1. BACKGROUND INFORMATION ON THE GROUP

SOPHARMA GROUP (the Group) is comprised of the parent company and its twenty eight (31 December 2013: twenty eight) subsidiaries. In addition, the Group has investments in five joint ventures (31 December 2013: in two joint ventures). At the reporting date of the consolidated annual financial statements, the Group has one associate (31 December 2013: in one associate).

Parent company

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

The Company was registered with court on 15 November 1991 by 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 Region, 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, 23rd Pehoten Shipchenski Polk Blvd.;

  On 19 June 2014 Sopharma AD and Bulgarian Rose Sevtopolis AD concluded a contract for transformation through a merger (takeover), in accordance with Art. 262 of the Commercial Act, as a result of which the total assets of Bulgarian Rose Sevtopolis AD will be transferred to Sopharma AD and the latter will become its legal successor while Bulgarian Rose Sevtopolis AD will be wound-up without liquidation. On 26 February 2015, the Financial Supervision Commission (FSC) approved the merger of Bulgarian Rose Sevtopolis AD into Sopharma AD.;
- 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.;
- Elektroncommerce 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. 1/14.08.2007 of Sofia City Court, with a seat and address of management: Sofia, Izgrev Region, 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 No. 20120924105551/24.09.2012 of the Registry Agency, with a seat and address of management: Kazanluk, 110, 23rd Pehoten Shipchenski Polk Blvd.;
- Sopharma Poland Z.O.O., Poland, 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. Z.O.O., Poland – 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, Ukraine – a business entity registered in Ukraine by Decision No. 10691020000029051 of 7.08.2012 in the Unified State Register of Legal Entities and Physical Entities-Entrepreneurs, with a seat and address of management: Ukraine, Kiev, Oblonski Region, prospect Moskovskii No. 9, unit 4, floor 2, office 4-203;
- Sopharma USA, 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 06.11.2008 in the Delaware State Secretary Office, with a seat and address of management: USA, Delaware, Wilmington, New Castle Region, 1209 Oragne Str.;
- 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, Ukraine – a business entity registered in Ukraine by Decision No. 133/15.04.1994 of Uman City Court, with a seat and address of management: Ukraine, Cherkasy Province, Uman, 31, Leninski Iskri Str.;
- Ivančić and Sinovi d.o.o., Serbia – 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 SIA, Latvia – a business entity registered in Latvia by Decision No. 000302737 / 18.09.1991 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 / 24.09.2004 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 118, M. Bogdanomicha Str., office 303 – B;
- OOO Tabina, Belarus – a business entity registered in Belarus by Decision No. 1432 / 29.12.1999 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 57, Kuybisheva Str., ap.1;

- SOOO Brizpharm, Belarus – a business entity registered in the Minsk City Executive Committee in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 800007989 / 07.07.2009, with a seat and address of management: Belarus, Minsk, Esenina Str., d. 16, ap. 1H;
- ODO Alean, Belarus – a business entity registered in Belarus by Decision No. 100160720 / 29.05.2001 in the Minsk City Executive Committee in the Unified State Register of Legal Entities and Individual Entrepreneurs, with a seat and address of management: Belarus, Minsk, Tashkentskaya Str., d. 16, unit 1;
- OOO Farmacevt Plus, Belarus – a business entity registered by the Minsk City Executive Committee on 24.11.2000 / No 1348 in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 190174236, with a seat and address of management: Belarus, Minsk, 1 Tverdiy Pereulok, d. 7;
- UAB TBS Pharma, Lithuania – a business entity, registered by the Lithuanian Register of Legal Entities on 01.03.2013 / 303011389, with a seat and address of management: Lithuania, Vilnius, 8 Vytauto / 7 Liubarto Str., POB 08118;
- ODO Vestpharm, Belarus – a business entity registered in Belarus by Decision No. 590002202 of Grodno City Executive Committee, with a seat and address of management: Belarus, Grodno, Dombroskogo Str., d. 47, k. 3;
- OOO NPK Biotest, Belarus – a business entity registered in Belarus by Decision No. 48 / 24.07.1990 of Lenin District Council of People's Deputies, with a seat and address of management: Belarus, Grodno, 2, Grojskaya Styr.;
- ODO BelAgroMed, Belarus – a business entity registered in Belarus by Decision No. 009126 / 29.06.2001 of Grodno City Executive Committee, with a seat and address of management: Belarus, Grodno, 17 Sentyabrya Str.;
- TOO Sopharma Kazakhstan, Kazakhstan – a business entity registered in Kazakhstan by Decision No. 5286-1910-04-TOO / 06.11.2014 of the Ministry of Justice, Auezovski Region, with a seat and registered address: Kazakhstan, Almaty, Auezovski Region, Mamyr Microdistrict - 4, d. 190.

In 2014, the Group changed the status of ZAO Interpharm, Belarus, from 'a subsidiary' (2013 until 31 December 2014) to 'a joint venture'.

Joint ventures

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

- OOO Vivaton Plus, Belarus – a business entity registered in Belarus by Decision No. 590004353 of Grodno City Executive Committee, with a seat and address of management: Belarus, Grodno, Kletskova Pr., d. 13 B, office 2;
- OOO Med-dent, Belarus – a business entity registered in Belarus by Decision No. 0018240 / 11.03.2013 of the Department of Economy at the Bobruysk City Executive Committee, with a seat and address of management: Belarus, Mogilevsk District, Bobruysk, 120, K. Marx Str., office 4;
- BOOO SpetzApharmacia BOOO, Belarus – a business entity registered in Belarus by Decision No. 22-8 / 30.10.2000 of Mogilevsk District Executive Committee, with a seat and address of management: Belarus, Mogilevsk District, Bobruysk, 120, K. Marx Str., office 2;

- OOO Bellerophon, Belarus – a business entity registered in Belarus by Decision No. 1193 / 17.07.2003 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 5-45 Storojevskaya Str.;
- 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.

The joint venture Sopharma Zdrovit S.A., Poland, was deleted from the National Court Register of Poland on 25 February 2013.

Associates

At 31 December 2014, Group's associated company is Medica AD - a business entity registered in Bulgaria initially under Company File No. 99/1991 of Blagoevgard District Court, with a seat and address of management: Sofia, Oborishte Region, 82, Knyaz Alexander Dondukov Blvd.

The companies OOO Med-dent, Belarus, and BOOO SpetzApharmacia, Belarus, initially had the status of 'associates' (OOO Med-dent from 03.09.2013 to 17.12.2013 and BOOO SpetzApharmacia from 03.09.2013 to 20.01.2014) but subsequently the Group increased its share and their status was changed to 'joint ventures'.

In 2014 the Group acquired shares in the company OOO Bellerophon, Belarus, which initially had the status of 'an associate' (from 28.08.2014 to 27.11.2014) but subsequently it increased its share and the status of the company 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. Starting from November 2011, the shares of the company are being traded in the Warsaw Stock Exchange.

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

	%
Donev Investments 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 stated below:

Subsidiaries	**31.12.2014** ***Interest %***	**31.12.2013** ***Interest %***	***Date of acquisition of control***	***Date of disposal of control***
Companies in Bulgaria				
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 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	
Companies abroad				
Sopharma USA	100	100	25.04.1997	
Extab Corporation	80	80	05.08.2009	
Extab Pharma Limited **	80	80	05.08.2009	
Briz SIA	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	
Ivančić and Sinovi d.o.o.	51	51	10.04.2008	
Sopharma Warsaw SP. Z.O.O.	100	100	23.11.2010	
Sopharma Poland Z.O.O. – in liquidation	60	60	16.10.2003	
OOO Tabina **	58.86	47.29	08.04.2011	
ZAO Interpharm **	-	29.71	17.12.2011	31.12.2014
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 Farmacevt 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	

** efficient percentage of interest*
*** indirect interest*

- 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 agreement for control concluded between SOPHARMA AD and other shareholders;
- Phyto Palauzovo AD is a subsidiary through Bulgarian Rose Sevtopolis AD – Bulgarian Rose Sevtopolis AD holds 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 SIA, Latvia – Briz SIA holds 98.50% of the capital of SOOO Brititrade;
- OOO Tabina, Belarus, is a subsidiary through Briz SIA, Latvia – Briz SIA holds 89% of the capital of OOO Tabina;
- SOOO Brizpharm, Belarus, is a subsidiary through Briz SIA, Latvia – Briz SIA holds 59% of the capital of SOOO Brizpharm;
- ODO Alean, Belarus, is a subsidiary through Briz SIA, Latvia – Briz SIA holds 71% of the capital of ODO Alean;
- OOO Farmacevt Plus, Belarus, is a subsidiary through Briz SIA, Latvia – Briz SIA holds 51% of the capital of OOO Farmacevt Plus;
- UAB TBS Pharma, Lithuania, is a subsidiary through Briz SIA, Latvia – Briz SIA holds 51% of the capital of UAB TBS Pharma;
- ODO Vestpharm, Belarus, is a subsidiary through Briz SIA, Latvia – Briz SIA holds 90% of the capital of ODO Vestpharm;
- OOO NPK Biotest, Belarus, is a subsidiary through Briz SIA, Latvia – Briz SIA holds 70% of the capital of OOO NPK Biotest;
- ODO BelAgroMed, Belarus, is a subsidiary through Briz SIA, Latvia – Briz SIA 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 (securitisation 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, purchase, growing and trade in herbs and medicinal plants;
- PAO Vitamini, Ukraine – production and trade in pharmaceuticals;
- Ivančić and Sinovi d.o.o., Serbia – production and trade in pharmaceuticals;
- Sopharma Poland Z.O.O., Poland, in liquidation – market and public opinion research;
- Sopharma Warsaw SP. Z.O.O., Poland – market and public opinion research;
- OOO Sopharma Ukraine, Ukraine – trade in pharmaceuticals and market and public opinion research;
- Sopharma USA, 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 SIA, Latvia – trade in pharmaceuticals;
- SOOO Brititrade, Belarus – trade in pharmaceuticals;
- OOO Tabina, Belarus – trade in pharmaceuticals;
- ZAO Interpharm, Belarus – trade in pharmaceuticals;
- SOOO Brizpharm, Belarus – trade in pharmaceuticals;
- ODO Alean, Belarus – trade in pharmaceuticals;
- OOO Farmacevt Plus, Belarus – trade in pharmaceuticals;
- UAB TBS Pharma, Lithuania – trade in pharmaceuticals, production of finished drug forms and pharmaceutical products, research and development activities in the field of biotechnology;
- ODO Vestpharm, Belarus – retail trade in medicinal products and medical equipment;
- OOO NPK Biotest, Belarus – production of medicinal products on the basis of plant raw materials;
- ODO BelAgroMed, Belarus – retail trade in medicinal products and pharmaceuticals;
- TOO Sopharma Kazakhstan, Kazakhstan – trade in pharmaceuticals.

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 AD perform their activities in Bulgaria; Sopharma Poland Z.O.O. – in liquidation and Sopharma Warsaw SP. Z.O.O. operate in Poland, PAO Vitamini, OOO Sopharma Ukraine – in Ukraine, Ivančić and Sinovi d.o.o. – in Serbia, Briz SIA – in Latvia, SOOO Brititrade, OOO Tabina, ZAO Interpharm (until 31.12.2014), ODO Alean, SOOO Brizpharm, OOO

Farmacevt Plus, ODO Vestpharm, OOO NPK Biotest and ODO BelAgroMed – in Belarus, UAB TBS Pharma – in Lithuania, Extab Pharma Limited – in the United Kingdom, TOOO 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, Belarus, a joint venture through Briz SIA, Latvia – 50% interest jointly with Apteka Group Holding. The principal activities of the joint venture include trade in pharmaceuticals and food supplements. The company has been a joint venture for the Group since 20 December 2012.
- OOO Med-dent, Belarus, a joint venture through Briz SIA, Latvia – 50% interest jointly with a physical person. The principal activities of the joint venture include trade in pharmaceuticals and food supplements. The company has been a joint venture for the Group since 17 December 2013.
- BOOO SpetzApharmacia, Belarus, a joint venture through Briz SIA, Latvia – 50% interest jointly with a physical person. The principal activities of the joint venture include trade in pharmaceuticals and food supplements. The company has been a joint venture for the Group since 20 January 2014.
- OOO Bellerophon, Belarus, a joint venture through Briz SIA, Latvia – 50% interest jointly with a physical person. The principal activities of the joint venture include retail trade in pharmaceuticals, medical equipment and food supplements. The company has been a joint venture for the Group since 27 November 2014.
- ZAO Interpharm, Belarus, a joint venture through Briz SIA, Latvia – 50% interest jointly with a legal person. The principal activities of the joint venture include trade in pharmaceuticals and food supplements. The company has been a joint venture for the Group since 31 December 2014.
- The joint venture Sopharma Zdrovit S.A. was deleted from the National Court Register of Poland on 25 February 2013. The principal activities of the joint venture included research and development activities in the field of medical science and pharmacy, wholesale trade in pharmaceuticals.

At 31 December 2014, the interest of the Group in the associate Medica AD was 24.38%. The principal activities of the associate include production and trade in dressing and sanitary-hygienic materials, finished drug forms, products for dentistry and food supplements. The company has been a joint venture for the Group since 4 November 2014.

