7
Impairment of unfinished products (Note №8)	29	98
<b>Total</b>	<b>2,362</b>	<b>4,020</b>

## **10. IMPAIRMENT OF NON-CURRENT ASSETS**

*Impairment of non-current assets* include:

	<i>1 January – 31 December 2014 BGN'000</i>	<i>1 January – 31 December 2013 BGN'000</i>
Impairment of goodwill (Note 15)	768	140
Impairment of long-term assets (Note 14)	6	2,303
<b>Total</b>	<b>774</b>	<b>2,303</b>

The impairment of tangible fixed assets and goodwill is presented in the consolidated statement of comprehensive income (within profit or loss for the year) within ‘depreciation and amortisation expense’.

## 11. FINANCE INCOME

	<i>1 January – 31 December 2014 BGN'000</i>	<i>1 January – 31 December 2013 BGN'000</i>
Interest income on loans granted	2,680	3,700
Interest income on overdue receivables	2,301	2,248
Interest on receivables from special contracts	153	204
Income from shares (dividends)	86	393
Interest income from deposits	78	8
Income from investment transactions	52	648
<b>Total</b>	<b>5,350</b>	<b>7,201</b>

## 12. FINANCE COSTS

	<i>1 January – 31 December 2014 BGN'000</i>	<i>1 January – 31 December 2013 BGN'000</i>
Interest expense on loans received	8,750	8,404
Net loss from exchange rate differences on loans	7,765	1,198
Bank fees and charges on loans and guarantees	687	684
Interest expense on finance lease	340	367
Impairment of available-for-sale investments	164	6,768
Investment operations expenses	58	5,716
<b>Total</b>	<b>17,764</b>	<b>23,137</b>

## 13. OTHER COMPREHENSIVE INCOME

*Other comprehensive income* includes:

	<b>Other comprehensive income attributable to the Group</b>		<b>Other comprehensive income attributable to non-controlling interest</b>		<b>Total other comprehensive income</b>	
	<i>2014 BGN '000</i>	<i>2013 BGN '000</i>	<i>2014 BGN '000</i>	<i>2013 BGN '000</i>	<i>2014 BGN '000</i>	<i>2013 BGN '000</i>
<i>Components that will not be reclassified under profit or loss</i>						
(Loss) / gain on revaluation of property, plant and equipment	(6)	(353)	-	-	(6)	(353)
Subsequent valuations of plans with defined retirement income	(309)	(117)	-	-	(309)	(117)

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

*Components that may be reclassified under profit or loss*

Net change in the fair value of available-for-sale financial assets:

<i>Profit during the year</i>	247	(87)	-	(130)	247	(217)
<i>Reduced by: Reclassification adjustments of (gains) / losses included in profit or loss for the year</i>	-	-	-	-	-	-
Exchange rate differences from recalculation of foreign operations	188	(839)	(817)	(562)	(629)	(1,401)
Income tax related to components of other comprehensive income	1	35	-	-	1	35
<b>Other comprehensive income for the year</b>	<b>121</b>	<b>(1,361)</b>	<b>(817)</b>	<b>(692)</b>	<b>(696)</b>	<b>(2,053)</b>

**14. PROPERTY, PLANT AND EQUIPMENT**

	<i>Land and buildings</i>		<i>Plant and equipment</i>		<i>Other</i>		<i>Assets in progress</i>		<i>Total</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<b>Book value</b>										
<b>Balance at 1 January</b>	<b>192,345</b>	<b>141,457</b>	<b>184,018</b>	<b>128,032</b>	<b>43,106</b>	<b>41,107</b>	<b>7,795</b>	<b>81,946</b>	<b>427,264</b>	<b>392,542</b>
Additions	4,705	6,973	8,823	4,127	2,093	3,608	12,269	25,914	27,890	40,622
Effect from revaluation to fair value	-	-	-	-	9	-	-	-	9	-
Acquired assets in a newly acquired subsidiary	-	338	-	138	-	131	-	145	-	752
Effects of foreign currency and hyperinflationary restatements	757	124	(60)	18	29	(2)	-	(2)	726	138
Disposals	(3,885)	(248)	(1,185)	(1,405)	(4,877)	(3,874)	(1,899)	(761)	(11,846)	(6,288)
Written off book value of assets upon sale of subsidiaries	-	(16)	-	(12)	-	(19)	-	-	-	(47)
Impairment	-	(379)	(273)	(74)	(97)	(2)	-	-	(370)	(455)
Transfer to property, plant and equipment	385	44,096	2,633	53,194	1,700	2,157	(4,718)	(99,447)	-	-
Transfer to investment assets	-	-	-	-	-	-	-	-	-	-
<b>Balance as at 31 December</b>	<b>194,307</b>	<b>192,345</b>	<b>193,956</b>	<b>184,018</b>	<b>41,963</b>	<b>43,106</b>	<b>13,447</b>	<b>7,795</b>	<b>443,673</b>	<b>427,264</b>

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

	<i>Land and buildings</i>		<i>Plant and equipment</i>		<i>Other</i>		<i>Assets in progress</i>		<i>Total</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<i>Accumulated depreciation and impairment</i>										
<b>Balance at 1 January</b>	<b>20,729</b>	<b>13,893</b>	<b>77,815</b>	<b>67,379</b>	<b>21,992</b>	<b>19,196</b>	-	-	<b>120,536</b>	<b>100,468</b>
Depreciation charge for the year	6,242	4,370	12,605	11,490	6,233	4,908	-	-	25,080	20,768
Allowance for impairment	-	2,291	6	12	-	-	-	-	6	2,303
Effects of foreign currency and hyperinflationary restatements	1,895	189	2,598	195	870	62	-	-	5,363	446
Written-off impairment	(1,029)	(14)	(1,109)	(1,261)	(4,096)	(2,167)	-	-	(6,234)	(3,442)
Written-off impairment of assets upon sale of subsidiaries	-	-	-	-	-	(7)	-	-	-	(7)
<b>Balance as at 31 December</b>	<b>27,837</b>	<b>20,729</b>	<b>91,915</b>	<b>77,815</b>	<b>24,999</b>	<b>21,992</b>	-	-	<b>144,751</b>	<b>120,536</b>
<b>Carrying value at 31 December</b>	<b>166,470</b>	<b>171,616</b>	<b>102,041</b>	<b>106,203</b>	<b>16,964</b>	<b>21,114</b>	<b>13,447</b>	<b>7,795</b>	<b>298,922</b>	<b>306,728</b>
<b>Carrying value at 1 January</b>	<b>171,616</b>	<b>127,564</b>	<b>106,203</b>	<b>60,653</b>	<b>21,114</b>	<b>21,911</b>	<b>7,795</b>	<b>81,946</b>	<b>306,728</b>	<b>292,074</b>

As at 31 December 2014, the fixed assets of the Group include: land 43,750 thousand BGN (31 December 2013: 44,281 thousand BGN) and buildings with a carrying value of 122,720 thousand BGN (31 December 2013: 127,335 thousand BGN).

The acquisition costs of tangible assets as at 31 December 2014 include:

- Advance payments – 4,360 thousand BGN (31 December 2013: 5,336 thousand BGN);
- Delivery of equipment – 4,603 thousand BGN (31 December 2012: 874 thousand BGN);
- Reconstruction of buildings – 1,369 thousand BGN (31 December 2013: 1,058 thousand BGN);
- Expenses for construction of new buildings – 2,972 thousand BGN (31 December 2013: 377 thousand BGN);
- Other – 143 thousand BGN (31 December 2012: 150 thousand BGN)

**Finance leases**

The carrying value of tangible fixed assets (vehicles) of the Group obtained under a finance lease as at 31 December 2014 amounts to 3,834 thousand BGN (31 December 2012: 3,789 thousand BGN).

### ***Operating leases***

As at 31 December 2014 the Group has rented long-term fixed assets to related parties at a carrying value of 3,389 thousand BGN (31 December 2013: 3,368 thousand BGN). The Group has also rented long-term fixed assets to third parties at a carry amount of 325 thousand BGN as at 31 December 2014 (31 December 2013: 844 thousand BGN).

### ***Other data***

As at 31 December 2014 there were pledges on long-term fixed assets of the Company in connection with loans (*Note 27 and 31*) as follows:

- Land and buildings with a carrying value respectively 21,420 thousand BGN and 81,920 thousand BGN (31 December 2013: respectively 25,853 thousand BGN and 95,246 thousand BGN);
- Pledges on equipment with carrying value – 738 thousand BGN (31 December 2013: 829 thousand BGN);
- Pledges on equipment, motor vehicles and inventory – 29,627 thousand BGN (31 December 2013: 48,039 thousand BGN).

### ***Revaluation of property, plant and equipment***

As at 31 December 2011 there has been an overall review and assessment of the price changes of tangible fixed assets with the assistance of independent certified appraisers. As a result of this review was made the last revaluation of property, plant and equipment, the results of which are accounted.

In this revaluation are applied the following two basic approaches and valuation methods for determining the fair value of the different types of fixed assets:

- “Market approach” through “Method of market analogues” – for land and buildings, for which there is a real market, analog properties and transactions with them could be observed and there is a basis for comparison – their market price has been accepted as their fair value.
- “Approach based on the prime value of assets” through “Method of depreciated replacement cost” – for specialized buildings, for which there is no real market and comparable sales of analog assets – their fair value is their depreciated replacement cost under current supply prices and under the hypothesis for their usual exploitation in a technologically related production process /incl. term/ and by considering: physical amortization, functional and economic impairment.

Based on the assessment there is a recognized revaluation reserve of 3,099 thousand BGN.

The management of the Group again analyzed the price changes to its key fixed assets and has determined that there are no conditions and justification for a new revaluation of assets before the end of the normal period (*Note 2.10*).

## 15. INTANGIBLE ASSETS

	<i>Goodwill</i>		<i>Intellectual property rights</i>		<i>Software</i>		<i>Other</i>		<i>Assets in progress</i>		<i>Total</i>	
	<i>2013</i> <i>BGN</i> <i>'000</i>	<i>2012</i> <i>BGN</i> <i>'000</i>	<i>2013</i> <i>BGN</i> <i>'000</i>	<i>2012</i> <i>BGN</i> <i>'000</i>	<i>2013</i> <i>BGN</i> <i>'000</i>	<i>2012</i> <i>BGN</i> <i>'000</i>	<i>2013</i> <i>BGN</i> <i>'000</i>	<i>2012</i> <i>BGN</i> <i>'000</i>	<i>2013</i> <i>BGN</i> <i>'000</i>	<i>2012</i> <i>BGN</i> <i>'000</i>	<i>2013</i> <i>BGN</i> <i>'000</i>	<i>2012</i> <i>BGN</i> <i>'000</i>
<b>Book value</b>												
<b>Balance at 1 January</b>	21,906	21,846	13,412	10,249	8,383	5,676	3,341	2,685	909	2,559	47,951	43,015
Additions	-	124	19	27	292	320	-	-	2,425	873	2,736	1,344
Acquired assets of newly acquired subsidiaries	-	-	-	3,047	-	400	-	916	-	-	-	4,363
Effects of foreign currency and hyperinflationary restatements	(1,812)	(64)	(53)	(290)	(30)	-	-	13	-	-	(1,895)	(341)
Written off book value of assets upon sale of subsidiaries	-	-	-	-	-	-	-	(244)	-	-	-	(244)
Transfer	-	-	292	381	1,583	2,065	-	-	(1,875)	(2,446)	-	-
Disposals	-	-	(747)	(2)	(3)	(78)	(401)	(29)	(12)	(77)	(1,163)	(186)
<b>Balance at 31 December</b>	<b>20,094</b>	<b>21,906</b>	<b>12,923</b>	<b>13,412</b>	<b>10,225</b>	<b>8,383</b>	<b>2,940</b>	<b>3,341</b>	<b>1,447</b>	<b>909</b>	<b>47,629</b>	<b>47,951</b>
<b>Accumulated amortization and impairment</b>												
<b>Balance at 1 January</b>	9,069	8,929	5,476	3,948	4,083	3,109	972	649	14	-	19,614	16,635
Amortization charge for the year	768	140	1,759	1,527	1,019	1,002	453	322	5	7	4,004	2,998
Effects of foreign currency and hyperinflationary restatements	-	-	96	3	54	3	99	1	12	7	261	14
Written-off amortization	-	-	(399)	(2)	(2)	(31)	(57)	-	-	-	(458)	(33)
<b>Balance at 31 December</b>	<b>9,837</b>	<b>9,069</b>	<b>6,932</b>	<b>5,476</b>	<b>5,154</b>	<b>4,083</b>	<b>1,467</b>	<b>972</b>	<b>31</b>	<b>14</b>	<b>23,421</b>	<b>19,614</b>
Carrying amount at 31 December	10,257	12,837	5,991	7,936	5,071	4,300	1,473	2,369	1,416	895	24,208	28,337
Balance at 1 January	12,837	12,917	7,936	6,301	4,300	2,567	2,369	2,036	895	2,559	28,337	26,380

The rights on intellectual property include mainly products of development activities related to medicinal substances and dosage forms and acquired patents and trademarks. Within the total intellectual property, owned by the Group, the largest share belongs to internally created trademarks, which have not been capitalized in the consolidated statement of financial position. These trademarks grant exceptional rights on the names of pharmaceuticals while those with biggest relative share in the sales of the Group are: Carsil, Tempalgin, Broncholitín, Tabex, Analgin, Tribestan, Vicetin, Sydnopharm, Antistenocardin, Spasmalgon, Softensif, Chlofadon, Chlofasolin, Sofafailin, Sopral, Vasopren, Buscolisin, Nivalin, Maraslavin, Dimex, Allergosan, Aminalon.

Capitalized trademarks as a result of performed business combinations are as follows: Probiotic, Laxomucil, Alfalipoin, Influrex, etc. The patent held is for production of dosage forms containing Ranitidin.

The other intangible assets include mainly exclusive contracts with counterparts, licenses and distribution network acquired in business combinations.

### **Goodwill impairment**

The management of the Group has performed the necessary procedures for the mandatory test for impairment of goodwill recognized in the preliminary consolidated annual statement of financial position

on the acquisition of the subsidiaries. For the purpose, it was accepted that each individual company was in its capacity of a 'cash generating unit'.

The calculations were made by the management of the Group and with the assistance of an independent certified appraiser after a comprehensive review for the occurrence of events or facts, which are indicators of changes in the assumptions and appraisals made as at 31 December 2014.

The (pre-tax) projected cash flows are based on the financial budgets developed by the management of the respective companies and of the Group as a whole that covered 3 to 5-year period as well as other medium-term and long-term plans and intents for the development and restructuring of the activities within the Group. The recoverable amount of each cash generating unit is determined on the basis of the 'value in use'. The key assumptions used in the calculations of recoverable amount of each unit are within the following ranges:

- growth rate within a three (or five) year period – from 1 % to 20 %;
- growth rate of EBITDA – from 1% to 67%;
- growth after the projected period upon calculation of terminal value – 0%;
- discount rate (based on WACC) – from 9 % to 30%.

The key assumptions used in the calculations have been determined specifically for each goodwill bearing company, treated as a separate cash-generating unit, and in line with the characteristic features of its operations, the business environment and risks.

The tests and judgments of Group's management for impairment of recognized goodwill are made through the prism of its projections and intents as to the future economic benefits expected by the Group from its subsidiaries including through the use of their internally created trademarks, commercial and industrial experience and the generated thereby and expected for the future volumes of revenue, ensuring position in the Bulgarian and international markets (development and retaining), the expectations for future sales and restructuring of the activities, etc.

With regard to this goodwill, the analysis of the reasonably possible changes in the key assumptions, used for the calculation of value in use, shows that the carrying amount of the respective goodwill would be higher than its recoverable amount mainly in: a. change in the discount rate (increase) within the range from 0.2% to 4%; and b. change in EBITDA (decrease) from 0.5% to 50%.

In connection with the merger from 1 January 2015 of Bulgarian Rose Sevtopolis AD in Sopharma AD, as at 31 December 2014 there is recognized impairment of reputation for subsidiary Bulgarian Rose Sevtopolis AD at the amount of 768 thousand BGN (31 December 2013: a recognized impairment of goodwill at a total amount of 140 thousand BGN for the subsidiary OOO Tabina.)

## **16. INVESTMENT PROPERTY**

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN '000</b>	<b>BGN '000</b>
<b>Balance at 1 January</b>	<b>10,526</b>	<b>7,110</b>
Additions	103	3,359
Capitalized costs	-	99
Disposals	-	(3)
Net loss from fair value adjustment, included in profit or loss	(188)	(31)
Effect of restatement	165	(8)
<b>Balance at 31 December</b>	<b>10,606</b>	<b>10,526</b>

Investment property represents buildings and the land they stand on, differentiated parts of buildings for independent use, intended for long-term lease to subsidiaries and third parties. By group they are as follows:

<i>Group of assets</i>	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Warehouse premises	3,851	3,851
Offices	3,848	3,859
Production buildings	2,487	2,382
Social objects	420	434
<b>Total</b>	<b>10,606</b>	<b>10,526</b>

There are established encumbrances on investment property as at 31 December 2014 – mortgage of offices – BGN 1,199 thousand (31 December 2013: BGN 1,197 thousand) (Note 30).

### *Fair value measurement*

#### *Fair value hierarchy*

The fair values of the groups of investment properties are categorized as Level 2 fair values based on the inputs to the valuation technique used.

As at 31 December 2014, there has been a revaluation to fair value of investment properties at the amount of 188 thousand BGN compared to the value as at 31 December 2013.

## **17. INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES**

The movement of investments in associated companies and joint ventures is presented below:

**2014** **2013**

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

	<i>BGN'000</i>	<i>BGN'000</i>
	<b>1,536</b>	<b>582</b>
<b>Balance at 1 January</b>		
Transfer from available-for-sale investments	3,878	-
Acquisition of shares	4,871	1,531
Sale of shares	(15)	-
Share in the (loss)/profit for the year	(408)	(86)
Effect from recalculations	(167)	(491)
<b>Balance at 31 December</b>	<b>9,695</b>	<b>1,536</b>

**18. AVAILABLE-FOR-SALE INVESTMENTS**

The carrying amount of the investments by company is as follows:

	<i>Country</i>	<i>31.12.2014</i>	<i>Interest</i>	<i>31.12.2013</i>	<i>Interest</i>
		<i>BGN '000</i>	<i>%</i>	<i>BGN '000</i>	<i>%</i>
Doverie United Holding AD	Bulgaria	2,607	14.88	2,303	14.88
Lavena AD	Bulgaria	1,304	11.02	1,279	10.90
Olainfarm AD	Latvia	1,256	0.77	1,313	0.77
Elena Free Money Market	Bulgaria	252	1.14	-	-
Alenpharm-plus ODO	Belarus	207	10.00	-	-
Hydroizomat AD	Bulgaria	202	10.63	270	10.02
Pharmico	Belarus	172	2.00	-	-
SalusLine ODO	Belarus	162	10.00	-	-
Elana Agrocredit AD	Bulgaria	103	1.95	101	1.95
DKM-Pharm	Belarus	100	2.00	-	-
Mobil Line OOO	Belarus	92	10.00	-	-
GelenaPharm OOO	Belarus	86	10.00	-	-
Set Aptek	Belarus	70	2.00	-	-
Danapharm OOO	Belarus	39	10.00	-	-
Medjel ODO	Belarus	31	10.00	-	-
Medica AD	Bulgaria	26	4.70	39	4.50
Elpharma AD	Bulgaria	-	-	2,539	10.21
Todorov AD	Bulgaria	-	-	136	19.00
Sopharma Properties REIT	Bulgaria	-	-	75	0.20
Other		119		132	
<b>Total</b>		<b>6,828</b>		<b>8,187</b>	

“Other” available-for-sale financial assets as at 31 December 2014, amounting to BGN 119 thousand (31 December 2013: BGN 132 thousand), include a number of minority interests of the Group in the capital of eight companies (31 December 2013: ten companies). They are measured and presented in the consolidated financial statements at acquisition cost.

As at 31 December 2014, the Group has made a detailed comparative analysis of the changes and movements of stock-exchange prices in the national stock market with regard to the shares in public companies held thereby. With regard to investments in companies the shares of which are registered for

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

trading on the Bulgarian Stock Exchange the management of the Group has conducted a research and analysis and believes that the stock market prices are still no direct indicator for determining the fair value of the respective securities, mainly due to the low traded volumes. This circumstance has determined its decision to keep the valuation approach, applied as at 31 December 2013 regarding these investments. The management has made additional analysis and has not found any indicators for changes in these prices as at 31 December 2014.