The companies OOO NPK Biotest, Belarus, and ODO BelAgroMed, Belarus, acquired by the Group in 2013, initially had the status of 'associates' respectively from 18 January 2013 to 2 September 2013 and from 18 January 2013 to 30 July 2013 but subsequently the Group obtained control on them and their status was changed to 'subsidiaries'.

The companies OOO Med-dent, Belarus, and BOOO SpetzApharmacia, Belarus, acquired by the Group in 2013, initially had the status of 'associates' respectively from 3 September 2013 to 17 December 2013 and from 3 September 2013 to 20 January 2014 but subsequently the Group increased its share and their status was changed to 'joint ventures'.

At the date of these consolidated financial statements, the average number of Group's personnel was 4,188 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:

Indicator	**2012**	**2013**	**2014**
GDP in million levs (Bulgaria)	80,044	80,282	82,164
Actual growth of GDP (Bulgaria)	0.50%	1.10%	1.70%
Year-end inflation (Bulgaria)	4.20%	-1.60%	-1.20%
Year-end inflation (Belarus)	21.70%	16.60%	18.30%
USD/BGN average for the year	1.5218	1.47362	1.47437
USD/BGN at year-end	1.4836	1.41902	1.60841
PLN/BGN average for the year	0.46772	0.466	0.4676
PLN/BGN at year-end	0.47926	0.47143	0.45376
RSD/BGN average for the year	0.0173	0.01729	0.01669
RSD/BGN at year-end	0.0172	0.01711	0.01617
UAH/BGN average for the year	0.19042	0.18425	0.12837
UAH/BGN at year-end	0.18561	0.17713	0.10169
GBP/BGN average for the year	2.41275	2.33839	2.42721
GBP/BGN at year-end	2.39406	2.33839	2.5001
EUR/BGN average for the year	1.95583	1.95583	1.95583
EUR/BGN at year-end	1.95583	1.95583	1.95583
LVL/BGN average for the year	2.80501	2.7882	-
LVL/BGN at year-end	2.80285	2.7841	-
1000 BYR/BGN average for the year	0.18249	0.16573	0.1441
1000 BYR/BGN at year-end	0.17256	0.14967	0.13554
LTL/BGN average for the year	0.56645	0.56645	0.56645
LTL/BGN at year-end	0.56645	0.56645	0.56645
KZT/BGN average for the year	-	-	0.00863
KZT/BGN at year-end	-	-	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 consolidated financial statements

The consolidated financial statements of SOPHARMA Group have been 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), which are effectively in force beginning from 1 January 2014 and have been accepted by the Commission of the European Union.

For the current financial year 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 2014, has caused changes to Group's accounting policies on the principles, rules and criteria with regard to the accounting for jointly controlled entities as well as to expanding the disclosures about the interests in subsidiaries, associates and joint ventures and about some other reporting items. *(Note 3, and Note20).*

The changes are resultant from the application of the following standards and interpretations:

- *IAS 27 (as revised in 2011) "Separate Financial Statements" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC – for 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 outlining the composition of, criteria about and technology for preparation of consolidated financial statements was entirely separated in a new standard – IFRS 10 "Consolidated Financial Statements". Thus, remaining in the standard are basically the accounting and measurement rules regarding *investments in subsidiaries, associates and joint ventures* at the level of separate financial statements of investors in their capacity as parent companies, investors with significant influence and venturers in joint ventures as well as the disclosures specific for this type of financial statements.

- *IAS 28 (as revised in 2011) "Investments in Associates and Joint Ventures" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC – for mandatory application in the European Union for annual periods beginning on or after 1 January 2014).* The standard has a changed title and scope and outlines the application of the equity method in consolidated financial statements both for investments in associates and in joint ventures, which were previously included in the scope of IAS 31 "Interests in Joint Ventures", and starting from 1 January 2013 – in line with the new IFRS 11.

- *IFRS 10 "Consolidated Financial Statements" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC – for mandatory application in the European Union for annual periods beginning on or after 1 January 2014). Transitional guidance (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC as of 1 January 2014) – regarding the first-time application of this standard.* This standard replaces a significant part of the old IAS 27 ("Consolidated and Separate Financial Statements") and SIC-12 ("Consolidation - Special Purpose Entities"). Its main objective is to establish improved principles and methods for the preparation and presentation of financial statements when an entity controls one or more other entities. It gives a new definition for the term 'control' as comprising three elements, establishes control as the only basis for consolidation and provides more detailed rules and guidance for identifying existing relationships of control. The standard also sets out the main mandatory rules for the technology to prepare consolidated financial statements.

- *IFRS 11 "Joint Arrangements" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC – for mandatory application in the European Union for annual periods beginning* *on or after 1 January 2014). Transitional guidance (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC as of 1 January 2014) – regarding the first-time application of this standard.* 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 – for mandatory application in the European Union for annual periods beginning on or after 1 January 2014). Transitional guidance (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC as of 1 January 2014) – regarding the first-time application of this standard.* This standard introduces a new frame of requirements to the scope of the disclosures in the consolidated financial statements regarding the interest of the reporting entity in other companies and entities, which are subsidiaries, associates, joint ventures or unconsolidated structured entities, including to the content of the information in order to ensure an option for a reasonable evaluation of the effects and the risks of those interests.
- *IAS 32 (amended) "Financial Instruments: Presentation" (in force for annual periods beginning on or after 1 January 2014 – endorsed by EC) – regarding the offsetting of financial assets and financial liabilities.* These amendments relate to a clarification as to the application of the rules on offsetting financial instruments. They are mainly in four directions: (a) clarification of the meaning of 'current legally enforceable right of set-off'; (b) the application of the simultaneous realisation and settlement criterion; (c) offsetting of cash provided as collateral; (d) the unit to account for the application of the offsetting requirements.
- *IAS 36 (amended) "Impairment of Assets" (in force for annual periods beginning on or after 1 January 2014 – endorsed by EC) – regarding recoverable amount disclosures for non-financial assets.* This amendment relates to the necessity to decrease particular disclosures regarding recoverable amount under IAS 36 in connection with the requirements of IFRS 13 when applying methods for calculating the recoverable amount of non-financial assets at fair value less costs of disposal.

With regard to the other standards and interpretations, stated below, the management of the parent company has assessed their possible effect and has concluded that they would not have an impact on the accounting policies and respectively, on the assets, liabilities, transactions and performance due to the fact that the Group does not possess/operate such items and/or does not perform such deals and transactions:

- *IAS 39 (amended) "Financial Instruments: Recognition and Measurement" (in force for annual periods beginning on or after 1 January 2014 – endorsed by EC) – regarding novation of* *derivatives and continuation of hedge accounting.* This amendment has been introduced in response to legislative changes across certain jurisdictions whereby entities that use over-the-counter derivatives are required to novate them to a central counterparty (a clearing organisation/agency) in order that continuing designation to hedge accounting is allowed.

- *IFRIC 21 "Levies" (in force for annual periods beginning on or after 1 January 2014 – endorsed by EC) – regarding levies imposed by a government.* This interpretation provides guidance about the criteria for recognising a liability to pay a levy (charge, tax or other similar amount) imposed by the government in accordance with laws and regulations that are outside the scope of IAS 12.

At the date when these consolidated financial statements have been approved for issue, there are several new standards and interpretations as well as amended standards and interpretations, issued but not yet in force for annual periods beginning on or after 1 January 2014, which have not been adopted for early application. The management of the parent company has concluded that out of them the following are likely to have a potential impact in the future for changes in the accounting policies and the classification and values of reporting items in the consolidated financial statements of the Group for subsequent periods, namely:

- *IFRS 7 (amended) "Financial Instruments: Disclosures" – regarding the relief from the requirement to restate comparatives and the related thereto disclosures when applying IFRS 9 (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* The amendment is related to a relief from the requirement to restate the comparative financial statements and the option to present modified disclosures on the transition from IAS 39 to IFRS 9 (when this happens) depending on the date of the standard application by the Company and whether it chooses the option to restate prior periods;

- *IFRS 9 "Financial Instruments" (effective date – deferred to 1 January 2015 – not endorsed by EC).* This is a new standard for financial instruments. It is ultimately intended to replace IAS 39 in its entirety. The replacement project consists of three phases: <u>Phase 1</u>: Classification and measurement of financial assets and financial liabilities; <u>Phase 2</u>: Hedge accounting; and <u>Phase 3</u>: Impairment methodology. At present, IFRS 9 has been issued four times: in November 2009, October 2010, November 2013 <u>and finally in July 2014</u>. <u>Phase 1</u>: Classification and measurement of financial assets and financial liabilities – by the first issues it replaces those parts of IAS 39 that refer to the classification and measurement of financial instruments. It sets out new principles, rules and criteria for classification, measurement and derecognition of financial assets and liabilities, including hybrid contracts. IFRS 9 introduces a requirement that financial assets are to be classified based on entity’s business model for their management and on the contractual cash flow characteristics of the respective assets. It establishes two primary measurement categories for financial assets: amortised cost and fair value. The new rules will lead to changes mainly in the accounting for financial assets as debt instruments and financial liabilities designated at fair value through current profit or loss (for credit risk). A specific feature of the classification and measurement model for financial assets at fair value is the addition of a new category – fair value through other comprehensive income (for certain debt and capital instruments). <u>Phase 2</u>: Hedge accounting – a new chapter to IFRS 9 has been added for this purpose whereby a new hedge accounting model is introduced that permits consistent and complete reflection of all financial and non-financial risk exposures, subject to hedge transactions, and also, better presentation of risk management activities in the financial statements and especially, their relation to hedge transactions, and the scope and type of documentation to be used. In addition, the requirements to the structure, contents and presentation approach for hedge disclosures have been improved. Furthermore, an option is introduced fair value changes of own debts, measured at fair value through profit or loss, in the part thereof due to changes in the entity's own credit quality, to be presented in other comprehensive income rather than in profit or loss. The entities that apply IAS 39 will be able to apply this option but they will also be able to continue applying the requirements for fair value hedge accounting of an interest rate exposure under IAS 39 even when IFRS becomes effective. Phase 3: Impairment methodology – the amendment introduces the 'expected loss' impairment model whereunder all expected credit losses shall be recognised over the lifetime of an amortisable financial instrument and not only if a trigger event has occurred as per the current model under IAS 39. With the amendments to IFRS 9 of July 2014 the standard is deemed to be final and the date of its coming into force has been set to 1 January 2018.

- *IFRS 10 (amended) "Consolidated Financial Statements" and IAS 28 (amended) "Investments in Associates and Joint Ventures" – regarding the sale or contribution of assets between an investor and its associate or joint venture (in force for annual periods beginning on or after 1 January 2016 – not endorsed by EC).* This amendment arises as a result of the existing inconsistency between the requirements and rules of IFRS 10 and IAS 28 (as revised in 2011) regarding transactions between an investor and its associate or joint venture. It basically clarifies that in transactions, representing in substance a sale or contribution of an aggregate of assets but not constituting a business, gains or losses are recognised partially to the extent attributable to other equity holders, while in transactions, representing in substance a sale or contribution of assets but constituting a business within the meaning of IFRS 3 – gains or losses are recognised in full.

- *IFRS 11 "Joint Arrangements" (in force for annual periods beginning on or after 1 January 2016 – not endorsed by EC).*This amendment clarifies mainly that when an investor acquires interest in a joint operation, which in substance constitutes a business, this requires the application of the requirements and rules of IFRS 3 for business combinations.

- *IFRS 15 "Revenue from Contracts with Customers" (in force for annual periods beginning on or after 1 January 2017 – not endorsed by EC).* This is an entirely new standard. It introduces a single complex of principles, rules and approaches for recognition, accounting for and disclosure of information about the nature, amount, timing and uncertainties related to revenue and cash flows arising from contracts with customers. It will supersede all current standards related to revenue recognition, mainly IAS 18 and IAS 11. The main principle of the new standard is to provide a stepwise model whereby revenue amount and timing reflect the obligation characteristics and performance of each of the parties to the transaction. The key components include: (a) contracts with customers that are commercial in their substance and assessment of the probability for collecting contractual amounts by the entity in line with the terms and conditions of the particular contract; (b) identification of the separate performance obligations under the contract for providing of a good or service, that is distinct from the other assumed contractual commitments/promises, from which the customer would obtain benefits; (c) transaction price determination – the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer – special attention is paid to the variable component of price, the financing component, as well as the non-cash consideration; (d) allocation of the transaction price to separate performance obligations under the contract – usually on a stand-alone selling price of each component; and (e) the point of time or the period of revenue recognition – when an entity satisfies a performance obligation by transferring control of a promised good or service to the customer, which could occur at a point in time or over time. The standard allows a full retrospective approach or a modified retrospective approach from the beginning of the current reporting period with particular disclosures for prior periods.