The available-for-sale investments measured at fair value as at 31 December 2014 are as follows:

	<b>31.12.2014</b>			<b>31.12.2013</b>		
	<i>Number of shares held</i>	<i>Fair value per share</i>	<i>Fair value as per the statement of financial position</i>	<i>Number of shares held</i>	<i>Fair value per share</i>	<i>Fair value as per the statement of financial position</i>
		<b>BGN</b>	<b>BGN'000</b>		<b>BGN</b>	<b>BGN'000</b>
Doverie United Holding AD	2,788,145	0.94	2,607	2,789,345	0.83	2,303
Lavena AD	29,321	44.38	1,304	29,062	44.01	1,279
Olainfarm AD	108,500	11.58	1,256	108,500	12.1	1,313
Elena Free Money Market	1,667	151.17	252	-	-	-
Hydroizomat AD	317,901	0.64	202	299,499	0.9	270
Elana Agrocredit AD	100,000	1.03	103	100,000	1.01	101
Todorov AD	159,919	0.16	26	152,919	0.25	39
Maritzatex AD	2,358	6.79	16	58,201	-	-
Medica AD	-	-	-	1,027,561	2.47	2,539
Elpharma AD	-	-	-	95	1,431.58	136
Sopharma Properties REIT	-	-	-	30,656	2.46	75
<b>Total</b>			<b>5,766</b>			<b>8,055</b>

The table below presents Company's available-for-sale investments, which are measured at fair value on a recurring basis in the consolidated statement of financial position:

*Fair value hierarchy*

<i>Available-for-sale financial investments</i>	<i>Fair value 31.12.2014</i>	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
Doverie United Holding AD	2,607	-	-	2,607
Lavena AD	1,304	-	1,304	-
Olainfarm AD – Latvia	1,256	1,256	-	-
Elana Free Money Fund	252	252	-	-
Hydroizomat AD	202	-	202	-
Elana Agrocredit AD	103	103	-	-
Todorov AD	26	26	-	-
Maritzatex AD	16	16	-	-
<b>Total</b>	<b>5,766</b>	<b>1,653</b>	<b>1,506</b>	<b>2,607</b>

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

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<i>Available-for-sale financial investments</i>	<i>Fair value 31.12.2013</i>	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Medica AD	2,539	-	-	2,539
Doverie United Holding AD	2,303	-	-	2,303
Olainfarm AD – Latvia	1,313	1,313	-	-
Lavena AD	1,279	-	1,279	-
Hydroizomat AD	270	-	270	-
Elpharma AD	136	-	-	136
Elana Agrocredit AD	101	101	-	-
Sopharma Properties REIT	75	-	75	-
Todorov AD	39	39	-	-
<b>Total</b>	<b>8,055</b>	<b>1,453</b>	<b>1,624</b>	<b>4,978</b>

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

The table below shows reconciliation between the opening and closing balances of the fair values at Level 1, Level 2 and Level 3:

	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
<i>Available-for-sale financial investments</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<b>Balance at 1 January 2013</b>	<b>1,182</b>	<b>1,040</b>	<b>21,085</b>	<b>23,307</b>
Purchases	109	686	791	1,586
Emissions	-	174	-	174
Transfers in subsidiaries	-	-	(583)	(583)
Sales	(113)	(203)	(4,132)	(4,448)
Realized gain/(loss) included in the current profit and loss for the year in the item <i>Finance income – Net gain on transactions with securities</i>	1	(6)	(5,721)	(5,726)
Transfers to level 1	-	(29)	-	(29)
Transfers to level 2	29	-	-	29
Unrealized gain/(loss) included in the current profit and loss for the year ( <i>Note 11</i> )	-	(316)	(6,453)	(6,769)
Unrealized gain included in other comprehensive income ( <i>Note 12</i> )	245	278	(9)	514
<b>Balance at 31 December 2013</b>	<b>1,453</b>	<b>1,624</b>	<b>4,978</b>	<b>8,055</b>
Purchases	272	75	1,347	1,694
Sales	-	(121)	(146)	(267)
Transfer to investments in associated companies and joint-ventures	-	-	(3,878)	-
Realized gain/(loss) included in the current profit and loss for the year in the item <i>Finance costs – Net loss on transactions with securities</i>	-	(2)	2	-
Unrealized gain/(loss) included in current profit and loss for the year ( <i>Note 12</i> )	(8)	(80)	-	(88)
Unrealized gain/(loss) included in other comprehensive income ( <i>Note 13</i> )	(64)	10	304	250
<b>Balance at the end of the period</b>	<b>1,653</b>	<b>1,506</b>	<b>2,607</b>	<b>5,766</b>

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

*Valuation techniques and significant unobservable inputs*

The table below shows the valuation techniques used in measuring the fair value as at 31 December 2013 at Level 2 and Level 3 as well as the used significant unobservable inputs:

<i>Available-for-sale financial investments (shares)</i>	<i>Valuation approaches and techniques</i>	<i>Significant unobservable inputs</i>
<b>Level 2</b>	<i>Market comparables approach:</i> Valuation technique: Market multiples method	-
<b>Level 3</b>	<i>a. Income approach</i> Valuation technique: Discounted cash flows method	* projected annual revenue growth rate * revenue growth rate after the projected period * projected annual growth rate of expenses * discount rate (based on WACC)
	<i>b. Market approach</i> Valuation technique: Market multiples method (supportive valuation technique)	-

*Quantitative information about fair value measurements (Level 3)*

The table below presents quantitative information regarding fair value measurements in which significant unobservable inputs have been used (Level 3):

<i>Valuation technique</i>	<i>Unobservable inputs</i>	<i>Range (weighted average)</i>	<i>Relationship between significant unobservable inputs and fair value measurement – sensitivity to key assumptions</i>
<i>Discounted cash flows</i>			The estimated fair value would increase (decrease), if:
	* projected annual revenue growth rate	* 0 % - 3 % (weighted average 1.5%)	* the projected annual revenue growth rate was higher (lower)
	* revenue growth rate after the projected period	* 2 % (weighted average 2 %)	* the revenue growth rate after the projected period was higher (lower)
	* projected annual growth rate of expenses	* 0 % (weighted average 0 %)	* the projected annual growth rate of expenses was lower (higher)
	* discount rate (based on WACC)	* 8.5%-11.30% (weighted average 9.9 %)	* the discount rate was lower (higher)

**19. NON-CURRENT RECEIVABLES FROM RELATED PARTIES**

The *non-current receivables from related parties* as at 31 December refer to companies related through key managing personnel and include:

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

---

	<b><i>31.12.2014</i></b>	<b><i>31.12.2013</i></b>
	<b><i>BGN '000</i></b>	<b><i>BGN '000</i></b>
Long-term loans granted to related parties	32,857	25,214
Receivable under a long-term rental deposit granted	<u>293</u>	<u>435</u>
<b>Total</b>	<b><u>33,150</u></b>	<b><u>25,649</u></b>

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

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The terms and conditions of the long-term loans granted to related parties are as follows:

<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	<i>Interest %</i>	<i>31.12.2014</i>		<i>31.12.2013</i>	
	<i>'000</i>			<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
					<i>including interest</i>		<i>including interest</i>
<i>EUR</i>	11,831	01.12.2016	5.00%	26,038	217	22,554	1,750
<i>EUR</i>	3,272	01.12.2016	5.00%	6,819	419	2,660	160
<b>Total</b>				<b>32,857</b>	<b>636</b>	<b>25,214</b>	<b>1,910</b>

The long-term loans granted to related parties are not secured by collateral.

The deposit receivable related with a rent under a concluded rental contract for administrative offices with validity term on 1 August 2022.

## **20. OTHER NON-CURRENT RECEIVABLES**

The *other non-current receivables* of the Group as at 31 December include:

	<i>31.12.2014</i>	<i>31.12.2013</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Loans granted	293	467
Other	203	21
<b>Total</b>	<b>496</b>	<b>488</b>

The *loans granted* by the Group as at 31 December 2014 are to third parties, without collateral and with agreed annual interest from 2% to 8.08% (31 December 2013: from 2 % to 8.08 %).

## **21. INVENTORIES**

<i>Inventories</i> include:	<b>31.12.2014</b> <b>BGN'000</b>	<b>31.12.2013</b> <b>BGN'000</b>
Goods	79,459	64,352
Finished products	33,925	33,969
Materials	30,298	33,885
Work-in-progress	4,995	5,647
Semi-finished products	3,212	2,391
<b>Total</b>	<b>151,889</b>	<b>140,244</b>

<i>Goods</i> by type are as follows:	<b>31.12.2014</b> <b>BGN'000</b>	<b>31.12.2013</b> <b>BGN'000</b>
Tablet dosage forms	39,165	35,031
Ampoule dosage forms	10,728	10,420
Syrups	7,677	2,691
Goods in transit	4,496	883
Consumables, bandages, and apparatus	3,919	4342
Ointments	3,449	2,038
Drops	3,122	1,413
Cosmetics	1,498	1670
Other	5,405	5,864
<b>Total</b>	<b>79,459</b>	<b>64,352</b>

<i>Finished products</i> existing at 31 December include:	<b>31.12.2014</b> <b>BGN'000</b>	<b>31.12.2013</b> <b>BGN'000</b>
Tablet dosage forms	20,400	20,082
Ampoule dosage forms	5,569	5,081
Syrups	2,592	2,970
Other	5,364	5,836
<b>Total</b>	<b>33,925</b>	<b>33,969</b>

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

*Materials* by type are as follows:

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Basic materials	26,568	31,141
Materials in transit	1,332	457
Auxiliary materials	485	610
Technical materials	469	413
Spare parts	392	374
Other	1,052	890
<b>Total</b>	<b>30,298</b>	<b>33,885</b>

*Basic materials* by type are as follows:

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Substances (active ingredients)	13,883	20,789
Chemicals	4,422	2,224
Vials, tubes and ampoules	2,813	3,317
PVC and aluminum foil	1,586	217
Packaging materials	1,444	2,013
Herbs	1,184	859
Other	1,236	1,722
<b>Total</b>	<b>26,568</b>	<b>31,141</b>

As at 31 December 2014, there were established special pledges on inventories at the amount of BGN 81,651 thousand (31 December 2013: BGN 75,509 thousand) as collateral under received by the Group bank loans and issued bank guarantees (Notes 27, 31 and 37).

## **22. TRADE RECEIVABLES**

*Trade receivables* include:

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<i>Receivables from clients</i>	196,984	189,816
<i>Impairment of uncollectable receivables</i>	(2,523)	(2,758)
Receivables from clients, net	194,461	187,058
<i>Advances to suppliers</i>	5,947	4,123
<i>Impairment of advances</i>	(46)	(54)
Advances granted, net	5,901	4,069
<b>Total</b>	<b>200,362</b>	<b>191,127</b>

The *receivables from clients* are interest-free and are mainly denominated in BGN and EUR.

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

---

Usually the Group companies negotiate with their clients payment term within the range of 30 to 180 days for receivables under sales unless there are determined specific conditions for maturity for particular clients or in the cases where new markets and products are developed and new trade counterparts are attracted. The Group has set a common credit period of 180 days for which no interest is charged to clients. Any delay after this period is regarded by the Group as an indicator for impairment. The management of the Group companies assess collectability by analyzing the exposure of the particular client, the opportunities for settlement (of the client and through the collateral) and make a decision on the amount, the recognition and charging of the respective impairment.

The *age structure* of non-matured (regular) trade receivables is as follows:

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
up to 30 days	49,955	53,773
from 31 to 90 days	51,726	52,377
from 91 to 180 days	4,398	18,419
from 181 to 365 days	1,856	6,172
from 1 to 2 years	303	3824
over 2 years	2,900	635
<b>Total</b>	<b>111,138</b>	<b>135,200</b>

The *age structure* of past due but not impaired trade receivables is as follows:

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
from 31 to 90 days	26,066	9,409
from 91 to 180 days	17,519	4,287
from 181 to 365 days	24,034	11,006
from 1 to 2 years	6,036	2,520
over 2 years	614	365
<b>Total</b>	<b>74,269</b>	<b>27,587</b>

With regard to the past due but not impaired receivables, there are usually already achieved or pending agreements for interest-bearing rescheduling of payments for each specific client (including penalty interest for delay).

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

---

The *age structure* of past due impaired trade receivables is as follows:

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
from 31 to 90 days	-	822
from 91 to 180 days	-	3,343
from 181 to 365 days	596	10,042
from 1 to 2 years	7,920	9,464
over 2 years	3,061	3,358
Allowance for impairment	(2,523)	(2,758)
<b>Total</b>	<b>9,054</b>	<b>24,271</b>

The larger part of the past due impaired receivables is from state hospitals and interest is charged and invoiced thereon. For this reason, the management of the Group made an assessment that only a partial impairment was necessary for the above receivables.

As at 31 December 2014, there were established special pledges on trade receivables at the amount of BGN 87,395 thousand (31 December 2013: BGN 88,700 thousand) as collateral under received by the Group bank loans and issued bank guarantees (Notes 27, 31 and 37).

The *advances granted* to suppliers are regular and are mainly denominated in BGN and EUR and are for the purchase of:

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Raw materials and consumables	4,186	1,259
Services	1,019	1,935
Goods	633	899
Other	109	30
Allowance for impairment	(46)	(54)
<b>Total</b>	<b>5,901</b>	<b>4,069</b>

## **23. RECEIVABLES FROM RELATED PARTIES**

<i>Receivables from related parties</i> include:	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Receivables from companies related through key managing personnel	16,748	20,411
Receivables from companies under a common indirect control	8,570	8,738

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

<b>Total</b>	<b>25,318</b>	<b>29,149</b>
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The *receivables from related parties* by type are as follows:

	<b>31.12.2014</b>	<b>31.12.2013</b>
Trade loans granted	22,253	25,359
Receivables on sales of finished products and materials	3,065	3,790
<b>Total</b>	<b>25,318</b>	<b>29,149</b>

*Trade loans granted to related parties* by type of related party are as follows:

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Companies related through key managing personnel	14,475	17,726
Companies under a common indirect control	7,778	7,633
<b>Total</b>	<b>22,253</b>	<b>25,359</b>

The *granted loans* are as follows:

<b>Currency</b>	<b>Contracted amount</b>	<b>Maturity</b>	<b>Interest</b>	<b>31.12.2014</b>		<b>31.12.2013</b>	
	<b>'000</b>		<b>%</b>	<b>BGN '000</b>	<b>BGN '000 including interest</b>	<b>BGN '000</b>	<b>BGN '000 including interest</b>
<b>to companies related through key managing personnel</b>							
<b>EUR</b>	10,824	31.12.2015	4.50%	9,537	18	11,346	16
<b>BGN</b>	34,020	31.12.2015	5.50%	3,097	9	5,662	14
<b>BGN</b>	1,300	22.07.2015	5.50%	477	17	551	50
<b>BGN</b>	190	31.12.2015	5.50%	128	1	167	-
<b>BGN</b>	6,000	22.07.2015	5.50%	1,236	26	-	-
<b>to companies under a common indirect control</b>							
<b>EUR</b>	7,661	31.12.2015	4.50%	7,632	155	7,477	-
<b>BGN</b>	120	31.12.2015	8.08%	146	40	156	36
				<b>22,253</b>	<b>266</b>	<b>25,359</b>	<b>116</b>

The *receivables on sales of finished products and materials* are interest-free and denominated in BGN and in EUR.

The Group companies usually negotiate payment terms between 90 and 180 days for receivables on sales of finished products and up to 30 days for receivables on sales of materials (incl. substances – active ingredients). The Group has set a maximum credit period of up to 365 days to sales counterparts – related parties. Any delay after this period is regarded by the Group as an indicator for impairment. The

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

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management of the Group companies assess collectability by analyzing the specific receivables and the position of the debtor company as well as the circumstances for the delay and the opportunities for repayment and after that, they take a decision on whether impairment shall be recognized and charged on individual basis and at what amount.

The *age structure* of non-matured (regular) trade receivables from related parties is as follows:

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
up to 30 days	673	1674
from 31 to 90 days	1,140	799
from 91 to 180 days	130	269
from 181 to 365 days	-	172
<b>Total</b>	<b>1,943</b>	<b>2,914</b>

The *age structure* of past due but not impaired trade receivables from related parties is as follows:

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
from 31 to 90 days	293	145
from 91 to 180 days	154	92
from 181 to 365 days	21	247
from 1 to 2 years	641	-
<b>Total</b>	<b>1,109</b>	<b>484</b>

The *age structure* of past due impaired receivables from related parties is as follows:

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
over 1 year	199	519
Allowance for impairment	(186)	(186)
	<b>13</b>	<b>333</b>

## **24. OTHER RECEIVABLES AND ADVANCE PAYMENTS**

*Other receivables and Advance payments* of the Group include:

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<i>Court and awarded receivables</i>	8,658	6,023
<i>Impairment of court receivables</i>	(4,753)	(5,226)

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

Court and awarded receivables, net	3,905	797
Taxes refundable	9,856	5,614
Advance payments	3,692	1,667
Loans granted to third parties	1,520	1,242
Receivables on deposits placed as guarantees	1,296	705
Guarantees under litigations ( <i>Note 37</i> )	863	727
Amounts granted to an investment intermediary	125	327
Other	266	530
<b>Total</b>	<b>21,523</b>	<b>11,609</b>

The court and awarded receivables originate mainly in relation to sales to state hospitals. Repayment schedules have been agreed or in a process of agreement for most of them. For this reason, the management of the Group has made an assessment that only a partial impairment is necessary for the above receivables.

<b><i>Refundable taxes</i></b> include:	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Excise duties	4,140	4,110
Income tax	3,834	629
VAT	1,820	840
Withholding taxes	59	32
Local taxes and fees	3	3
<b>Total</b>	<b>9,856</b>	<b>5,614</b>

<b><i>Advance payments</i></b> include:	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Rentals	1,715	88
Insurance	851	603
Subscriptions	490	364
Advertising	224	287
License and patent fees	128	49
Vouchers	2	33
Other	282	243
<b>Total</b>	<b>3,692</b>	<b>1,667</b>

The loans granted to third parties amounted to BGN 1,520 thousand (31 December 2013: BGN 1,242 thousand) and were granted to nine entities (2013: nine entities) – counterparts for working capital. The annual interest agreed for these loans for 2014 is between 2 % and 8.08 % (2013: 2% and 8.08%).

## **25. CASH AND CASH EQUIVALENTS**

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Cash at current bank accounts	21,093	20,802
Short-term deposits	2,937	3,875
Cash in hand	1,082	1,865
Blocked funds	41	65
<b>Cash and cash equivalents presented in the statement of cash flows</b>	<b>25,153</b>	<b>26,607</b>
Blocked cash under litigation	598	527
<b>Cash and cash equivalents presented in the consolidated statement of financial position</b>	<b>25,751</b>	<b>27,134</b>

The available cash and cash equivalents of the Group are mainly denominated in BGN, EUR and in BYR (31 December 2013: BGN, EUR, and BYR).

With regard to the current accounts in foreign currencies there is an active sequestration levied under a litigation at the amount of 598 thousand BGN (372 thousand USD) (31 December 2013: 527 thousand BGN) (*Note 37*).

## **26. EQUITY**

### ***Share capital***

As at 31 December 2014, the registered share capital of Sopharma AD amounted to 132,000 thousand BGN distributed in 132,000,000 shares of nominal value BGN 1 each.

**The treasury shares** were 5,329,153 at the amount of 18,095 thousand BGN (31 December 2013: 5,675,342 at the amount of 18,995 thousand BGN).

The **statutory reserves** amounting to 33,555 thousand BGN (31 December 2013: 30,051 thousand BGN) were set aside from allocation of profit of the parent company and included all amounts for the Reserve Fund.

The **revaluation reserve – for property, plant and equipment** amounting to 23,718 thousand BGN (31 December 2013: 24,657 thousand BGN) was set aside from the positive difference between the carrying amount of property, plant and equipment of the Group companies and their fair values at the dates of the respective regular revaluation. The effect of deferred taxes on the revaluation reserve is stated directly through other components of comprehensive income for the year.

**Available-for-sale financial assets reserve** amounting to 1,208 thousand BGN – a positive value (31 December 2013: 961 thousand BGN – a positive value) was set aside from the effects of subsequent measurement of available-for-sale investments to fair value (including the consolidated share of the change in this reserve in associated companies on their valuation under the equity method).

The *Translation of foreign operations reserve* amounting to 4,455 thousand BGN – a negative figure (31 December 2013: 4,643 thousand BGN – a negative figure) was set aside from exchange differences arising as a result of translation of the currency in the financial statements of foreign companies to the presentation currency of the Group.

The *Retained Earnings reserve* includes also the component 'other reserves', which contains the amounts distributed from profits of the Group companies generated in prior years, as well as a component 'accumulated profits/losses'.

*Retained earnings*, amounting to 199,141 BGN thousand at 31 December (31 December 2013: 195,916 thousand BGN) and includes recognized accumulated actuarial loss at the amount of 1,284 thousand BGN (31 December 2013: 975 thousand BGN), stated upon remeasurements of defined benefit pension plans in relation with the amendment to IAS 19 *Employee Benefits*.

## 27. LONG-TERM BANK LOANS

	<i>Contracted loan amount</i>	<i>Maturity</i>	<i>31.12.2014</i>			<i>31.12.2013</i>		
			<i>Non-current portion</i>	<i>Current portion</i>	<i>Total</i>	<i>Non-current portion</i>	<i>Current portion</i>	<i>Total</i>
	<i>'000</i>		<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<i>Credit lines and working capital loans</i>								
BGN	4,250	16.04.2023	3,918	319	4,237	1,342	201	1,543
EUR	1,452	31.12.2017	1,055	588	1,643	1,622	582	2,204
EUR	690	04.01.2016	72	862	934	-	-	-
EUR	450	31.12.2017	337	177	514	514	174	688
EUR	800	09.12.2015	-	348	348	348	347	695
EUR	113	30.11.2015	-	62	62	62	68	130
BYR	500,000	05.10.2016	-	59	59	-	-	-
USD	50	10.02.2016	-	55	55	-	-	-
BYR	300,000	12.02.2016	14	28	42	-	-	-
EUR	1,617	31.01.2015	-	40	40	40	479	519
EUR	500	31.12.2014	-	-	-	-	301	301
<i>Investment-purpose loans</i>								
EUR	32,000	15.04.2021	37,972	7,391	45,363	48,723	3,822	52,545
EUR	2,000	30.06.2018	2,445	978	3,423	3,341	566	3,907
EUR	1,800	25.07.2014	-	-	-	-	543	543
<b>Total</b>			<b>45,813</b>	<b>10,907</b>	<b>56,720</b>	<b>55,992</b>	<b>7,083</b>	<b>63,075</b>

The Group has gradually established a policy for annual re-negotiation of the terms and conditions of initially agreed long-term credit lines, including maturity terms. Starting from the date of re-negotiation, the extended credit lines are presented as short-term bank loans (*Note 31*).

The bank loans received in Euro are mainly agreed at interest rate based on EURIBOR plus a mark-up of 5 points (2013: EURIBOR plus a mark-up of 5 points).