- *IAS 1 (amended) "Presentation of Financial Statements" – regarding disclosure initiative (in force for annual periods beginning on or after 1 January 2016 – not endorsed by EC);* This amendment is an important clarification of the standard itself with a focus on preparers of financial statements when they need to exercise judgment for the materiality of particular information and its presentation in the preparation of financial statements, i.e. the including or not of specific information, presentation approach for the statement of financial position and the statement of comprehensive income – aggregation or separate presentation, approach in the arrangement of notes as well as the presentation of some particular items in the financial statements.
- *IAS 16 (amended) "Property, Plant and Equipment" and IAS 41 (amended) "Agriculture" – regarding bearer plants (in force for annual periods beginning on or after 1 January 2016 – not endorsed by EC).* This amendment introduces a measurement and accounting approach for fruit-bearing plants (bearer plants) that applies the principle for property, plant and equipment (PPE) used in IAS 16 rather than the approach prescribed by IAS 41 (i.e. applying the cost model with an option to choose the revaluation model after reaching maturity) because their involvement in agricultural produce is similar to that of PPE in the industrial production process.
- *IAS 27 (amended) "Separate Financial Statements" – regarding the equity method in separate financial statements (in force for annual periods beginning on or after 1 January 2016 – not endorsed by EC).* This amendment restores the option of IAS 27 that allows entities to use the equity method to account for and measure the investments in subsidiaries, associates and joint ventures in their separate financial statements.
- *Annual Improvements to IFRSs 2010-2012 Cycle (December 2013) – improvements to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38 (in force for annual periods beginning on or after 1 July 2014 – endorsed by EC).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items or transactions: (a) change in the definition of 'vesting conditions' and 'market conditions' and add of separate definitions for 'performance condition' and 'service condition' (IFRS 2); (b) clarification on the accounting for a contingent consideration in a business combination that meets the definition

for 'financial instrument' (as a financial liability or equity instrument) and its measurement at fair value at the end of each reporting period, including the effects of that in the statement of comprehensive income (IFRS 3, IFRS 9, IAS 39 and IAS 37); (c) requirement for disclosure on the criteria applied in the aggregation of operating segments for segment reporting purposes (IFRS 8); (d) additional clarification on the adjustment technique regarding the gross carrying amount and accumulated depreciation in cases of revalued assets whereas setting a requirement for consistency with the revaluation approach of the carrying amount of the respective asset (IAS 16, IAS 38); (e) clarification that an entity providing key management personnel services to another entity it is also a related party thereto (IAS 24);

- *Annual Improvements to IFRSs 2012-2014 Cycle (September 2014) – improvements to IFRS 5, IFRS 7, IAS 19, IAS 34 (in force for annual periods beginning on or after 1 January 2016 – not endorsed by EC).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items or transactions: (1) additional clarifications that an entity may reclassify an asset from 'held for sale' to 'held for distribution to owners' (and vice versa) and this does not change the initial plan of disposal and the date of classification as per IFRS 5; (2) additional guidance to clarify whether a servicing contract for a fully derecognised transferred financial asset constitutes in substance a continuing involvement in a transfer for the purposes of determining the scope of the disclosures required, as well as clarification on the applicability of the disclosure requirements regarding the offsetting of financial assets and financial liabilities in condensed interim financial statements (IFRS 7); (3) clarification regarding the requirement of the standard that high quality corporate bonds, which are used to estimate the discount rate for post-employment benefits, should be issued in the same currency as the benefits to be paid to the respective employees, i.e. the depth of the market should be assessed at currency level (IAS 19); and (4) clarification on the disclosure requirement 'elsewhere in the interim report', i.e. that this means the presentation of information in any place in the interim financial statements but also presentation elsewhere in the greater interim report, including interim report of the management, provided that a cross-reference exists between the interim financial statement and wherever the disclosures are included (IAS 34).

Additionally, in regard of the stated below new standards, amended/revised standards and new interpretations that have been issued but not yet in force for annual periods beginning on or after 1 January 2013, the management of the parent company has concluded that the following would not have a potential impact for changes in the accounting policies, the classification and values of reporting items in the consolidated financial statements of the Group, namely:

- *IFRS 10 (amended) "Consolidated Financial Statements", IFRS 12 (amended) "Disclosure of Interests in Other Entities" and IAS 28 (amended) "Investments in Associates and Joint Ventures" – regarding investment entities (in force for annual periods beginning on or after 1 January 2016 – not endorsed by EC).* This amendment addresses issues that have arisen in relation to the exemption from consolidation for investment entities, namely: (1) whether an investment entity should account for a subsidiary at fair value if the subsidiary provides investment services to third parties; (2) the interaction between amendments for investment entities and the exemption from consolidation under IFRS 10; (3) whether a non-investment entity should unwind the fair value accounting of its joint ventures or associates that are investment entities.

- *IFRS 14 "Regulatory Deferral Accounts" (in force for annual periods beginning on or after 1 January 2016 – not endorsed by EC).* This is a new standard with status of an interim standard, applicable only for entities, which will adopt IFRS for the first time as a reporting framework, and it is effective until the completion of the project for a new comprehensive standard intended to address such type of rate-regulated activities. It is not applied by entities that already apply IFRS. The basic rules of the standard set out that the entities: (a) may recognise and continue the presentation in their IFRS financial statements regulatory deferral account balances (assets or liabilities) but only if these balances have already been recognised under the previously applied accounting standards and adopted accounting policies; (b) the regulatory deferral accounts should be presented separately in the statement of financial position while their movements should be presented as separate line items in the statement of comprehensive income; and (c) specific disclosures are required in relation with the nature, risks and effects of rate-regulated activities and the recognised deferral account balances.
- *IAS 16 (amended) "Property, Plant and Equipment" and IAS 38 (amended) "Intangible Assets" – regarding the acceptable methods of depreciation and amortisation (in force for annual periods beginning on or after 1 January 2016 – not endorsed by EC).* This clarification specifies that the method for calculating the depreciation or amortisation of an asset, based on a ratio to expected revenue, in the generation of which it is involved, is not regarded an appropriate method for measuring the economic benefits consumed as a result of the use of this asset (allowed only in very rare cases as an exception).
- *IAS 19 (as revised in 2011) "Employee Benefits" (in force for annual periods beginning on or after 1 July 2014 – endorsed by EC).* This amendment relates to clarification regarding the treatment of contributions from employees or third parties to defined benefit plans in accordance with the formal terms of the respective plan. The change sets out that these contributions shall be treated as either a reduction in service costs or an effect in the remeasurements of the net liability (asset) of the plan depending on whether the contributions are related to the service or not.
- *Annual Improvements to IFRSs 2011-2013 Cycle (December 2013) – improvements to IFRS 1, IFRS 3, IFRS 13, IAS 40 (in force for annual periods beginning on or after 1 July 2014 – endorsed by EC as of the same date).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items or transactions: (a) clarification that a first-time adopter of IFRS may apply standards that are not yet effective provided that the standards themselves permit early application (IFRS 1); (b) clarification that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself (IFRS 3); (c) clarification regarding the scope of

contracts that fall within the scope of the exception for a group of financial assets and financial liabilities with offsetting positions in market and credit risk (IFRS 13); (d) clarification that in the treatment of a transaction, which simultaneously meets the criteria of IFRS 3 and refers to investment properties under IAS 40, requires the separate application of both standards independently of each other (IAS 40).

The consolidated financial statements have been prepared on a historical cost basis except for: a/ property, plant and equipment, which are measured at revalued amount; and b/ investment property and available-for-sale financial instruments, which are measured at their fair value at the date of the consolidated statement of financial position. The figures of the companies, consolidated in these financial statements, which operate in the environment of hyperinflationary economy, have been restated for the effects of hyperinflation with the respective inflation index until 2013. In 2014 there were no companies of the Group operating in the environment of hyperinflationary economy *(Notes 2.6, 2.10, 2.12, 2.16).*

The Bulgarian subsidiary and associated companies of the Group maintain their accounting books in Bulgarian Lev (BGN), which is accepted as being their functional and presentation currency. The subsidiaries, associates and joint ventures abroad organise their accounting and reporting in accordance with the requirements of the respective local legislation (OOO Sopharma Ukraine and PAO Vitamini – Ukraine, Ivančić and Sinovi d.o.o. – Serbia, Extab Pharma Limited – United Kingdom, Briz SIA – Latvia, SOOO Brititrade, OOO Tabina, SOOO Brizpharm, OOO Farmacevt Plus, ODO Alean, OOO NPK Biotest, ODO BelAgroMed, ODO Vestpharm – Belarus and TOO Sopharma Kazakhstan – Kazakhstan, the joint ventures OOO Vivaton Plus, OOO Med-dent, BOOO SpetzApharmacia, OOO Bellerophon and ZAO Interpharm – Belarus, UAB TBS Pharma – Lithuania, Sopharma USA and Extab Corporation – USA legislation and Sopharma Poland Z.O.O. – in liquidation, Sopharma Warsaw SP. Z.O.O. and the joint venture Sopharma Zdrovit S.A. – deleted from the National Court Register of Poland on 25 February 2013 – the Polish legislation) and keep their accounting ledgers in the respective local currency – Ukraine Hryvnia (UAH), Serbian Dinar (RSD), Euro (EUR), British Pound (GBP), Belarusian Ruble (BYR), US Dollar (USD), Polish Zloty (PLN), Kazakhstan Tenge (KZT) and Lithuanian Lit (LTL).

The data in the consolidated financial statements and the notes thereto are presented in thousand Bulgarian Levs (BGN’000), unless explicitly stated otherwise, and the Bulgarian Lev is accepted as the reporting and presentation currency of the Group. According to the policies of the Group, the financial statements of the Group companies abroad are restated from the local currency to Bulgarian Levs for the purposes of the consolidated financial statements *(Note 2.5).* Until year 2013, inclusive, the financial statements of the Group companies, having a currency in hyperinflationary economy as a functional currency, were restated with an inflation index in order to be expressed in measurement units valid at the end of the reporting period and after that they were restated from the local currency to Bulgarian Lev for the purposes of the Group consolidation.

The presentation of the consolidated financial statements 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 statements, 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 statements, 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 statements, are disclosed in *Note 2.33, Note 17, Note 18, Note 19 and Note 21.*

2.2. Definitions

Parent company

This is a company that has control over one or more other companies, in which it has invested. Having control means than the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The parent company is SOPHARMA AD, Bulgaria *(Note 1).*

Subsidiary

A subsidiary is a company, or another entity, that is controlled directly or indirectly by the parent company.

The subsidiary companies 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 subsidiary companies are presented in *Note 1.2.*

Joint venture

A joint venture is a company, or another entity, established by virtue of a contractual arrangement between the parent company as an investor and one or more or more other parties (companies) that start a common business undertaking, and on which the joint venturers (including the parent, which also has such a status) have a joint control. Joint control exists when it is contractually agreed that that the strategic financial and operating decisions, relating to the joint venture, shall require mandatory unanimous consent of the joint venturers. The latter have rights to the net assets of the joint venture.

The joint venture is included in the consolidated financial statements of the Group by applying the equity method – as from the date on which the joint control has been acquired by the venturer (the parent company) and its consolidation under this method is ceased when the joint venture is transformed into a subsidiary or when the joint control is transferred from the venturer to third parties.

The joint ventures are: OOO Vivaton Plus, OOO Med-dent, OOO Bellerophon, BOOO SpetzApharmacia, and ZAO Interpharm – Belarus, and Sopharma Zdrovit S.A. – Poland (until 25 February 2013) *(Note 1.2).*

Associate

An associate 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 operating policies of the investee but is 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 associate is included in the consolidated financial statements 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 associate is transformed into a subsidiary or when it is accepted that the significant influence is transferred from the investor to third parties.

Medica AD is an associate *(Note 1.2).*

2.3. Consolidation principles

The consolidated financial statements include the financial statements of the parent company and the subsidiaries, the joint ventures and the associates, prepared as at 31 December, which is the end date of the Group's financial year. The 'economic entity' assumption has been applied in the consolidation whereas 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 statements of the subsidiaries, the joint ventures and the associates have been prepared for the same reporting period as the parent company using uniform accounting policies.

2.3.1. Consolidation of subsidiaries

In the consolidated financial statements, 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 unrealised 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'. The 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 (crystallised) liabilities of the respective subsidiaries assumed, determined (based on the share) 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 recognised as current expenses when incurred except for the issue costs of debt or equity instruments, which are recognised as equity components.

All identifiable assets acquired, liabilities and contingent (crystallised) liabilities assumed in the business combination are measured initially at their fair values at the date of exchange. Any excess of the aggregate consideration transferred (measured at fair value), the amount of non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the acquiree's previously held equity, over the acquired identifiable assets and assumed liabilities of the acquirer, is treated and recognised 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 recognised immediately in the consolidated statement of comprehensive income of the Group in the item 'gains/(losses) on acquisition/(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 recognised in the current profit or loss of the Group, respectively in 'finance income' and 'finance costs' or 'gains/(losses) from associates and joint ventures', and 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 derecognised at their carrying amounts at the date when control is lost;
- The non-controlling interest in the subsidiary is derecognised at carrying amount 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 lost of control is recognised;
- All components of equity, representing unrealised 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 recognised in the consolidated statement of comprehensive income;
- The remaining shares held that form investments in associates, joint ventures 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 Note 2.15).*

The acquisition (purchase-and-sale) method is applied also in transactions of uniting and/or restructuring of entities under a common control with companies of the Group, provided that 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 holders of the common equity 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 amount of net assets of the subsidiary is also directly recognised in the consolidated statement of changes in equity, usually to the 'retained earnings' reserve.