Investment-purpose loans are intended for purchase of tangible fixed assets and expanding of activities.

The following collateral has been established in favor of the creditor banks:

- Real estate mortgages (*Note 14*);
- Special pledges on:
  - machinery and equipment (*Note 14*);
  - raw materials, consumables and finished products (*Note 21*);
  - trade receivables (*Note 22*).

As at 31 December 2014, there were established special pledges on receivables from related parties subject to consolidation and elimination for the purpose of the consolidation financial statements at the amount of BGN 1,481 thousand (31 December 2013: BGN 1,481 thousand) as collateral under received by the Group bank loans and issued bank guarantees (Notes 27, 31 and 37).

## **28. RETIREMENT BENEFIT OBLIGATIONS**

The long-term employee benefits as at 31 December include:

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Long-term retirement benefit obligations	3,343	3,412
Long-term benefit obligations for tantieme	192	145
<b>Total</b>	<b>3,535</b>	<b>3,557</b>

### *Long-term retirement benefit obligations*

The long-term payables to personnel include the present value of the obligation of the Group companies, operating mainly in *Bulgaria, Ukraine and Serbia*, to pay indemnities to the hired personnel at the date of the statement of financial position on coming of age for retirement. In accordance with the Labour Code in *Bulgaria* each employee is entitled to indemnity on retirement at the amount of two gross monthly salaries, and if he or she has worked for more than 10 years for the same employer – six gross monthly salaries at the time of retirement (*Note 2.24*).

The obligations of the employer to the personnel on retirement for the companies abroad are as follows:

- *Serbia* – the employer is obliged to pay 3 average salaries;
- *Ukraine* – the employer is obliged to pay between BGN 25 and BGN 50 depending on the length of service as well as social pensions, which the company accrues after employees' retirement due to specific work conditions;
- *Latvia and Belarus* – the employer has no legal obligation to personnel upon retirement;
- *Poland, USA and United Kingdom* – the Group has no hired personnel and therefore, no obligation.

For the purpose of establishing the amount of these obligations to personnel, the Group companies have assigned an actuarial valuation by using the services of a certified actuary.

### *Liabilities on long-term income from performance-based bonuses*

As at 31 December 2014 the value of long-term liabilities to employees also includes BGN 192 thousand (31 December 2013: BGN 145 thousand.) representing liabilities to employees related to the payment of bonuses for a period of more than 12 months (up to 2016).

## **29. FINANCE LEASE LIABILITIES**

As at 31 December the finance lease liabilities are under revocable contracts for motor vehicles acquisition. They are presented net of the interest due in the future and are as follows:

<i><b>Term</b></i>	<i><b>31.12.2014</b></i> <i><b>BGN'000</b></i>	<i><b>31.12.2013</b></i> <i><b>BGN'000</b></i>
Up to one year ( <i>Note 40</i> )	932	700
Over one year	2,114	2,382
<b>Total</b>	<b>3,046</b>	<b>3,082</b>

The minimum lease payments under finance lease are due as follows:

<i><b>Term</b></i>	<i><b>31.12.2014</b></i> <i><b>BGN'000</b></i>	<i><b>31.12.2013</b></i> <i><b>BGN'000</b></i>
Up to one year	1,013	797
From one to three years	2,205	3,137
	3,218	3,934
Future finance costs under finance leases	(172)	(852)
<b>Total</b>	<b>3,046</b>	<b>3,082</b>

The lease payments due within the next 12 months are presented in the consolidated statement of financial position as 'other current liabilities' (*Note 36*).

## **30. GOVERNMENT GRANTS**

The government grants to Group companies as at 31 December include:

	<i><b>31.12.2014</b></i> <i><b>BGN'000</b></i>	<i><b>31.12.2013</b></i> <i><b>BGN'000</b></i>
Government grants, non-current portion	5,157	5,612
Government grants, current portion ( <i>Note 36</i> )	667	667
<b>Total</b>	<b>5,824</b>	<b>6,279</b>

The government grants received as at 31 December are to the following Group companies:

<i><b>31.12.2014</b></i> <i><b>BGN'000</b></i>	<i><b>31.12.2013</b></i> <i><b>BGN'000</b></i>
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**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

Sopharma AD	3,536	3,712
Unipharm AD	1,540	1,690
Bulgarian Rose Sevdopolis AD	730	850
Sopharma Trading AD	18	27
<b>Total</b>	<b>5,824</b>	<b>6,279</b>

The government grants are received by the Group companies under European Operational Programmes mainly in relation to the acquisition of machinery and equipment (*Note 14 and Note 37*).

The current portion of the grants, amounting to BGN 667 thousand (31 December 2013: BGN 667 thousand), will be recognised as current income over the following 12 months from the date of the consolidated statement of financial position and is presented as 'other current liabilities' (*Note 36*).

### 31. SHORT-TERM BANK LOANS

*The short-term bank loans* of the Group as at 31 December are as follows:

<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	<i>31.12.2014</i>	<i>31.12.2013</i>
	<i>'000</i>		<i>BGN'000</i>	<i>BGN'000</i>
<b>Bank loans (overdrafts)</b>				
EUR	20,000	31.08.2015	38,847	38,522
EUR	19,000	31.08.2015	32,375	24,515
EUR	10,000	31.08.2015	19,517	19,529
EUR	10,000	14.01.2015	13,477	8,472
EUR	7,000	22.06.2016	13,691	13,691
BGN	10,000	31.08.2015	9,990	10,002
BGN	10,000	31.08.2015	9,984	9,980
EUR	7,500	25.04.2015	7,809	10,757
EUR	5,000	15.06.2015	9,786	9,788
EUR	5,500	25.04.2015	9,764	-
EUR	3,000	25.04.2015	5,861	4,875
EUR	3,500	03.09.2015	5,349	4,193
EUR	2,050	30.10.2015	3,884	3,904
EUR	1,300	09.07.2016	1,964	727
EUR	5,000	15.06.2015	1,083	5,090
BGN	500	20.09.2015	263	206
USD	490	22.12.2014	-	446
EUR	500	15.09.2014	-	677
USD	250	21.01.2014	-	252
			<b>183,644</b>	<b>165,626</b>
<b>Credit lines</b>				
BGN	18,000	30.10.2015	9,965	13,041
EUR	8,434	31.08.2015	15,848	15,884
BGN	15,000	31.01.2015	4,494	7,335
EUR	5,000	31.08.2015	3,119	6,628
EUR	66	31.08.2015	129	129

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

	<u>33,555</u>	<u>43,017</u>
<b>Total</b>	<u><b>217,199</b></u>	<u><b>208,643</b></u>

The bank loans received in Euro are contracted at interest rate determined on the basis of EURIBOR plus a mark-up of up to 3.5% or EONIA plus a mark-up of up to 2.1%, loans in BGN –SOFIBOR plus a mark-up of up to 3.75% and in USD – LIBOR plus a mark-up of up to 3.25%, floating or fixed 9.50% (2013: EURIBOR plus a mark-up of up to 4.09% , loans in BGN – monthly SOFIBOR plus a mark-up of up to 3.75%, in USD – LIBOR plus a mark-up of up to 3.85%). Loans are intended for providing working capital.

The following special pledges have been established as collateral for the above loans in favour of the creditor banks:

- machinery and equipment (*Note 14*);
- raw materials, consumables and finished products (*Note 21*);
- trade receivables (*Note 22*).

As at 31 December 2014, there were established special pledges on receivables from related parties subject to consolidation and elimination for the purpose of the consolidation financial statements at the amount of BGN 16,229 thousand (31 December 2013: BGN 16,229 thousand) as collateral under received by the Group bank loans and issued bank guarantees (*Notes 27, 31, and 37*).

### **32. TRADE PAYABLES**

<i>Trade payables</i> include:	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Payables to suppliers	71,923	60,236
Advances from clients	<u>1,031</u>	<u>1,197</u>
<b>Total</b>	<u><b>72,954</b></u>	<u><b>61,433</b></u>

The <i>payables to suppliers</i> refer to:	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Suppliers outside Bulgaria	50,873	39,222
Suppliers from Bulgaria	<u>21,050</u>	<u>21,014</u>
<b>Total</b>	<u><b>71,923</b></u>	<u><b>60,236</b></u>

The payables to suppliers are regular, interest-free and refer to supplies of materials, goods and services. The average credit period for which interest is not usually charged for trade payables is up to 180 days.

### **33. PAYABLES TO RELATED PARTIES**

The *payables to related parties* refer to:

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Payables to companies under a common control	1,511	793
Payables to companies related through key managing personnel	119	3,007
Payables to main shareholding companies	2	22
<b>Total</b>	<b>1,632</b>	<b>3,822</b>

The payables to related parties by type are solely for the supply of raw materials and goods. The payables to related parties are regular, denominated in BGN, interest-free and are not additionally secured through a special pledge or guarantee by the Group.

### **34. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY**

*Payables to personnel and for social security* include:

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Payables to personnel, including:	6,048	5,347
<i>current wages and salaries</i>	2,810	2,527
<i>Performance-based bonuses</i>	1,810	1,537
<i>accruals on unused compensated leaves</i>	1,428	1,283
Payables for social security/health insurance, including:	1,549	1,384
<i>current payables for social security/health insurance contributions</i>	1,325	1,199
<i>accruals on unused compensated leaves</i>	224	185
<b>Total</b>	<b>7,597</b>	<b>6,731</b>

### **35. TAX PAYABLES**

*Tax payables* include:

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
VAT	3,801	2,060
Income taxes	1,334	1,531
Withholding taxes	613	406
Individual income taxes payable	411	374
Other	186	37
<b>Total</b>	<b>6,345</b>	<b>4,408</b>

Tax audit of the companies in Bulgaria is performed within a 5-year period after the end of the year when the tax return for the respective liability has been submitted. The tax audit confirms finally the tax liability of the respective company-tax liable person except in the cases explicitly stated by law.

For the companies outside Bulgaria a tax audit is performed as follows: in Ukraine, Latvia and Belarus – within a term of three years, in Poland and Kazakhstan – within a term of five years, Serbia – within a term of ten years and in Lithuania – within a term of five years.

### **36. OTHER CURRENT LIABILITIES**

<i>Other current liabilities</i> include:	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Finance lease liabilities ( <i>Note 29</i> )	932	700
Liabilities under sold rights from shares issue	880	941
Government grants ( <i>Note 30</i> )	666	667
Dividends liabilities	579	569
Trade loans received from third parties	391	617
Awarded amounts under litigations	336	1,380
Deductions from work salaries	201	222
Other	128	186
<b>Total</b>	<b>4,113</b>	<b>5,282</b>

### **37. CONTINGENT LIABILITIES AND COMMITMENTS**

#### **Litigations**

##### ***Sopharma AD***

In 2012, the claim of Sopharma AD against a client in relation with unpaid supplies of goods at the amount of EUR 1,034 thousand (BGN 2,022 thousand) was satisfied by a ruling dated 23 October 2012 of the Court of Arbitration in Paris.