When the Group ceases to have control, joint 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 amount recognised in profit or loss. Respectively, any amounts previously recognised 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, joint venture or associate).

2.3.5. Consolidation of associates and joint ventures

Associates and joint ventures are included in the consolidated financial statements 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 associate or joint venture. Group's investment in an associate or joint venture includes also the goodwill identified on their acquisition net of any recognised impairment.

The post-acquisition gains or losses for the Group (through the parent company) from associates and joint ventures for the respective reporting period represent its share in the net (post-tax) financial results of their business activities for the period, which share is recognised 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 associates and joint ventures is also recognised 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 recognises its share in the losses of associates and joint ventures up to the amount of its investment, including the granted internal loans, unless it has assumed certain obligations or payments on behalf of the associate or joint venture.

The internal accounts and balances between the Group and associates and joint ventures are not eliminated. The unrealised gains or losses from transactions between them are eliminated to the percentage of Group's interest in the associates and joint ventures by also making tests 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 these consolidated financial statements, the Group presents comparative information for one prior year except for the statement of financial position, which includes two prior years.

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

Retrospective restatements and reclassifications of the comparative information for 2013 were made in 2014.The grounds for these restatements and reclassifications are as follows:

(a) the amended requirements of the new IFRS 11 regarding the way to account for investments in joint ventures;

(b) the adopted new approach of calculating the work in progress cost of the parent company.

The effects of these changes are stated as a change in the accounting policy by applying the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" for retrospective restatement and presentation *(Note 3).*

The management of the Group has assessed the materiality of these changes for the overall presentation of the information and has concluded that it is necessary a third statement of financial position to be prepared and presented.

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 Bulgarian Lev. The Bulgarian Lev is fixed to the Euro, under the BNB Act, 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 a 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. 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 recognised 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 Z.O.O. – in liquidation, Sopharma Warsaw SP. Z.O.O. and Sopharma Zdrovit SA – wound-up through liquidation on 25 February 2013) is the Polish Zloty, of the subsidiary TOO Sopharma Kazakhstak – the Kazakstan Tenge, of the subsidiaries in Ukraine (PAO Vitamini, OOO Sopharma Ukraine) – the Ukrainian Hryvnia, of the subsidiary in Serbia (Ivančić and Sinovi d.o.o.) – the Serbian Dinar, of the subsidiary in Latvia (Briz SIA) – the Euro, of the subsidiaries in Belarus (SOOO Brititrade, OOO Tabina, ODO Alean, SOOO Brizpharm, OOO Farmacevt Plus, ODO Vestpharm, OOO NPK Biotest, ODO BelAgroMed) – the Belarusian Ruble, of the subsidiary Extab Pharma Limited (United Kingdom) – the British Pound, of the companies in USA (Sopharma USA and Extab Corporation) – the US Dollar and the subsidiary in Lithuania (UAB TBS Pharma) – the Lithuanian Lit.

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

(a) all assets and liabilities are restated to the currency of the Group by applying the closing exchange rate of the local currency thereto 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 statements are being restated due to hyperinflation *(Note 2.6);*

(c) all exchange differences resulting from the restatements are recognised and presented as a separate component of equity in the consolidated statement of financial position, net of deferred tax effects – 'translation of foreign operations reserve', 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 recognised 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 restated to the presentation currency at closing exchange rate.

2.6. Restatement of figures in the financial statements of Group companies operating in the environment of hyperinflation (restatements for hyperinflationary economies)

Until 2013, inclusive, the figures in the financial statements of subsidiaries operating in hyperinflationary economies were restated on the basis of the general price index to the measuring unit valid at the end of the reporting period with the aim to reflect the changes in the purchasing power of the money for the period and were subsequently translated to the presentation currency of the Group.

Monetary items in the statement of financial position as at 31 December 2013, which included cash and cash equivalents as well as items that would be settled in cash and cash equivalents, were not restated for the effects of hyperinflation. All other assets and liabilities, such as: property, plant and equipment; intangible assets; investments, inventories, goodwill as well as equity components, are non-monetary items in the statement of financial position for the purposes of restatements for the effects of hyperinflation. Non-monetary items, presented at current amounts at 31 December 2013, were not restated with an inflation index. All other non-monetary items, measured at cost or at cost less accumulated depreciation, were restated for the effects of hyperinflation by using the general price index – from the transaction (acquisition) date to 31 December 2013. Non-monetary items, carried at current amounts at dates other than the acquisition date (revalued amounts) or the end of the reporting period, were restated from the date of revaluation to 31 December 2013. The restated inflated amount of a non-monetary item was reduced, in accordance with the appropriate IFRS, when this amount exceeded the recoverable amount of the non-monetary item.

All equity components, except for accumulated profits and all revaluation reserves, were restated for the effects of hyperinflation by applying a general price index – from the dates of contribution or arising of the respective components to 31 December 2013.

Al equity components, except for accumulated profits and all revaluation reserves, have been restated in order to reflect the effects of hyperinflation by using the general price index from the date of origination of the respective component till the end of year 2013 and after this date, no companies of the Group operate in hyperinflationary economies.

The gain or loss on the net monetary position for 2013, reflecting the effects of restatements for hyperinflation of non-monetary items and items in the statement of comprehensive income, were presented in the consolidated statement of comprehensive income (within profit or loss) in the item 'gain or loss on net monetary position from restatements for hyperinflationary economies'.

2.7. Revenue

Revenue in the Group is recognised 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 4, 5 and 12*.

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

Upon rendering of services, revenue is recognised 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 recognised 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 statements.

Upon sale on an instalment plan, revenue is recognised 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 fair value measurement of available-for-sale investments in the acquisition of a subsidiary performed 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 recognised 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 Framework and IFRS themselves).

Deferred expenses are put off and recognised 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 expenses under loans received, bank fees and charges under loans and guarantees, foreign exchange net loss from loans in foreign currencies, expenses/losses from investments in available-for-sale securities, expenses on debt settlement transactions, loss on fair value measurement of available-for-sale investments in the acquisition of a subsidiary performed in stages.

2.9. Mandatory 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 recognised 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 statements at revalued amount less the accumulated depreciation and impairment losses in value.

Initial acquisition

Upon their initial acquisition, property, plant and equipment are valued at acquisition cost (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, expenses on capitalised interest for qualifying assets, 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 amounts 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 time 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.

The revaluation of property, plant and equipment is accepted to 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 recognised as current expenses as incurred. Subsequent costs 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 capitalised in the carrying amount of the respective asset whereas the residual useful life is reviewed at the capitalisation date. At the same time, the non-depreciated part of the replaced components is derecognised from the carrying amount of the assets and is recognised 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;
- installations – 5-25 years;
- machinery and equipment – 7-25 years;
- computers and mobile devices – 2-5 years;
- motor vehicles – 7-17 years;
- servers and systems – 4-12 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 amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount might permanently differ from their recoverable amount. If any indications exist that the estimated recoverable amount of an asset is lower than its carrying amount, 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 recognised 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)

Tangible fixed assets are derecognised 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 amount of the asset at the date of sale. They are stated net under 'other operating income/(losses), net' on the face of the consolidated statement of comprehensive income (within profit or loss for the year). The part of 'revaluation reserve' component attributable to the sold asset is directly transferred to 'retained earnings' component in the consolidated statement of changes in equity.

2.11. Biological assets

Biological assets are measured at fair value less the estimated costs to sell. They are comprised of perennial plants.

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 recognised 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 Group's share in the net identifiable assets of the acquired company at the date of acquisition (the business combination). Goodwill is initially measured in the consolidated financial statements at acquisition cost (cost) and subsequently – at cost less accumulated impairment losses. Goodwill is not amortised.

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 a joint venture or an associate (entity) is incorporated in the total amount of the investment and is stated in the group of 'investments in joint ventures' or respectively 'investments in associates'.

The goodwill on the acquisition of joint ventures and associates (entities) is tested as part of the total balance (amount) of the investment. The individually recognised 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 amount of the goodwill relating to the entity sold (disposed of).

On the realisation of a particular business combination, each recognised 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 'impairment of non-current assets'.

Other intangible assets

Intangible assets are stated in the consolidated financial statements at acquisition cost (cost) less accumulated amortisation 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 end of the current reporting period. Intangible assets include mainly rights on intellectual property and software.

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

The carrying amounts of all intangible assets (including goodwill) of Group companies, operating in the environment of hyperinflationary economies, initially measured at cost less accumulated depreciation (impairment), are restated for the effects of hyperinflation by applying a general price index from the transaction (acquisition) date or from the date of last revaluation of assets till the end of the reporting period in which hyperinflation has been registered.
The carrying amount of the intangible assets is subject to review for impairment when events or changes in the circumstances indicate that the carrying amount might exceed their recoverable amount. Then impairment is recognised as an amortisation expense in the consolidated statement of comprehensive income (within profit or loss for the year).

Intangible assets are derecognised 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 amount of the asset at the date of sale. They are stated net under 'other operating income/(losses), net' on the face of 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 recognised 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 derecognised from the consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. Gains or losses arising from the disposal of investment property are determined as the difference between the net disposal proceeds and the carrying amount of the asset at the disposal date. 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 recognised 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 amount 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 associates and joint ventures

Long-term investments, representing shares in associates and joint ventures, are presented in the consolidated financial statements under the equity method – value that includes the acquisition cost 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 joint ventures and associates after the dates of their acquisition.

The share of profits and losses after the date of acquisition of an associate and a joint venture 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 associates and joint ventures held by the Group together with the included goodwill are subject to review for impairment at the date of the financial statements. 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 'profits/(losses) from associates and joint ventures'.

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

Investments in associates and joint ventures are derecognised when the rights related thereto are transferred to third parties as a result of occurrence of legal rights for that and thus the significant influence over or joint control of the economic benefits from the investments is being lost. The income from their sale is presented in 'profits/(losses) from associates 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 in the capital of other companies (minority interest), held for a long term.

Initial measurement

Available-for-sale investments (financial assets) are initially recognised at cost, being the fair value of the consideration given including the direct expenses associated with the investment (financial asset) acquisition *(Note 2.26)*.

Subsequent measurement

The available-for-sale investments (financial assets), held by the Group, are subsequently measured at fair value *(Note 2.32)* with the assistance of an independent certified 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 recognised in the consolidated statement of comprehensive income (within profit or loss for the year) on disposal (sale) of the respective investment by being stated as 'finance income' or 'finance costs'.

Dividend income related with long-term investments (financial assets) representing shares in other companies (non-controlling interest) is recognised as current income and presented in the consolidated statement of comprehensive income (within profit or loss for the year) within the item 'finance income'.

When shares are written-off due to sale, the Company uses the method of weighted average price determined at the end of the month in which write-off is made.

Any purchase or sale of available-for-sale investments (financial assets) is recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

The available-for-sale investments (financial assets) are reviewed at the end of each reporting period and if conditions for permanent impairment are identified, the latter is recognised 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 amount and the recoverable value of the investment and is recognised 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 valued in the consolidated financial statements as follows:

- raw materials, materials and goods – at the lower of acquisition 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 realisable value;
- finished products, semi-finished products and work in progress – at the lower of production cost and net realisable value.

Expenses incurred in bringing a certain product within inventories to its present condition and location, are included in the acquisition cost (cost) as follows:

- raw materials, materials 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, semi-finished products and work in progress – all necessary expenses on production that constitute the production cost, which includes the cost of direct materials and labour and the attributable proportion of production overheads (both variable and fixed), but excluding administrative expenses, exchange rate gains and losses and borrowing costs.

The inclusion of fixed production overheads in the production cost of finished products, semi-finished products and work in progress 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 – the standard rate of man-hours of directly engaged staff in the production of the particular unit;
- for production of infusion solutions – quantity of manufactured finished products;

- for production of plastic medical disposable products – planned cost of manufactured finished products.

Starting from the beginning of 2014, the parent company applies 'standard production cost' for current valuation of finished products, semi-finished products and work in progress, and respectively, 'standard acquisition cost' for basic raw materials and other production materials. At the end of each reporting period the management performs analysis of factors leading to variances on: (a) the supply of raw materials and other production materials – by comparing the actual and standard acquisition costs, and (b) the production of finished products, semi-finished products and work in progress – by comparing the actual and standard production costs. Where necessary, the value of inventories, included in the financial statements, is adjusted. On the basis of research on the good reporting practices in the pharmaceutical industry, the Company has adopted materiality thresholds regarding: (a) variance on supply of raw materials and other production materials – up to 2%, and (b) variance on production – up to 1%, within which the current value of the existing closing stocks of raw and other materials, finished products and work in progress are not adjusted for the purposes of the consolidated financial statements (*Note 2.33.3*).

Upon use (putting into production or sale) of inventories, they are currently expensed by applying the weighted average cost (cost) method.