In 2013 the Court of Arbitration in Paris entitled Sopharma AD to file a complementary claim as follows:

- to compensate the loss of business suffered as a result of a harm on Company's image – at the amount of EUR 1,240 thousand (BGN 2,425 thousand);
- to compensate court and other expenses at the amount of USD 75 thousand (BGN 121 thousand) and EUR 153 thousand (BGN 298 thousand).

##### ***Bulgarian Rose Sevtopolis AD***

According to a ruling, dated 8 November 2012, of the Appellate Court in Sofia (ACS) as an appeal instance, the Company was ordered to pay liabilities to a foreign supplier. The principal, interest and expenditures at the amount of USD 739 thousand and BGN 28 thousand (BGN 1,277 thousand), including the initial payable under the supply, are recognised in full in company's statement of financial position (*Note 36*). In 2012, additional expenses on interest, penalties and litigation expenditures at the total amount of BGN 481 thousand were charged.

At the date of issue of these financial statements, cassation appeals were lodged to the Supreme Court of Cassation (SCC) and a guarantee at the amount of BGN 577 thousand (USD 389 thousand) was paid to the SCC account without the interest and expenditures for stopping the execution of the ACS ruling.

By order from 10 December 2014 the case has been admitted to cassation appeal of the decision of SCC.

### ***Biopharm Engineering AD***

In 2010, the company was a subject of full-scope tax audit, including under the application of VATA for periods from 1 February 2007 to 31 October 2010. In the issued tax assessment notice, dated 23 June 2011, the tax authorities assessed tax liabilities to the state budget at the amount of BGN 282 thousand (principal and interest) under the VATA for previous reporting periods the financial result of the company under the Corporate Income Tax Act (CITA) for prior years was transformed.

By Decision No 394/19.02.2013 the Administrative Court in Burgas rejected the additional liabilities under VATA assessed to the company and the decision has been accepted as final in favour of the company.

The company appealed the results before the Supreme Administrative Court which on its behalf repealed the decision of the Administrative Court Burgas and returned the case to the first-instance court for a new hearing. The Administrative Court Burgas started case No 2947 / 2013 and ordered an accounting expert examination. The hearing under the case, scheduled for 10 June 2014, has been postponed to 24 February 2015 and as at the date of preparation of the preliminary consolidated annual financial statement no decision by the Administrative Court Burgas has been issued.

The management of the company believes that the amounts, by which the prior-years financial result under CITA has been increased, are not due and therefore, no possible litigation provisions have been included.

### **Issued and granted guarantees**

#### ***Sopharma AD***

The company is a co-debtor under received bank loans and a guarantor of the following companies outside the Group before banks:

Maturity	Currency	Amount		Status of the debt 31.12.2014 BGN'000
		Original currency	BGN'000	

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

Telecomplect AD	05.09.2015	BGN	5,009	5,009	1,252
Pharmaplant AD	20.12.2019		1083	1083	1,054
Veta Pharma AD	19.11.2015	BGN	1,000	1,000	993
Energoinvestment AD	28.08.2015	BGN	2,018	2,018	518
Pharmaplant AD	20.12.2015		246	246	214
Mineralcommerce AD	27.03.2015	BGN	175	175	175
Mineralcommerce AD	20.09.2017	EUR	100	196	108
Mineralcommerce AD	20.12.2015	EUR	50	98	97
<b>Total</b>					<b>4,411</b>

**Bank guarantees**

***Sopharma Trading AD***

The bank guarantees issued for the Company amount to BGN 6,780 thousand (31 December 2013: BGN 9,291 thousand) and are to guarantee payments to suppliers of goods, for good performance – ensuring future deliveries of pharmaceutical and medical products to hospitals under concluded contracts, customs office guarantees and tender participation.

The bank guarantees have been issued by:

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Raiffeisenbank (Bulgaria) EAD	3,861	3,241
ING Bank	2,332	2,812
SG Expressbank AD	587	3,187
BNP Paribas – Bulgaria Branch	-	51
<b>Total</b>	<b>6,780</b>	<b>9,291</b>

The collateral for issued bank guarantees is as follows:

- Special pledge on goods in circulation at the amount of BGN 2,934 thousand (31 December 2013: BGN 5,867 thousand)
- Special pledge on TFA (motor vehicles) with a carrying amount of BGN 37 thousand (31 December 2013: BGN 153 thousand)

***Unipharm AD***

Bank guarantees at the amount of BGN 55 thousand were issued as at 31 December 2014 to the company within the limit of the loan agreement:

**Electroncommerce EOOD**

As at 31 December 2014 the issue bank guarantees for the company amount to 53 thousand BGN.

**Assets held under safe custody**

***Sopharma Trading AD***

According to concluded pre-distribution contracts, the Company received goods for safe custody amounting to BGN 3,476 thousand as at 31 December 2014 (31 December 2013: BGN 3,066 thousand).

**Significant irrevocable agreements and commitments**

***Sopharma AD***

In 2013, the Company assumed a self-participation commitment at the amount of BGN 3,000 thousand under a grant contract under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007-2013. The execution of the contract is envisaged to last 18 months and is related mainly with financing the implementation of innovative products in the ampoule production section.

In 2013 the Company has received a government grant at the amount of BGN 3,787 thousand under contract for financing and Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 - 2013 under a project for technological renovation and modernisation of tablet production facilities (Note 30 and Note 36). The Company undertook a commitment that for a period of 5 years after the completion of the project, counted as of 11 March 2013, the project shall not undergo significant modifications affecting its essence and the terms and conditions for its execution or giving rise to unjustified benefits to the Company, neither modifications resulting from change in the nature of ownership over the assets acquired in relation with the grant. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the consolidated financial statements, all contractual requirements were complied with.

***Sopharma Trading AD***

The company is a beneficiary under a government grant contract related to the Operational Programme for Development and Implementation of Information Security Management System Project in accordance with ISO 27001:2007 in the amount of BGN 82 thousand (*Note 30 and Note 36*).

***Unipharm AD***

In 2013, the company has committed to an excess of BGN 36 thousand under a grant contract under Operational Programme "Development of the Competitiveness of the Bulgarian Economy 2007 – 2013" under a project for the implementation in regular production of innovative eye drops of type artificial tears, developed by Unipharm AD. The project amount is BGN 359 thousand and the implementation term is 15 months. As at 31 December 2014 has been received an advance payment under the contract at the amount of 210 thousand BGN.

Under a grant entitled "Modernisation and Development of Unipharm AD" the company has received funding for construction and installation works of buildings and purchase of long-term assets. The project

has been completed and in November 2011 the assets (Notes 29 and 35) are commissioned. As at 31 December 2014 the deferred income from the project financing amounted to BGN 1,262 thousand (31 December 2013: BGN 1,564 thousand).

Under the project "Development of a New Haemodialysis Solution and Proving of Therapeutic Effect" to the National Innovation Fund the term of the engagement started in 2010 and the technology for the production of a new haemodialysis solution has been commissioned. As at 31 December 2014 the deferred income from the project financing amounted to BGN 68 thousand (31 December 2013: BGN 126 thousand).

#### ***Bulgarian Rose Sevtopolis AD***

The company is a beneficiary under a contract for gratuitous financial aid (grant), under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 in relation with a project for technological renovation and modernisation of tablets production at the amount of BGN 1,200 thousand (Note 30 and Note 36). The term of the contract is 5 years and commenced on 9 February 2011 and according to the contract the product should not suffer significant changes referring to its nature, the conditions of its performance or leading to unjustifiable benefits for the company as well as changes resultant from modification in the nature of ownership of infrastructural component or discontinuance of production activities. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the preliminary consolidated annual financial statements, all contractual requirements were complied with.

#### ***Biopharm Engineering AD***

In 2011, the company assumed a self-participation commitment at the amount of BGN 2,708 thousand under a contract for financing under Operating Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 - 2013. The execution of the contract is envisaged to last 20 months and is related with financing the purchase of property, plant and equipment. At the date of preparation of the preliminary consolidated annual financial statements no amounts have been drawn under this project.

#### ***Other***

Sopharma has fulfilled its commitments under the Waste Management Act (WMA), which is why in the consolidated statement of financial position as at 31 December 2014 the product tax liabilities were not included, although as at the date of preparation of the financial statements there is no official document yet proving that Ecobulpack (the organization in which the parent company is a member) has fulfilled its commitments under the WMA.

### **38. FINANCIAL RISK MANAGEMENT**

In the ordinary course of business, the Group can be exposed to a variety of financial risks the most important of which are market risk (including currency risk, risk of a change in the fair value and price

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

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risk), credit risk, liquidity risk and risk of interest-bearing cash flows. The general risk management is focused on the difficulty to forecast the financial markets and to achieve minimizing the potential negative effects that might affect the financial results and position of the Group. The financial risks are currently identified, measured and monitored through various control mechanisms in order to establish adequate prices for the finished products and services of the Group companies and the borrowed thereby capital, as well as to assess adequately the market circumstance of its investments and the forms for maintenance of free liquid funds through preventing undue risk concentrations.

Risk management is currently performed by the management of the parent company and respectively, the management of the subsidiaries, in line with the policy defined by the Board of Directors of the parent. The Board of Directors has approved the basic principles of general financial risk management, on the basis of which specific procedures have been established for management of the separate specific types of risk such as currency, price, interest, credit and liquidity risk and the risk of use of non-derivative instruments.

The structure of financial assets and liabilities is as follows:

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN '000</b>	<b>BGN '000</b>
<b><i>Financial assets</i></b>	<b>291,768</b>	<b>280,319</b>
<b>Loans and receivables, including:</b>	<b>284,940</b>	<b>272,132</b>
<i>Receivables and loans (Notes 19, 20, 22, 23, and 24)</i>	259,787	245,525
<i>Cash and cash equivalents (Note 25)</i>	25,153	26,607
<b>Available-for-sale financial assets</b>	<b>6,828</b>	<b>8,187</b>
<i>Available-for-sale investments (Note 18)</i>	6,828	8,187
<b><i>Financial liabilities</i></b>	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN '000</b>	<b>BGN '000</b>
<b>Financial liabilities at amortized cost</b>	<b>352,705</b>	<b>341,935</b>
<i>Short-term and long-term bank loans (Notes 27 and 31)</i>	273,919	271,718
<i>Other loans and liabilities (Notes 29, 30, 32, 33 u 36)</i>	78,786	70,217

***Foreign currency risk***

The Group companies perform their operations with active exchange with foreign suppliers and clients and therefore, they are exposed to currency risk.

The Group through the companies in Belarus and Ukraine carries out business in these countries and, therefore, has significant exposure in BYR and UAH. The currency risk is related with the adverse floating of the exchange rate of these currencies against BGN in future business transactions as to the recognized assets and liabilities denominated in foreign currency and as to the net investments in foreign companies.

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

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The rest of the companies abroad perform sales mainly to the local markets, which lead to currency risk to their currencies as well – Serbian Dinar (RSD), Polish Zloty (PLN), and Lithuanian Lit (LTL).

To control foreign currency risk, there is an implemented system in the whole Group for planning import supplies, sales in foreign currency as well as procedures for daily monitoring of US dollar exchange rates and control on pending payments. The exposures of almost all subsidiaries in Bulgaria to foreign currency risk are insignificant because almost all sales are performed to the local market in Bulgarian Levs (BGN). The import of goods is performed mainly in Euro (EUR). The loans denominated in foreign currency have been granted mainly in EUR.

The assets and liabilities of the Group denominated in BGN, presented in different foreign currencies are as follows:

<i>31 December 2014</i>	<i>in BGN</i>	<i>in EUR</i>	<i>in BYR</i>	<i>in UAH</i>	<i>in other currency</i>	<i>Total</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Available-for-sale financial assets	4,607	1,255	-	-	966	6,828
Loans and receivables, including:	179,169	81,648	12,633	3,447	8,043	284,940
<i>Receivables and loans</i>	<i>163,695</i>	<i>79,240</i>	<i>11,340</i>	<i>826</i>	<i>4,686</i>	<i>259,787</i>
<i>Cash and cash equivalents</i>	<i>15,474</i>	<i>2,408</i>	<i>1,293</i>	<i>2,621</i>	<i>3,357</i>	<i>25,153</i>
<b>Total financial assets</b>	<b>183,776</b>	<b>82,903</b>	<b>12,633</b>	<b>3,447</b>	<b>9,009</b>	<b>291,768</b>
Short-term and long-term bank loans	97,156	173,361	2,064	-	1,337	273,919
Other loans and liabilities	22,172	38,263	14,398	447	3,506	78,786
<b>Total financial liabilities</b>	<b>119,328</b>	<b>211,624</b>	<b>16,462</b>	<b>447</b>	<b>4,843</b>	<b>352,705</b>

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

<i>31 December 2013</i>	<i>in BGN</i>	<i>in EUR</i>	<i>in BYR</i>	<i>in UAH</i>	<i>in other currency</i>	<i>Total</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Available-for-sale financial assets	6,857	-	13	-	1,317	8,187
Loans and receivables, including:	169,204	79,076	8,093	7,000	8,759	272,132
<i>Receivables and loans</i>	<i>156,278</i>	<i>71,477</i>	<i>6,280</i>	<i>6,176</i>	<i>5,314</i>	<i>245,525</i>
<i>Cash and cash equivalents</i>	<i>12,926</i>	<i>7,599</i>	<i>1,813</i>	<i>824</i>	<i>3,445</i>	<i>26,607</i>
<b>Total financial assets</b>	<b>176,061</b>	<b>79,076</b>	<b>8,106</b>	<b>7,000</b>	<b>10,076</b>	<b>280,319</b>
Short-term and long-term bank loans	117,019	153,274	-	-	1,425	271,718
Other loans and liabilities	26,684	31,828	7,586	1,007	3,112	70,217
<b>Total financial liabilities</b>	<b>143,703</b>	<b>185,102</b>	<b>7,586</b>	<b>1,007</b>	<b>4,537</b>	<b>341,935</b>

**Price risk**

The Group companies are exposed to price risk of inventories based on three main factors:

- (a) a possible increase of purchase prices of raw materials and consumables, since a significant portion of the raw materials used are imported and they represent a significant share of production costs;
- (b) a possible increase in supplier prices of goods and
- (c) the growing competition on the Bulgarian pharmaceutical market, affecting the prices of pharmaceuticals.

For the purpose of mitigating this influence, the management of the Group applies a strategy aimed at optimization of production costs, validation of alternative suppliers that offer beneficial commercial conditions, expanding product range by means of new generic products development and last but not least, adoption of a flexible marketing and price policy. Price policy is a function of three main factors – structure of expenses, prices of competitors and purchasing capacity of customers.

The Group is exposed to a significant price risk also with regard to the shares held thereby, classified as available-for-sale investments, mostly through the parent company. For this purpose, the management monitors and analyses all changes in security markets and also uses consulting services of one of the most authoritative in the country investments intermediaries. In addition, at this stage, because of the economic and financial crisis, the management has taken a decision for a reduction in its operations on stock markets, retaining of the purchased shares for longer periods with current monitoring of the reported by the respective issuer financial and business indicators as well as the development of the operations in the environment of crisis.

**Credit risk**

Credit risk is the risk that any of the Group's clients will fail to discharge in full and within the normally envisaged terms the amounts due under trade receivables. The latter are presented in the consolidated statement of financial position at net value after deducting the impairment related to doubtful and bad debts. Such impairment is made where and when events have existed identifying loss due to uncollectability as per previous experience.

In the years of its trade experience, the Group has implemented different schemes of distribution to reach its efficient approach of today, in conformity with the market conditions, using various ways of payment as well as relevant trade discounts. The Group works on its main markets with counterparts with history of their relations on main markets, which include a big number of licensed Bulgarian and foreign traders of pharmaceuticals.

The cooperation with the state hospitals also require the implementation of deferred payments policy. There is a concentration of significant credit risk in this type of counterparts that form 49 % of Group's trade receivables (31 December 2013: 49%). It is mitigated through implemented procedures for selection and current monitoring of the liquidity and financial stability of these trade partners. On delay in payments of the receivables from these counterparts, the Group has set a period of 30 days after which it starts activities for collection of receivables. With regard to clients - hospitals, in case of 30 days of delay after the date on which the credit period expires, interest for delay is being charged and if delays persist after further 30 days, a meeting with the management is arranged for the purpose of signing rescheduling agreement. If the agreement is not complied with, legal proceedings are initiated. With regard to clients – pharmacies, on a 5-day delay after the expiry of the credit period, the sales under deferred payment terms are suspended. If delinquencies continue, on the 45<sup>th</sup> day all sales are ceased and negotiations are held for concluding an agreement. If the agreement is not complied with, legal proceedings are initiated.

Deferred payments (credit sales) to other counterparts are offered only to clients having long account of business relations with the Group, good financial position and no history of credit terms violations.

The credit policy of the Group envisages that every new client shall be investigated with regard to its creditworthiness prior to being offered the standard terms of supply and payment. The analysis, performed by the Group, includes but is not limited to visit to clients' premises, collection of information on monthly turnovers and in some cases a promissory note is required in favor of the Group company for 130% - 135% of the credit granted. These limits are reviewed on a monthly basis. The clients that cannot cover the creditworthiness criteria may perform purchases in cash.

Collectability of receivables is controlled directly by the Executive Director, the Finance and Trade Directors of the parent company and, respectively, by the management of the subsidiaries. Their responsibility is to provide operating control and regulate receivables in conformity with the actual market situation and the needs of the Group. The Group has developed policy and procedures to assess the creditworthiness of its counterparts and to assign credit rating and credit limits by groups of clients. The management of the Group currently monitors and regulates the concentration of receivables from client and counterpart of the Group as a whole. The financial resources of the Group as well as the settlement operations are concentrated in different first-class banks. To distribute cash flows among them, the management of the parent company and the subsidiaries take into consideration a great deal of factors, as the amount of capital, reliability, liquidity, the credit potential and rating of the bank etc.

### ***Liquidity risk***

Liquidity risk is the adverse situation when the Group encounters difficulty in meeting unconditionally its obligations within their maturity, including because of the existence of hyperinflation and the indexation of the trade accounts of the companies operating in such environment.

The Group generates and maintains a significant volume of liquid funds. An internal source of liquid funds for the Group is its main economic activity of its companies generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. Existing open positions in Belarusian Rubles (BYR) and the hyperinflation in this market during the period 2011 - 2013 represented an additional source of risk. However, the exit of Belarus from the hyperinflation market eliminates this risk in 2014. In order to isolate any possible general liquidity risk, the Group implements a system of alternative mechanisms of acts and prognoses, the final aim being to maintain good liquidity and, respectively, ability to finance its economic activities. This is supplemented by current monitoring of the maturities of assets and liabilities, control over cash outflows and ensuring their current balancing with inflows, including renegotiation of maturities and optimization of debt structure, increase and internal restructuring of self-generated funds and their investment.

### ***Maturity analysis***

The table below presents the financial non-derivative liabilities of the Group, classified by remaining term to maturity, determined against the contractual maturity at the consolidated financial statements date. The table is prepared on the basis of undiscounted cash flows and the earliest date on which the payable becomes due. The amounts include principal and interest.

<i>31 December 2014</i>	<i>up to 1 month BGN '000</i>	<i>from 1 to 3 months BGN '000</i>	<i>from 3 to 6 months BGN '000</i>	<i>from 6 to 12 months BGN '000</i>	<i>from 1 to 2 years BGN '000</i>	<i>from 2 to 5 years BGN '000</i>	<i>over 5 years BGN '000</i>	<i>Total BGN '000</i>
Short-term and long-term bank loans	19,601	2,783	53,998	155,949	10,216	25,662	13,765	<b>281,974</b>
Other loans and liabilities	32,514	19,619	11,952	2,547	1,269	846	10,217	<b>78,964</b>
<b>Total liabilities</b>	<b>52,115</b>	<b>22,402</b>	<b>65,950</b>	<b>158,496</b>	<b>11,485</b>	<b>26,508</b>	<b>23,982</b>	<b>360,938</b>
<i>31 December 2013</i>	<i>up to 1 month BGN '000</i>	<i>from 1 to 3 months BGN '000</i>	<i>from 3 to 6 months BGN '000</i>	<i>from 6 to 12 months BGN '000</i>	<i>from 1 to 2 years BGN '000</i>	<i>from 2 to 5 years BGN '000</i>	<i>over 5 years BGN '000</i>	<i>Total BGN '000</i>
Short-term and long-term bank loans	9,445	35,428	119,575	59,694	12,811	28,862	17,603	<b>283,417</b>
Other loans and liabilities	29,584	27,330	7,853	4,512	654	1,216	24	<b>71,173</b>
<b>Total liabilities</b>	<b>39,029</b>	<b>62,758</b>	<b>127,428</b>	<b>64,206</b>	<b>13,465</b>	<b>30,078</b>	<b>17,627</b>	<b>354,590</b>

### ***Risk of interest-bearing cash flows***

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

Interest-bearing assets are presented in the structure of Group's assets by cash, bank deposits and loans granted, which are with fixed interest rate. On the other hand, Group's borrowings in the form of long-term and short-term loans are usually with a floating interest rate. This circumstance makes the cash flows of the Group partially dependent on interest risk. This risk is covered in two ways:

- (a) optimization of resources and structure of credit resources for achieving relatively lower price of attracted funds; and
- (b) combined structure of interest rates on loans comprising two components – a permanent one and a variable one, the correlation between them, as well as their absolute value, can be achieved and maintained in a proportion favorable for the Group companies. The permanent component has a relatively low absolute value and sufficiently high relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rate levels in case of variable component updating. Thus the probability for an unfavorable change of cash flows is reduced to a minimum.

The management of the Group companies together with that of the parent company currently monitors and analyses the exposure of the respective company to the changes in interest levels. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the impact of a defined interest rate shift, expressed in points or percentage, on the financial result and equity is calculated. For each simulation, the same assumption for interest rate shift is used for all major currencies. The calculations are made for major interest-bearing positions.