The net realisable 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 recognised in the consolidated financial statements 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 amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest method *(Note 2.26).*

An estimate allowance for doubtful and bad debts is made when significant uncertainty exists as to the collectability of the full amount or a part of it. Bad debts are written-off when the legal grounds for this are available. Impairment of trade receivables is being accrued through a respective corresponding allowance account for each type of receivable in the item 'other expenses' on the face of 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 recognised 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 statements at amortised cost by applying the effective interest rate method. Amortised cost is calculated by taking into account all types of charges, commissions, and other costs, associated with these loans. Gains and losses are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as 'finance income' (interest) or 'finance costs' throughout the amortisation period, or when the receivables are settled, derecognised 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 cash at current accounts while cash equivalents include bank deposits, the funds of which are freely available to the companies of the Group in accordance with the terms and conditions agreed with the banks within the deposit term regardless of the original maturity of the respective 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;
- interest received from short-term bank deposits is included in the composition of cash flows 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);
- blocked funds for a period of more than 3 months are not treated as cash and cash equivalents.

2.20. Trade and other payables

Trade and other current amounts payable are carried to the consolidated financial statements 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 amortised 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 recognised in the consolidated financial statements 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 statements at amortised cost by applying the effective interest rate method. Amortised 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 recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as finance income or costs (interest) throughout the amortisation period, or when the liabilities are derecognised 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. Capitalisation of borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset of the Group are capitalised as part of the cost of that asset. A qualifying asset 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 capitalisation to the value of a qualifying asset is determined by applying a capitalisation rate. The capitalisation 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 capitalisation 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 recognised 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 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 finance income. The difference between the carrying amount of the leased asset and the immediate (fair selling) value is recognised 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 recognised 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.

Rental income from operating leases is recognised 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 amount of the leased asset and recognised on a straight-line basis over the lease term.

2.24. Pensions and other payables to personnel under the social security and labour legislation

The employment and social security relations with workers and employees of the Group are based on the Labour 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

Labour Agreement – for the companies in *Ukraine*, the employment legislation, the General Collective Labour Agreement and the effective Employment Rules and Regulations – for the company in *Serbia*, the Labour Act – for the company in *Latvia*, the employment legislation – for the companies in *Belarus*, the Social Security Law of the Republic of Kazakhstan – for the company in Kazakhstan and the Labour Code – for the company in *Lithuania*.

Short-term benefits

Short-term benefits in the form of remuneration, bonuses and social payments and benefits (due for payment within 12 months after the end of the period when the employees have rendered the service or have satisfied the required terms) are recognised as an expense in the statement of comprehensive income (within profit or loss for the year) for the period when the service thereon has been rendered and/or the requirements for their receipt have been met, unless a particular IFRS requires capitalisation thereof to the cost of an asset, and as a current liability (less any amounts already paid and deductions due) at their undiscounted amount.

At each date of consolidated balance sheet, 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 amounts of employee’s remuneration and the statutory social security and health insurance contributions due by the employer thereon.

Tantieme and bonus schemes

Sopharma

In accordance with Articles of Association of the parent company and upon a decision for approval of the General Meeting of Shareholders, the Executive Director is entitled to one-off payment (tantieme) at the amount of up to 1% of Company's net profit and is empowered to determine the circle of employees among whom to distribute up to 2% of company's profit for the year as a bonus for each calendar year. When a certain portion is required to be deferred for a period of more than 12 months, this portion is measured at present value at the reporting date and is stated within non-current liabilities in the statement of financial position in the item 'payables to personnel'.

Sopharma Trading

In accordance with the Articles of Association, the Executive Director is entitled to one-off payment (tantieme) at the amount of 1% of Company's net profit as well as to distribution of up to 2% of Company's net profit between the members of the higher managing personnel upon his own discretion and in line with their individual contribution – in case of reported positive financial result for the past financial year and subject to a decision of the General Meeting of Shareholders. When a certain portion is required to be deferred for a period of more than 12 months, this portion is measured at present value at the reporting date and is stated within non-current liabilities in the statement of financial position as long-term payables to personnel. For the remaining personnel, including managing staff, the amount of bonuses is accrued in the period when worked-out.

Bulgarian Rose Sevtopolis AD

In accordance with the Articles of Association and following a decision of the General Meeting of Shareholders, the Executive Director is entitled to one-off payment (tantieme) at the amount of 1% of company's net profit.

Momina Krepost

In accordance with the Articles of Association and following a decision of the General Meeting of Shareholders, the Executive Director is entitled to one-off payment (tantieme) at the amount of 1% of company's net profit.

Long-term retirement benefits

Defined contribution plans

For Bulgaria

The major duty of the 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 Labour Accident and Professional Diseases (LAPD) Fund, and for health insurance.

The rates of the social security and health insurance contributions are defined annually in 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) at the ratio 60:40 (2013: 60:40).

These pension plans, applied by the Company in its capacity as an employer, are defined contribution 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 means 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 Ukraine – Law on Pension Provision, in Serbia – the Law on Labour in the Republic of Serbia, in Latvia – the Law on Social Security, in Lithuania – Law on National Social Security, in Belarus – the Law on the Mandatory Contributions to the Fund for Social Security of the Population of the Ministry of Labour and Social Security, and in Kazakhstan – Law of the Republic of Kazakhstan on Social Security Obligations. The social security contributions are being apportioned between an employer and employees at ratios regulated by the relevant local laws.

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

The contributions, payable by the companies of the Group under defined contribution plans for social security and health insurance, are recognised as a current expense in the statement of comprehensive income (within profit or loss for the year) unless a particular IFRS requires this amount to be capitalised to the cost of an asset, and as a current liability at their undiscounted amount along with the accrual of the respective employee benefits to which the contributions refer and in the period of rendering the underlying service.

Defined benefit plans

In accordance with the requirements of the Labour 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 Labour 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 labour 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 prior to retirement of employees due to specific labour 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 unfunded defined benefit schemes.

The calculation of the amount of these liabilities necessitates 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 – in the consolidated statement of comprehensive income as follows: (a) current and past service costs, interest costs and the gains/losses on a curtailment and settlements are recognised immediately when incurred and are presented in current profit or loss under 'employee benefits expense'; and (b) effects from remeasurement of obligations that in substance represent actuarial gains and losses are recognised immediately when occurred and are presented to other comprehensive income in the item 'remeasurements of defined benefit pension plans'. Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments.

At the date of issue of the consolidated financial statements, 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 of similar term, quoted in the respective country where the company itself 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 recognises employee benefit obligations on employment termination before the normal retirement date when it is demonstrably committed, based on an announced plan, including 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. Shareholders are liable for the obligations of the Company up to the amount of the capital share held by each of them and may claim returning of this share only in 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 reserve)*** 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 share capital increase.

The ***treasury shares*** are presented in the consolidated statement of financial position at acquisition cost (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 surplus between the carrying amount of property, plant and equipment and their fair values at the date of each revaluation;

- the revaluation surplus between the carrying amount of property stated as owner-occupied property and their fair values 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 derecognised 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 amount 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 statements of the companies abroad from local currency to the presentation currency of the Group. This reserve is recognised 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 recognise 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 derecognised 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 recognise the transferred asset in its consolidated statement of financial position but also recognises 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 amortised 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, 2.19 and 2.20).* Interest income on loans and receivables is recognised by applying the effective interest rate except for short-term receivables (due in 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 end of each reporting period, 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 2.33).*

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 recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment.

The available-for-sale financial assets are subsequently measured at fair value except for the shares in closed-end companies not traded in a stock-exchange market *(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 recognised 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 unrealised gains accumulated in the reserve are recognised 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 within 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 recognised in the consolidated statement of comprehensive income (within profit or loss for the year) when company's right to these dividends is established.

The available-for-sale investments are reviewed at each reporting date for events or circumstances indicating the existence of objective evidence for impairment of a particular financial asset or group of assets. They are impaired if their carrying amount is higher than the expected recoverable amount. The recognised 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 depending on the substance and the conditions of the contractual arrangements with the respective counterpart regarding these instruments.

Financial liabilities

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

2.27. Provisions

Provisions are recognised 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 recognises a receivable if it is virtually certain that reimbursement will be received, its amount can be reliably measured and income (credit) is recognised 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 2.33).*

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 % (2013: 10%).

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

Country	***Tax rate***	
	2014	***2013***
Ukraine	18%	19%
Serbia	15%	15%
USA	15.35%	15.35%
United Kingdom	21%	23%
Latvia	15%	15%
Belarus	18%	18%
Lithuania	15%	15%
Poland	19%	19%
Kazakhstan	20%	20%

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

Deferred tax liabilities are recognised 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) at the transaction date.

Deferred tax assets are recognised 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 utilised, 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 /(loss) at the transaction date.

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

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

Deferred tax assets and liabilities are measured at the tax rates and on the bases that are expected to apply to the period and type of operations when the asset is realised or the liability – settled (repaid) on the basis of the tax laws that have been enacted or substantively enacted, and at tax rates of the country under the jurisdiction of which the respective deferred asset or liability is expected to be recovered or settled.

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.

As at 31 December 2014, the deferred income taxes of the Group companies are assessed at the rate, valid for 2015, which is 10% for the Bulgarian companies, while those of the subsidiaries, joint ventures and associates abroad are as follows:

Country	***Tax rate 2015***
Ukraine	17%
Serbia	15%
USA	15.35%
United Kingdom	21%
Latvia	15%
Belarus	18%
Lithuania	15%
Poland	19%
Kazakhstan	20%

2.29. Government grants

Gratuitous aids from public institutions (municipal, government and international institutions, including under the procedure of using the European funds and programmes) are initially recognised as deferred income (financing) when there is reasonable assurance that they will be received by the Group and that the latter has complied and complies with the associated thereto requirements.

A government grant that compensates the Company for expenses incurred is recognised in current profit or loss on a systematic basis in the same period in which the expenses are recognised.

A government grant that compensates investment expenses incurred to acquire an asset is recognised in current profit or loss on a systematic basis over the useful life of the asset usually proportionately to the amount of the recognised 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 capitalisation, bonus issue or separation/splitting, 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.

2.31. Segment reporting

The Group identifies its reporting segments and discloses segment information in accordance with the organisational and reporting structure used by the management of the parent company for current general monitoring and management of the Group and its components. Operating segments are business components, which are regularly measured by key members of the management who take operating decisions by using financial and operating information prepared specifically for the segment for the purposes of current monitoring and assessment of performance and allocating Group's resources.

Group's operating segments are currently monitored and directed separately as each of them represents a separate business area that bears various business risks and rewards. The operating segments by which the Group's management monitors, measures and controls the risks and returns thereof are identified in line with the main business activities performed with pharmaceuticals, namely: production and trade.

Information by operating segments

The Group uses one measuring unit – gross margin (profit) for measuring the results in the operating segments and allocation of resources between them. It is defined as the difference between segment revenue and segment expenses directly attributable to the respective segment.

Segment assets, liabilities, respective revenue, expenses and results include those that are and can be directly attributable to the respective segment as well as such that can be allocated on a reasonable basis, including inter-segment ones. Usually they include: (a) for revenue – sales of finished products and goods; (b) for expenses - raw materials and consumables used, depreciation and amortisation and production staff remuneration, carrying amount of goods sold; (c) for assets – property, plant and equipment, inventories, receivables from related parties, trade receivables and cash and cash equivalents; (d) for liabilities – current payables to personnel and for social security, payables to related parties, trade payables and bank loans for direct financing (long-term and short-term).

Capital expenditures (investments) by business segments are differentiated expenses incurred in the period of acquisition or construction of segment non-current assets, which are expected to be used for more than one period.

The Group manages its investments in securities, certain trade accounts and financial resources granted/received as well as taxes at Group and separate company level but they are not allocated at segment level.

The results of the operations regarded as accidental ones compared to the main types of operations (activities) of the Group as well as revenue, expenses, liabilities and assets that are not subject to allocation are stated separately in the item 'total at Group level'. In general, these amounts include: other operating income unless originating from the operation of a particular segment, administrative expenses, interest income and expenses, realised and unrealised gains and losses from foreign currency transactions and investments, investments in other companies, other receivables, tax accounts, general-purpose production and administrative equipment.

Intersegmental transfers: segment revenue, segment expense and segment results include internal transfers between business segments. These transfers are stated at competitive market prices charged to non-related clients for similar goods and are eliminated at consolidated financial statements level.

The investments in joint ventures and associates recorded under the equity method are excluded from the assets by segment and the revenue by segment. They are presented as part of unallocated assets and the income therefrom is presented in 'gains/(losses) from joint ventures and associates, net'.

The applied accounting policy for segment reporting is based on that used by the Group for the preparation of its statutory financial statements for public purposes.

In addition, the Group discloses information regarding important clients when the amount of achieved revenue from a client exceeds 10% of the total amount of consolidated revenue earned from Group's operations.

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 or 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 its 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 capitalised rental income.

All assets and liabilities that are measured and/or disclosed in the consolidated financial statements at fair value, are categorised 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 recognised 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, organised 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 Level 2 and Level 3, 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.

2.33. Critical accounting judgments on applying the Group’s accounting policies. Key estimates and assumptions of high uncertainty.

2.33.1. Group companies operating in the environment of hyperinflationary economies

The management of the parent company performed analysis of the consumer price index in Belarus and the observed trend of stable downturn and concluded that, since the economy of the country was no longer hyperinflationary, the figures in the financial statements of the companies, operating in Belarus, would not be subject to hyperinflationary restatements. For this reason, for the purposes of these consolidated financial statements, the figures in the financial statements of these companies for 2014 were not restated for hyperinflation while the final amounts of the assets, liabilities and respectively the net assets as at 31 December 2013, restated with the relevant for the period (2013) inflation index, were accepted as basis for their carrying amount as at 1 January 2014.