<i>Interest analysis</i>	<i>interest-free</i>	<i>with floating interest %</i>	<i>with fixed interest %</i>	<i>Total</i>
<b>31 December 2014</b>	<b>BGN '000</b>	<b>BGN '000</b>	<b>BGN '000</b>	<b>BGN '000</b>
Available-for-sale financial assets	6,828	-	-	6,828
Loans and receivables, including:	213,123	7,568	64,249	284,940
<i>Receivables and loans</i>	<i>197,985</i>	<i>15</i>	<i>61,787</i>	<i>259,787</i>
<i>Cash and cash equivalents</i>	<i>15,138</i>	<i>7,553</i>	<i>2,462</i>	<i>25,153</i>
<b>Total financial assets</b>	<b>219,951</b>	<b>7,568</b>	<b>64,249</b>	<b>291,768</b>

Short-term and long-term bank loans	3,350	266,179	4,390	273,919
Other loans and liabilities	75,747	2,594	445	78,786
<b>Total financial liabilities</b>	<b>79,097</b>	<b>268,773</b>	<b>4,835</b>	<b>352,705</b>

<i>Interest analysis</i>	<i>interest-free</i>	<i>with floating interest %</i>	<i>with fixed interest %</i>	<i>Total</i>
<b>31 December 2013</b>	<b>BGN '000</b>	<b>BGN '000</b>	<b>BGN '000</b>	<b>BGN '000</b>
Available-for-sale financial assets	8,187	-	-	8,187
Loans and receivables, including:	192,324	20,815	58,993	272,132
<i>Receivables and loans</i>	<i>190,392</i>	<i>15</i>	<i>55,118</i>	<i>245,525</i>
<i>Cash and cash equivalents</i>	<i>1,932</i>	<i>20,800</i>	<i>3,875</i>	<i>26,607</i>

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

	<b>200,511</b>	<b>20,815</b>	<b>58,993</b>	<b>280,319</b>
<b>Total financial assets</b>				
Short-term and long-term bank loans	267	271,451	-	271,718
Other loans and liabilities	67,867	2,345	5	70,217
<b>Total financial liabilities</b>	<b>68,134</b>	<b>273,796</b>	<b>5</b>	<b>341,935</b>

***Capital risk management***

The capital management objectives of the Group are to build and maintain capabilities to continue its operation as a going concern and to provide return on the investments of shareholders and economic benefits to other stakeholders and participants in its business as well as to maintain an optimal capital structure to reduce the cost of capital. Analogous approach is applied also at the level of a separate Group company with regard to its capital structure and financing.

The Group currently monitors capital availability and structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital amount. Net debt is calculated as total borrowings (current and non-current ones) as presented in the consolidated statement of financial position less cash and cash equivalents. Total employed capital is calculated as the sum of equity and net debt. It is a characteristic feature for both presented periods that the Group finances its operations both through its own generated profit and by maintaining a certain level of trade and other current payables and loans (bank, commercial ones).

In 2014, the strategy of the parent company management was to maintain the ratio within 35 -45 % at a Group level (2013: 35 - 40 %). The table below shows the gearing ratios based on capital structure as at 31 December:

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<b>Total borrowings, including:</b>	<b>276,965</b>	<b>274,800</b>
<i>Bank loans</i>	273,919	271,718
<i>Loans and finance lease liabilities</i>	3,046	3,082
<b>Less: Cash and cash equivalents</b>	<b>(25,153)</b>	<b>(26,607)</b>
<b>Net debt</b>	<b>251,812</b>	<b>248,193</b>
<b>Total equity of the Group</b>	<b>367,072</b>	<b>359,947</b>
<b>Total capital of the Group</b>	<b>618,884</b>	<b>608,140</b>
<b>Gearing ratio</b>	<b>0.41</b>	<b>0.41</b>

The liabilities shown in the table are disclosed in Notes 27, 29, 31 и 36.

***Fair values***

The fair value concept presumes realization of the financial instruments through sales. However, in most cases especially in regard of trade receivables and payables as well as loans and deposits with banks, the Group expects to realize these financial assets also through their total refund or respectively, settlement over time. Therefore, they are presented at their amortized cost.

In addition, a large part of the financial assets and liabilities are either short-term in their nature (trade receivables and payables, short-term loans) or are presented in the consolidated statement of financial position at market value (deposits placed with banks, investments in securities) and therefore, their fair value is almost equal to their carrying amount. Part of the investments in other companies as minority interests represent an exception to this rule, since neither market nor objective conditions exist so that their fair value could be reliably determined. Therefore, they are presented at acquisition cost (cost).

As far as no sufficient market experience, stability and liquidity exist in regards of purchases and sales of certain financial assets and liabilities, still no adequate and reliable quotes of market prices are available thereof.

The management of the parent company is of the opinion that the estimates of the financial assets and liabilities presented in the statement of financial position are as reliable, adequate and trustworthy as possible for financial reporting purposes under the existing circumstances.]

### **39. RELATED PARTY TRANSACTIONS**

<i><b>Related parties</b></i>	<i><b>Relation type</b></i>	<i><b>Relation period</b></i>
Telecomplect Invest AD	Main shareholding company	2014 2013
Donev Investments AD	Main shareholding company	2014 2013
Sopharma Properties REIT	Company under a common indirect control	2014 2013
Sofprint Group AD	Company under a common indirect control	2014 2013
Elpharma AD	Company under a common indirect control	2014 2013
Pharmachim Holding AD	Company under a common indirect control	2013
Kaliman RT AD	Company under a common indirect control	2013
SCS Franchise AD	Company under a common indirect control	2013
Seiba Pharmacies and Drugstores AD	Company under a common indirect control	2013
Sanita Franchising AD	Company under a common indirect control	2013
Sofia Inform AD	Company under a common indirect control	2013
Sofconsult Group AD	Company under a common indirect control	2013
Mineralcommerce AD	Company under a common indirect control	2013
Telso AD	Company related through key managing personnel	2014 2013
Telecomplect AD	Company related through key managing personnel	2014 2013
DOH Group	Company related through key managing personnel	2014 2013
Riton P AD	Company related through key managing personnel	2013
Media Group Bulgaria Holding OOD	Company related through key managing personnel	until 25 April 2013

Related party transactions are as follows:

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

	<i>1 January – 31 December 2014 BGN ‘000</i>	<i>1 January – 31 December 2013 BGN ‘000</i>
<b><i>Supplies from related parties:</i></b>		
<b><i>Supply of inventories from:</i></b>		
Companies under a common indirect control	10,465	9,840
Companies under common indirect control through key managing personnel	292	660
Main shareholding companies	35	-
	<b>10,792</b>	<b>10,500</b>
<b><i>Supply of services from:</i></b>		
Companies under common indirect control through key managing personnel	4,273	2,831
Companies under a common indirect control	2,949	2,936
Main shareholding companies	284	325
	<b>7,506</b>	<b>6,092</b>
<b><i>Supply of tangible fixed assets from:</i></b>		
Companies under common indirect control through key managing personnel	597	4,075
Companies under a common indirect control	-	100
	<b>597</b>	<b>4,175</b>
<b><i>Supplies for acquisition of non-current assets:</i></b>		
Companies under common indirect control through key managing personnel	2,932	11,760
	<b>2,932</b>	<b>11,760</b>
<b>Total</b>	<b>21,827</b>	<b>32,527</b>
	<i>1 January – 31 December 2014 BGN ‘000</i>	<i>1 January – 31 December 2013 BGN ‘000</i>
<b><i>Sales to related parties</i></b>		
<b><i>Sales of inventories to:</i></b>		
Companies under a common indirect control	1,858	4,268
Companies related through key managing personnel	1,047	3,806
	<b>2,905</b>	<b>8,074</b>
<b><i>Sales of services to:</i></b>		
Companies under a common indirect control	283	197
Companies under common indirect control through key managing personnel	51	104
	<b>334</b>	<b>301</b>
<b><i>Other sales to:</i></b>		
Companies under a common indirect control through key managing personnel	67	11
Companies under a common indirect control	-	187
	<b>67</b>	<b>198</b>

**SOPHARMA GROUP**  
**PRELIMINARY CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR 2014**

***Interest on loans granted to:***

Companies under common indirect control through key managing personnel	2,239	2,917
Companies under a common indirect control	345	467
Main shareholding companies	-	166
	<b>2,584</b>	<b>3,550</b>
<b>Total</b>	<b>5,890</b>	<b>12,123</b>

The accounts and balances with related parties are disclosed in Notes 19, 23, and 33.

The composition of key management personnel of the Group includes the disclosed in Note 1 Executive Director and the members of the Board of Directors of the parent company. Additionally, it includes the Executive Directors, the members of Boards of Directors and the General Managers of the subsidiaries in the Group.

Salaries and other short-term benefits of key managing personnel amount to BGN 4,508 thousand (31 December 2014: BGN 4,561 thousand), including:

- \* current wages and salaries – BGN 4,195 thousand (2013: BGN 4,075 thousand);
- \* performance-based bonuses – BGN 313 thousand (2013: BGN 486 thousand).

#### **40. EVENTS AFTER THE REPORTING PERIOD**

On 9 January 2015 the Extraordinary General Meeting of Shareholders approved a contract for transformation through merger of Bulgarian Rose Sevtopolis AD in Sopharma AD. The entry in the Commercial Register has been conducted on 26 February 2015.

On 26 January 2015 was partially paid the installment of the share capital of the subsidiary Sopharma Kazakhstan at the amount of 74 thousand BGN (38 thousand EUR). The final payment of the capital of the newly established company is due on 31 May 2015.

The subsidiary of Sopharma Trading - Sofarmasi EOOD, established at the end of 2014, was registered in the Commercial Register on 19 January 2015.

#### ***The political crisis in Ukraine***

Starting from the end of 2013, including at the date of issue of these preliminary consolidated annual financial statements, Ukraine continues to be in a process of political crisis. As a result the exchange rate of the Ukrainian Hryvnia to the Bulgarian Lev has dropped by more than 74%, the interest rates have increased by 4% for the period until December 2014 compared to the rates at the end of 2013, and an inflation of about 24% on annual basis has been reported by the Ukrainian National Bank. The purchasing power of the population is in a downturn. This situation continues to have an effect on the pharmaceutical market but the products of the Group are in a comparatively favorable position by being in the moderate price segment (the refrain from purchase of medicinal products refers mostly to the high price segment).

In the current situation in Ukraine for the operations of the Group is essential the existence of a local company-distributor (OOO Sopharma Ukraine), which reduces the risk of uncollectible receivables from

third parties as the commercial policy of the subsidiary is primarily oriented towards the sale goods to other distributors after payment of their previous liabilities. The applied prices and trading terms aim at minimizing the negative impact of the crisis, while maintaining the market presence and positions of the Group. Currently, the difficulties are mainly related to sales in the eastern areas, which are difficult to conduct for the distributors and are in much smaller amounts. They account for about 20% of the total sales of the Group in Ukraine.