The prior period comparatives were not restated again but those already restated with the relevant inflation index (for year 2013) were used. The general index of consumer prices officially determined and published by the National Statistics Committee of Belarus was applied in these restatements.

The gain on the net monetary position from restatements in hyperinflationary economies for 2013, amounting to BGN 1,690 thousand, includes the gain on restating the goodwill of the companies in Belarus – BGN 150 thousand.

2.33.2. Recognition of tax assets

On recognition of deferred tax assets, the management of the Group has assessed the probability the individual deductible temporary differences to reverse in the future and each of the Group companies' capability to generate sufficient taxable profit for their offset. The management of the Group has assessed at the date of issue of the consolidated financial statements the subsidiaries that continue to report losses in the last years with regard to existing significant uncertainties as to whether and to what extent within the final term, determined with the respective local tax regulations for tax loss carry forward, these companies would be able to generate sufficient taxable profit. As a result of this analysis, it has taken a decision to not recognise deferred tax assets in the consolidated financial statements at the amount of BGN 4,366 thousand (2013: BGN 2,174 thousand) *(Note 31).*

2.33.3. Inventories

Normal capacity

The normal production capacity of each production company is determined on the basis of management assessments (made after relevant analyses) for optimum load of their production facilities and return on the investments made therein, with structure of the manufactured finished products accepted as being common for the company.

Allowance for impairment

At the end of each financial year, 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 realised at their current carrying amount in the following reporting periods, the Group companies impair the inventories to net realisable value.

As a result of the performed reviews and analyses in 2014, impairment of inventories at the amount of BGN 3,356 thousand has been recognised in the consolidated statement of comprehensive income (within profit or loss for the year) (2013: BGN 1,654 thousand) *(Note 10).*

2.33.4. Impairment of receivables

The losses from doubtful and bad debts are estimated at the date of the consolidated financial statements 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 therefrom while the remaining portion to the nominal value is recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as impairment *(Note 10).*

After 180 days of delay it is already considered that indicators for impairment may exist. In the assessment of the collectability of receivables, the management of the Group companies perform analysis of the total exposure of each counterpart 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 counterpart, including the potential for collecting interest for compensating delays. 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 realisation of the collateral or guarantee payment). Where the management has concluded 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 25, 26 and 27).*

The amount of recognised impairment losses for 2014 (net of the reversed ones) is BGN 860 thousand (2013: BGN 2,378 thousand) *(Note 10).*

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 32).*

2.33.6. Operating lease

The Group classified a building, part of which had been leased to related parties under operating lease terms, in the group of 'property, plant and equipment' of the consolidated statement of financial position. 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 respective companies have judged, jointly with their lawyers, that at this stage the probability and risks of a negative outcome therefrom is still below 50% and therefore, no provisions for payables under litigations have been included in the consolidated statement of financial position as at 31 December 2014 (31 December 2013: none) *(Note 41).*

3. EFFECTS OF CHANGES IN ACCOUNTING POLICIES

The effects of changes in the accounting policies are related with:

- the amended requirements of the new IFRS 11 "Joint Arrangements" with regard to the way of accounting for investments in joint ventures under the equity method;
- the scope of expenses used in the calculation of the parent's work in progress costs.

As a result of the restatements in the consolidated statement of financial position related with the amended requirements of the new IFRS 11, all assets and liabilities of joint ventures, consolidated proportionately, have been written-off and the investments in associates and joint ventures have been accounted under the equity method. The amount of the investment in joint ventures as at the earliest date for restatement is measured as the aggregate of the carrying amount of the net assets of the joint venture.
All effects of restatements on the statement of financial position are calculated in equity retrospectively and are as follows:

(a) in the consolidated statement of financial position as at 1 January 2013:

	Originally stated	*Change in accounting policy*		*Restated*
Effects by restated items	**1 January 2013 BGN'000**	***IFRS 11*** **BGN'000**	***Valuation of WIP*** **BGN'000**	**1 January 2013 BGN'000**
Effects in assets				
Property, plant and equipment	292,074	(47)	-	292,027
Intangible assets	13,463	(244)	-	13,219
Investments in joint ventures	-	255	-	255
Other long-term receivables	1,460	(116)	-	1,344
Inventories	130,950	(197)	1,300	132,053
Trade receivables	160,558	(3)	-	160,555
Receivables from related parties	60,871	75	-	60,946
Other receivables and prepayments	22,521	(5)	-	22,516
Cash and cash equivalents	15,767	(19)	-	15,748
		(301)	**1,300**	
Effects in liabilities				
Deferred tax liabilities	5,792	(44)	130	5,878
Trade payables	55,242	(244)	-	54,998
Payables to personnel and for social security	6,624	(11)	-	6,613
Tax payables	2,408	(2)	-	2,406
		(301)	**130**	
Net effect in assets and liabilities		**-**	**1,170**	
Effects in equity				
Share capital	132,000	-	-	132,000
Reserves	35,979	-	-	35,979
Retained earnings	177,617	-	1,170	178,787
Non-controlling interests	45,474	-	-	45,474
	391,070	**-**	**1,170**	**329,240**

(b) in the consolidated statement of financial position as at 31 December 2013:

Effects by restated items	***Originally stated*** 31 December 2013 BGN'000	***Change in accounting policy*** *IFRS 11* BGN'000	*Valuation of WIP* BGN'000	***Restated*** 31 December 2013 BGN'000
Effects in assets				
Property, plant and equipment	306,781	(53)	-	306,728
Intangible assets	15,848	(344)	-	15,504
Goodwill	12,890	(47)	-	12,843
Investments in joint ventures	-	638	-	638
Long-term receivables from related parties	25,656	(7)	-	25,649
Other long-term receivables	585	(97)	-	488
Inventories	139,596	(410)	1,166	140,352
Trade receivables	191,132	(5)	-	191,127
Receivables from related parties	28,763	386	-	29,149
Other receivables and prepayments	11,639	(30)	-	11,609
Cash and cash equivalents	27,156	(22)	-	27,134
		9	**1,166**	
Effects in liabilities				
Deferred tax liabilities	4,647	(69)	117	4,695
Other non-current liabilities	55	(4)	-	51
Trade payables	61,712	(279)	-	61,433
Payables to related parties	3,828	(6)	-	3,822
Payables to personnel and for social security	6,757	(26)	-	6,731
Tax payables	4,410	(2)	-	4,408
Other current liabilities	5,335	(53)	-	5,282
		(439)	**117**	
Net effect in assets and liabilities		**448**	**1,049**	
Effects in equity				
Share capital	132,000	-	-	132,000
Reserves	32,013	13	-	32,026
Retained earnings	194,585	262	1,049	195,896
Non-controlling interests	54,177	173	-	54,350
	412,775	**448**	**1,049**	**414,272**

(c) in the consolidated statement of comprehensive income for 2013:

	Originally stated	***Change in accounting policy***		***Restated***
			Valuation of WIP	
Effects by restated items	**2013 BGN'000**	***IFRS 11*** **BGN'000**	**BGN'000**	**2013 BGN'000**
Revenue	762,689	(1,553)	-	761,136
Other operating income/(losses), net	4,911	(18)	-	4,893
Changes in inventories of finished goods and work in progress	(3,173)	(134)	(134)	(3,307)
Raw materials and consumables used	(87,166)	18	-	(87,148)
Hired services expense	(59,305)	195	-	(59,110)
Employee benefits expense	(74,659)	324	-	(74,335)
Depreciation and amortisation expense	(26,219)	49	-	(26,170)
Carrying amount of goods sold	(450,112)	1,258	-	(448,854)
Other operating expenses	(14,131)	19		(14,112)
Finance costs	(22,514)	25	-	(22,489)
Gain on net monetary position from restatements for hyperinflationary economies	1,690	(125)	-	1,565
Loss/(Gain) from associates	(736)	63	-	(673)
Income tax expense	(5,179)	7	13	(5,159)
Net profit for the year:	**32,638**	**262**	**(121)**	**32,779**
Items that will not be reclassified to profit or loss:	**(435)**	**-**	-	**(435)**
Items that may be reclassified to profit or loss:	**(1,623)**	**13**	-	**(1,610)**
Other comprehensive income for the year, net of tax	**(2,058)**	**-**	-	**(2,058)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**30,580**	**275**	**(121)**	**30,734**

(d) in the consolidated statement of cash flows for 2013:

Effects by restated items	***Originally stated*** **2013 BGN'000**	***Change in the accounting policies IFRS 11*** **BGN'000**	***Restated*** **2013 BGN'000**
Cash flows from operating activities			
Cash receipts from customers	857,875	(1,590)	856,285
Cash paid to suppliers	(679,322)	1,380	(677,942)
Cash paid to employees and for social security	(70,866)	272	(70,594)
Taxes paid (except income taxes)	(46,965)	29	(46,936)
Foreign currency exchange gains/(losses), net	(971)	8	(963)
Other proceeds/(payments), net	(3,094)	25	(3,069)
		124	
Cash flows from investing activities			
Purchases of property, plant and equipment	(35,967)	8	(35,959)
Proceeds from sales of property, plant and equipment	428	(1)	427
Consideration paid on acquisition of shares in joint ventures, net of cash received	(494)	494	-
Purchases of investments in associates and joint ventures	(1,033)	(499)	(1,532)
Loans granted to related parties	(15,153)	(59)	(15,212)
Interest received on loans and deposits	2,454	(1)	2,453
		(58)	
Cash flows from financing activities			
Loans received from third parties	787	(61)	726
Grants from public institutions	3,786	1	3,787
		(60)	
Effect of restatements for hyperinflationary economies	(484)	**(9)**	(493)
Net increase in cash and cash equivalents	10,843	**(3)**	10,840
Disposal of cash and cash equivalents as at 31 December 2013		**25**	
Total decrease in cash and cash equivalents as at 31 December 2013		**22**	

4. REVENUE

Group's revenue includes:

	2014	*2013*
	BGN'000	*BGN'000*
Goods	581,144	493,482
Finished products	259,373	267,654
Total	**840,517**	**761,136**

Sales of goods by type:

	2014	*2013*
	BGN'000	*BGN'000*
Tablet dosage forms	286,188	230,277
Ampoule dosage forms	153,311	135,074
Consumables, dressing materials and apparatuses	36,250	36,639
Drops	33,760	24,755
Syrup dosage forms	25,339	13,203
Ointments	17,511	11,094
Cosmetics	7,916	12,318
Food supplements and herbs	3,139	9,954
Other	17,730	20,168
Total	**581,144**	**493,482**

Sales of finished products by type:

	2014	*2013*
	BGN'000	*BGN'000*
Tablet dosage forms	171,963	180,601
Ampoule dosage forms	35,430	35,119
Syrup dosage forms	13,881	14,951
Lyophilic products	11,028	9,198
Ointments	8,988	7,725
Drops	4,843	4,552
Syringes	1,653	3,319
Other	11,587	12,189
Total	**259,373**	**267,654**

5. OTHER OPERATING INCOME AND LOSSES, NET

Other operating income and losses, net include:

	2014	*2013*
	BGN'000	***BGN'000***
Services rendered	10,549	5,333
Rentals	798	776
Social activities and events	761	168
Government grants	749	573
Income from penalties	389	131
Gain on sale of non-current assets	337	23
Insurance indemnities received	75	6
Gain / (loss) on sales of materials	66	(268)
Liabilities written-off	35	144
Loss on change in the fair value of investment property *(Note 19)*	(23)	(39)
Net loss on exchange differences under trade receivables and payables and current accounts	(8,686)	(2,775)
Other	415	821
Total	**5,465**	**4,893**

Services rendered include:

	2014	*2013*
	BGN'000	***BGN'000***
Laboratory services	6,879	2,493
Advertising and marketing	1,331	744
Other	2,339	2,096
Total	**10,549**	**5,333**

The net foreign exchange losses for 2014 are mainly result of the devaluation of the Ukrainian Hryvnia (UAH) against the Bulgarian Lev by about 43% as at 31 December 2014 as compared to 31 December 2013.

6. RAW MATERIALS AND CONSUMABLES USED

Expenses on materials include:

	2014	***2013***
	BGN'000	***BGN'000***
Basic materials	70,225	62,401
Spare parts, laboratory and technical materials	7,387	6,427
Electric energy	5,370	5,597
Heat power	4,472	4,364
Fuels and lubricating materials	3,574	3,931
Impairment of materials *(Note 10)*	880	226
Water	856	889
Scrapped materials	434	129
Other	3,136	3,184
Total	**96,334**	**87,148**

Expenses on basic materials include:

	2014	***2013***
	BGN'000	***BGN'000***
Substances (active ingredients)	34,799	31,226
Packaging materials	12,340	9,498
Liquid and solid chemicals	8,351	6,371
Aluminium foil	3,786	5,472
Herbs	3,135	2,242
Ampoules	3,031	2,384
Polypropylene, polyethylene, polystyrene	1,202	1,583
Solution sacks	647	1,120
Other	2,934	2,505
Total	**70,225**	**62,401**

7. HIRED SERVICES EXPENSE

Hired services expense includes:

	2014	*2013*
	BGN'000	*BGN'000*
Advertising	18,952	17,660
Consulting services	9,561	7,537
Rentals	6,307	6,004
Buildings and equipment maintenance	4,042	3,062
Forwarding and transportation services	3,977	2,984
Manufacturing of medicinal products	3,688	2,970
Services on medicinal products registration	1,962	1,282
Subscription fees	1,812	1,555
Local taxes and charges	1,734	1,400
Bank and regulatory charges	1,577	1,748
Services under civil contracts	1,478	1,518
Logistic services	1,316	522
Security	1,253	1,266
Insurance	1,243	987
Taxes on expenses	1,159	704
Announcements and communications	1,022	951
Motor vehicles repair	896	835
Medical service	753	733
Commission fees	288	203
Documentation translation	267	366
Destruction of pharmaceuticals	249	445
Other	3,671	3,950
Total	**67,207**	**58,682**

8. EMPLOYEE BENEFITS EXPENSE

	2014	*2013*
	BGN'000	*BGN'000*
Current wages and salaries	61,084	56,017
Other remuneration	756	428
Social security/health insurance contributions	12,828	11,492
Social benefits and payments	3,807	3,804
Tantieme	979	1,105
Accruals for unused paid leaves	800	713
Social security/health insurance contributions on leaves	149	227
Accruals for long-term retirement benefits to personnel *(Note 32)*	477	977
Total	**80,880**	**74,763**

9. OTHER OPERATING EXPENSES

	2014 *BGN'000*	*2013* *BGN'000*
Entertainment allowances	3,506	3,296
Charged/(reversed) impairment of current assets, net *(Note 10)*	3,336	3,806
Unrecognised input tax	2,446	213
Business trip costs	1,905	1,596
Scrap and shortages of goods	817	1,215
Receivables written-off	470	623
Training	454	382
Scrapping of non-current assets	418	377
Donations	394	541
Scrap and shortages of finished products and work in progress	377	649
Awarded amounts under litigations	61	123
Taxes and interest on taxes paid	53	776
Other	935	515
Total	**15,172**	**14,112**

10. IMPAIRMENT OF CURRENT ASSETS

Impairment losses on receivables, work in progress, finished products and goods, net include:

	2014 *BGN'000*	*2013* *BGN'000*
Impairment of receivables	*2,305*	*3,561*
Reversed impairment of receivables	*(1,601)*	*(1,202)*
Net change in the impairment of receivables *(Notes 9, 25, 26 and 27)*	704	2,359
Impairment of receivables under advances granted	119	12
Impairment of finished products	2,400	999
Impairment of goods	76	429
Impairment of receivables under trade loans granted	37	7
	3,336	**3,806**
Impairment of materials *(Note 6)*	880	226
Total	**4,216**	**4,032**

11. IMPAIRMENT OF NON-CURRENT ASSETS

Impairment losses on non-current assets include:

	2014	*2013*
	BGN'000	*BGN'000*
Impairment of property, plant and equipment *(Note 17)*	378	2,758
Impairment of goodwill *(Note 18)*	116	140
Total	**494**	**2,898**

12. FINANCE INCOME

Finance income includes:

	2014	*2013*
	BGN'000	*BGN'000*
Interest income on loans granted	2,723	3,700
Interest income on past due trade receivables	2,484	2,452
Interest income on bank deposits	79	8
Income from equity investments (dividends)	59	393
Net gain on transactions with investments in securities	47	-
Total	**5,392**	**6,553**

13. FINANCE COSTS

Finance costs include:

	2014	*2013*
	BGN'000	*BGN'000*
Interest expense on loans received	8,800	8,404
Net loss on exchange differences under loans in foreign currency	7,646	1,197
Bank fees and charges on loans and guarantees	720	684
Interest expense on finance lease	340	367
Impairment of available-for-sale investments	88	6,769
Net loss on transactions with investments in securities	-	5,068
Total	**17,594**	**22,489**

The net foreign exchange losses for 2014 are mainly result of the devaluation of the Ukrainian Hryvnia (UAH) against the Bulgarian Lev by about 43% as at 31 December 2014 as compared to 31 December 2013.

14. GAIN/(LOSS) FROM ASSOCIATES AND JOINT VENTURES

	2014	*2013*
	BGN'000	*BGN'000*
Gain/(loss) from associates, net	546	(736)
(Loss)/gain from joint ventures	(236)	63
	310	**(673)**

The ***gain/ (loss) from associates*** include:

	2014	*2013*
	BGN'000	*BGN'000*
Share in Group's (loss)/gain	(61)	105
Effect of valuation of previously held shares on acquisition of significant influence over Group companies (associates)	607	-
Effect of valuation of previously held shares on acquisition of control over Group companies (subsidiaries)	-	(841)
Total	**546**	**(736)**

The ***(loss)/gain from joint ventures*** include:

	2014	*2013*
	BGN'000	*BGN'000*
Share in Group's (loss)/gain	(236)	63

15. INCOME TAX EXPENSE

Consolidated statement of comprehensive income (profit or loss for the year)	**2014** *BGN'000*	**2013** *BGN'000*
Taxable profit of the Group companies for the year	30,743	66,626
Revaluation reserve included as an increase in the annual tax return	(261)	(263)
Taxable profit for the year , decreased with Revaluation reserve	30,482	66,363
Current income tax expense for the year – 10 %, 15%, 15.35%, 18%, 19%, 23% (2013: 10 %, 15%, 15.35%, 18%, 19%, 23%)	4,481	7,331
Prior periods tax expense	-	37
Deferred income taxes		
Origination and reversal of temporary differences	467	(2,205)
Tax rate change – Ukraine (2013: Ukraine)	134	(4)
Total income tax expense carried to the consolidated statement of comprehensive income (within profit or loss for the year)	**5,082**	**5,159**

Reconciliation of income tax expense applicable to the consolidated accounting profit or loss	***2014***	***2013***
	BGN'000	***BGN'000***
Accounting profit for the year	29,199	37,938
Income tax – 10 %, 15%, 15.35%, 18%, 19%, 23% (2013: 10 %, 15%, 15.35%, 18%, 19%, 23%)	(2,090)	(3,244)
Unrecognised amounts under the tax return		
Related to increases	(2,632)	(2,912)
Related to decreases	1,923	1,073
Tax loss for the current year on which no deferred tax assets are recognised	(2,284)	(238)
Recognised deferred taxes on temporary differences from prior periods	135	195
Prior periods tax expense	-	(37)
Tax rate change – Ukraine (2013: Ukraine)	(134)	4
Total income tax expense carried to the consolidated statement of comprehensive income (within profit or loss for the year)	**(5,082)**	**(5,159)**

The tax effects regarding other components of comprehensive income are as follows:

	2014			**2013**		
		BGN'000			*BGN'000*	
	Pre-tax amount	**Tax benefit/ (expense)**	**Amount net of tax**	**Pre-tax amount**	**Tax benefit/ (expense)**	**Amount net of tax**
Items that will not be reclassified to profit or loss						
Loss on revaluation of property, plant and equipment	(46)	3	(43)	(353)	35	(318)
Remeasurements of defined benefit pension plans	(479)	-	(479)	(117)	-	(117)
	(525)	**3**	**(522)**	**(470)**	**35**	**(435)**
Items that may be reclassified to profit or loss						
Net change in the fair value of available-for-sale financial assets	274	-	274	(217)	-	(217)
Exchange differences from restating foreign operations	(274)	-	(274)	(1,393)	-	(1,393)
	-	**-**	**-**	**(1,610)**	**-**	**(1,610)**
Other comprehensive income for the year	**(525)**	**3**	**(522)**	**(2,080)**	**35**	**(2,045)**

16. OTHER COMPREHENSIVE INCOME

Other components of comprehensive income include:

	Other components of comprehensive income attributable to the Group		**Other components of comprehensive income attributable to non-controlling interests**		**Total other components of comprehensive income**	
	2014	***2013***	***2014***	***2013***	***2014***	***2013***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Items that will not be reclassified to profit or loss						
Loss on revaluation of property, plant and equipment	(3)	(353)	(43)	-	(46)	(353)
Remeasurements of defined benefit pension plans	(479)	(120)	-	3	(479)	(117)
Items that may be reclassified to profit or loss						
Net change in fair value of available-for-sale financial assets:	229	(87)	45	(130)	274	(217)
Gains arising during the year	*366*	*633*	*45*	*(119)*	*411*	*514*
Less: Reclassification adjustments for (gains)/losses included in profit or loss for the current year	*(137)*	*(720)*	-	*(11)*	*(317)*	*(731)*
Exchange differences from restating foreign operations	313	(844)	(587)	(549)	(274)	(1,393)
Income tax relating to items of other comprehensive income	-	35	3	-	3	35
Other comprehensive income for the year	**60**	**(1,369)**	**(582)**	**(676)**	**(522)**	**(2,045)**

17. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		*Plant and equipment*		*Other*		*Assets in progress*		*Total*	
	2014	*2013*	*2014*	*2013*	*2014*	*2013*	*2014*	*2013*	*2014*	*2013*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Book value										
Balance at 1 January	**192,498**	**141,410**	**184,016**	**128,032**	**43,106**	**41,107**	**7,532**	**81,946**	**427,152**	**392,495**
Additions	5,535	7,220	5,253	4,112	2,920	3,588	13,466	25,651	27,174	40,571
Assets in newly acquired subsidiaries and joint ventures	-	338	-	139	-	132	-	145	-	754
Effects of foreign currency and hyperinflationary restatements	(45)	61	14	18	4	(2)	-	(2)	(27)	75
Disposals	(3,884)	(248)	(1,186)	(1,405)	(4,897)	(3,874)	(315)	(761)	(10,282)	(6,288)
Written-off book value of assets on disposal of subsidiaries	(9)	-	(71)	-	(22)	-	-	-	(102)	-
Allowance for impairment	-	(379)	(274)	(74)	(98)	(2)	-	-	(372)	(455)
Transfer to property, plant and equipment	467	44,096	6,682	53,194	910	2,157	(8,059)	(99,447)	-	-
Balance at 31 December	**194,562**	**192,498**	**194,434**	**184,016**	**41,923**	**43,106**	**12,624**	**7,532**	**443,543**	**427,152**
Accumulated depreciation and impairment										
Balance at 1 January	**20,614**	**13,893**	**77,816**	**67,379**	**21,994**	**19,196**	**-**	**-**	**120,424**	**100,468**
Depreciation charge for the year	5,978	4,307	12,573	11,491	6,323	4,911	-	-	24,874	20,709
Allowance for impairment	-	2,291	6	12	-	-	-	-	6	2,303
Effects of foreign currency and hyperinflationary restatements	1,988	137	2,627	195	875	54	5	-	5,495	386
Depreciation written-off	(1,027)	(14)	(1,115)	(1,261)	(4,118)	(2,167)	(1)	-	(6,261)	(3,442)
Written-off depreciation of assets on disposal of subsidiaries	-	-	(24)	-	(8)	-	-	-	(32)	-
Balance at 31 December	**27,553**	**20,614**	**91,883**	**77,816**	**25,066**	**21,994**	**4**	**-**	**144,506**	**120,424**
Carrying amount at 31 December	**167,009**	**171,884**	**102,551**	**106,200**	**16,857**	**21,112**	**12,620**	**7,532**	**299,037**	**306,728**
Carrying amount at 1 January	**171,884**	**127,517**	**106,200**	**60,653**	**21,112**	**21,911**	**7,532**	**81,946**	**306,728**	**292,027**

As at 31 December 2014, the tangible fixed assets of the Group include: land amounting to BGN 43,664 thousand (31 December 2013: BGN 44,281 thousand) and buildings of carrying amount BGN 123,345 thousand (31 December 2013: BGN 127,351 thousand).

Tangible fixed assets in progress as at 31 December include:

- advances granted – BGN 4,345 thousand (31 December 2013: BGN 5,290 thousand);
- supply of equipment – BGN 3,514 thousand (31 December 2013: BGN 846 thousand);
- buildings reconstruction – BGN 1,368 thousand (31 December 2013: BGN 588 thousand);
- expenses on new buildings construction – BGN 3,256 thousand (31 December 2013: BGN 295 thousand);
- Other – BGN 136 thousand (31 December 2013: BGN 776 thousand).

Finance lease

The carrying amount of the tangible fixed assets (motor vehicles) of the Group obtained under finance lease as at 31 December 2014 is BGN 3,883 thousand (31 December 2013: BGN 5,433 thousand).

Operating lease

The Group has leased fixed tangible assets with carrying amount of BGN 3,388 thousand as at 31 December 2014 to related parties (31 December 2013: BGN 3,368 thousand). In addition, tangible fixed assets at carrying amount of BGN 324 thousand were leased to third parties as at 31 December 2014 (31 December 2013: BGN 844 thousand).

Other data

The following encumbrances were constituted on tangible fixed assets of the Group as at 31 December 2014 in relation to received loans *(Notes 30 and 35)* as follows:

- Land and buildings with carrying amount of BGN 26,629 thousand and BGN 83,743 thousand, respectively (31 December 2013: respectively, BGN 25,853 thousand and BGN 95,246 thousand);
- Pledge on facilities with carrying amount of BGN 739 thousand (31 December 2013: BGN 829 thousand);
- Pledges on equipment, transportation vehicles and furniture and fixtures – BGN 34,894 thousand (31 December 2013: BGN 48,039 thousand);
- Pledges on assets in process of acquisition – BGN 168 thousand (31 December 2013: none).

Revaluation of property, plant and equipment to fair value

As at 31 December 2011, the Company performed an overall review and assessment for price changes of property, plant and equipment of the Group with the assistance of certified appraisers. As a result of this review it made the latest revaluation of property, plant and equipment, the results of which were displayed in the consolidated financial statements.

The following two basic approaches and valuation methods were used in these revaluations to measure the fair value of the different types (groups) of tangible fixed assets:

- 'Market-based approach' through the 'Market comparables (analogues) method' – with regard to land and buildings for which actual market existed, analogous properties and transactions with them were observed and basis for comparison was available – their adjusted market price determined under the comparative method was accepted as fair value;
- 'Assets (expenses)-based approach' through the 'Method of amortised recoverable amount' – for special-purpose buildings for which no actual market existed, and comparative sales of analogous assets – their amortised recoverable amount was accepted as their fair value and under the hypothesis of their common use in technologically-related production business process (including the term) and taking into account: physical ware, functional and economic impairment.

Revaluation reserve at the amount of BGN 3,099 thousand was then recognised as a result of the revaluation net of impairment.

As at 31 December 2014, the Group's management again analysed the price changes of its key tangible fixed assets and concluded that no conditions and grounds were available for a new revaluation of the assets before the expiry of the adopted usual term *(Note 2.10).*

18. INTANGIBLE ASSETS

	Goodwill		*Intellectual property rights*		*Software*		*Other*		*Assets in progress*		*Total*	
	2014 BGN'000	*2013 BGN'000*	*2014 BGN'000*	*2013 BGN'000*	*2014 BGN'000*	*2013 BGN'000*	*2014 BGN'000*	*2013 BGN'000*	*2014 BGN'000*	*2013 BGN'000*	*2014 BGN'000*	*2013 BGN'000*
Book value												
Balance at 1 January	**21,912**	**21,846**	**13,552**	**10,249**	**8,383**	**5,676**	**3,344**	**2,441**	**909**	**2,559**	**48,100**	**42,771**
Additions	-	271	53	27	1,814	320	-	-	665	873	**2,532**	**1,491**
Acquired assets in subsidiaries and joint ventures	-	-	-	3,047	-	400	-	916	-	-	**-**	**4,363**
Effects of foreign currency and hyperinflationary restatements	(1,797)	(215)	(262)	(150)	(28)	-	2	16	-	-	**(2,085)**	**(349)**
Transfer	-	-	287	381	191	2,065	-	-	(478)	(2,446)	-	-
Effect of changes in accounting policies	-	10	-	-	-	-	-	-	-	-	-	**10**
Written-off book value of assets on disposal of subsidiaries	(12)	-	(905)	-	-	-	-	-	-	-	**(917)**	-
Disposals	-	-	(747)	(2)	(3)	(78)	-	(29)	-	(77)	**(750)**	**(186)**
Balance at 31 December	**20,103**	**21,912**	**11,978**	**13,552**	**10,357**	**8,383**	**3,346**	**3,344**	**1,096**	**909**	**46,880**	**48,100**
Accumulated amortisation and impairment												
Balance at 1 January	**9,069**	**8,929**	**5,616**	**3,948**	**4,082**	**3,109**	**972**	**649**	**14**	**-**	**19,753**	**16,635**
Amortisation charge for the year	-	-	1,768	1,667	1,122	1,001	474	322	4	7	**3,368**	**2,997**
Allowance for impairment	116	140	-	-	-	-	-	-	-	-	**116**	**140**
Effects of foreign currency and hyperinflationary restatements	-	-	83	3	24	3	118	1	12	7	**237**	**14**
Written-off amortisation of assets on disposal of subsidiaries	-	-	(383)	-	-	-	-	-	-	-	**(383)**	**-**
Amortisation written-off	-	-	(399)	(2)	-	(31)	-	-	-	-	**(399)**	**(33)**
Balance at 31 December	**9,185**	**9,069**	**6,685**	**5,616**	**5,228**	**4,082**	**1,564**	**972**	**30**	**14**	**22,692**	**19,753**
Carrying amount at 31 December	**10,918**	**12,843**	**5,293**	**7,936**	**5,129**	**4,301**	**1,782**	**2,372**	**1,066**	**895**	**24,188**	**28,347**
Carrying amount at 1 January	**12,843**	**12,917**	**7,936**	**6,301**	**4,301**	**2,567**	**2,372**	**1,792**	**895**	**2,559**	**28,347**	**26,136**

The rights on intellectual property include mainly products of development activities related to medicinal substances (active ingredients) 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 capitalised 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, Broncholitin, Tabex, Analgin, Tribestan, Vicetin, Sydnopharm, Antistenocardin, Spasmalgon, Softensif, Chlofadon, Chlofasolin, Sofafailin, Sopral, Vasopren, Buscolisin, Nivalin, Maraslavin, Dimex, Allergosan, Aminalon.

Capitalised 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 the exclusive contracts with suppliers, licences and distribution network, acquired in business combinations.

Goodwill impairment

The management of the Group performed the necessary procedures for the mandatory test for impairment of the goodwill, recognised in the consolidated statement of financial position, on the acquisition of the subsidiaries. For the purpose, each individual company was accepted as a 'cash generating unit'.

The calculations were made by the management of the Group with the assistance of an independent certified appraiser and a detailed review was performed on the availability of events and facts that could serve as indicators for changes in the assumptions and assessments made at 31 December 2014.

The (pre-tax) projected cash flows were 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 was determined on the basis of the 'value in use'. The key assumptions used in the calculations of recoverable amount were as follows:

- growth rate within a three (or five) year period – from 0% to 20%;
- growth rate of EBITDA – from minus 0.064% to 244%;
- growth after the projected period upon calculation of terminal value – 0%;
- discount rate (based on WACC) – from 8.30% to 32.20%.

The key assumptions used in the calculations had 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 recognised goodwill were 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.

Impairment of goodwill at the total amount of BGN 116 thousand is recognised as at 31 December 2014 for 6 subsidiaries in Belarus.

At 31 December 2013, there was recognised impairment of goodwill at the total amount of BGN 140 thousand for the subsidiary OOO Tabina.

19. INVESTMENT PROPERTY

	2014	*2013*
	BGN '000	*BGN '000*
Balance at 1 January	**10,526**	**7,110**
Additions	103	3,359
Capitalised costs	-	99
Disposals	-	(3)
Net loss on fair value adjustment, included in profit or loss *(Note 5)*	(23)	(39)
Balance at 31 December	**10,606**	**10,526**

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

Group of assets	*31.12.2014*	*31.12.2013*
	BGN '000	*BGN '000*
Warehouse premises	3,787	3,851
Offices	3,900	3,859
Production buildings	2,492	2,382
Social objects	427	434
Total	**10,606**	**10,526**

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

Fair value measurement

Fair value hierarchy

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

The investment property remeasurement to fair value is recurring and is due to the application of the fair value model under IAS 40. It is performed regularly at the end of each reporting period. The fair value is determined with the assistance of independent certified appraisers.

The table below shows reconciliation between the opening and closing balances of the fair values of investment properties measured at Level 2:

	Warehouse premises	***Offices***	***Production buildings***	***Social objects***	***Total***
Balance at 1 January 2013	**3,773**	**1,539**	**1,361**	**437**	**7,110**
Purchases and capitalised costs	94	2,332	1,032	-	3,458
Disposals	-	-	(3)	-	(3)
Revaluation to fair value through profit or loss – unrealised *(Note 5)*	(16)	(12)	(8)	(3)	(39)
Balance at 31 December 2013	**3,851**	**3,859**	**2,382**	**434**	**10,526**
Purchases and capitalised costs	-	-	103	-	103
Disposals	-	-	-	-	-
Revaluation to fair value through profit or loss – unrealised *(Note 5)*	(64)	41	7	(7)	(23)
Balance at 31 December 2014	**3,787**	**3,900**	**2,492**	**427**	**10,606**

Valuation techniques and significant unobservable inputs

The table below shows a description of the valuation techniques, used in measuring the fair value of all groups of Level 2 investment properties as well as the used significant unobservable inputs:

Groups of assets (Level 2)	**Valuation approaches and techniques**	**Significant unobservable inputs**
Warehouse premises Production buildings	*a. Income approach* Valuation technique: Method of capitalised rental income as application of discounted cash flows (main valuation technique)	a. Weighted rate of return b. Term to entrance into rental deals
	b. Cost approach Valuation technique: Method of replacement costs – depreciated recoverable amount (ancillary supportive valuation technique)	Adjusted prices for construction of identical properties and purchase prices of machinery and equipment, similar to those attached
Offices Social objects	*a. Income approach* Valuation technique: Method of capitalised rental income as application of discounted cash flows (main valuation technique)	a. Weighted rate of return b. Term to entrance into rental deals
	b. Market approach Valuation technique: Market multiples method (supportive valuation technique)	Comparability adjustments

20. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
Investments in associates	7,672	1,002
Investments in joint ventures	4,715	638
Общо	**12,387**	**1,640**

20.1. Acquisition of interest in an associate

The principal activities of the associate Medica AD as at 31 December 2014 include production and trade in pharmaceuticals.

Company	**% interest**	**Acquisition cost BGN'000**	**Date of shares acquisition**
Medica AD	24.38	7,272	04.11.2014

The principal activities of the associate BOOO SpetzApharmacia, Belarus, as at 31 December 2013 include trade in pharmaceuticals.

Company	**% interest**	**Acquisition cost BGN '000**	**Date of shares acquisition**
SpetzApharmacia BOOO	38	1,033	03.09.2013

The movement of the investments in associates is presented below:

	2014	*2013*
	BGN'000	*BGN'000*
Balance at 1 January	**1,002**	**582**
Acquisition of shares	4,109	4,503
Recalculation of previously held shares on the acquisition of significant influence in Group companies *(Note 14)*	607	(841)
Transfer from available-for-sale investments *(Note 21)*	3,882	-
Transfer to subsidiaries	-	(4,052)
Transfer to joint ventures	(1,974)	-
Share in the (loss)/profit for the year	(61)	105
Effects of foreign currency and hyperinflationary restatements	107	705
Balance at 31 December	**7,672**	**1,002**

Group's share in the results of the associates and their aggregated assets (including goodwill) and liabilities is as follows:

31 December 2014	**Share in the assets**	**Share in the liabilities**	**Share in revenue**	**Share in profit/(loss)**	**Interest**
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***	***%***
Medica AD	7,141	684	710	(61)	24.38

31 December 2013	**Share in the assets**	**Share in the liabilities**	**Share in revenue**	**Share in profit/(loss)**	**Interest**
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***	***%***
BOOO SpetzApharmacia	450	339	624	(268)	38

The investment in the associate as at 31 December 2014 includes also the recognised goodwill amounting to BGN 196 thousand (31 December 2013: BGN 455 thousand).

20.2. Acquisition of interest in a joint ventures

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

Company	**% interest**	**Acquisition cost BGN'000**	**Date of shares acquisition**
OOO Vivaton Plus	50%	501	20.12.2012
OOO Med-dent	50%	622	17.12.2013
OOO Bellerophon	50%	430	21.11.2014
BOOO SpetzApharmacia	50%	2,005	20.01.2014
ZAO Interpharm	50%	1,682	31.12.2014

The joint ventures of the Group as at 31 December 2013 were as follows:

Company	**% interest**	**Acquisition cost BGN '000**	**Date of shares acquisition**
OOO Vivaton Plus	50%	311	20.12.2012
OOO Med-dent	50%	499	17.12.2013

The principal activities of the acquired joint ventures are disclosed in *Note 1*.

The Group acquired indirect interest in OOO Med-dent, OOO Vivaton Plus, OOO Bellerophon and BOOO SpetzApharmacia in Belarus, through the purchase of 50% of their capital (joint control). The acquisition was performed by the subsidiary Briz SIA, Latvia.

In 2014 the Group lost the control over its subsidiary ZAO Interpharm, Belarus. The remaining retained investment has been transformed into a joint venture (*Note 45*).

The movement of investments in joint ventures is presented below:

	2014	*2013*
	BGN'000	*BGN'000*
Balance at 1 January	**638**	**255**
Acquisition of shares	430	498
Capital increase	310	-
Transfer from associates	1,974	-
Transfer from subsidiaries	1,682	-
Share in the (loss)/profit for the year	(236)	63
Effects of transactions with Group's companies	(62)	-
Effects of exchange differences	(21)	(178)
Balance at 31 December	**4,715**	**638**

20.3. General information on the joint ventures

At 31 December the Group exercises a joint control in five companies. The investments in joint ventures have been measured in the consolidated financial statements by applying the equity method and are as follows:

Company name	*Principal activities*	*Country*	*Carrying amount of the investment*	*Interest share in ownership*	*Carrying amount of the investment*	*Interest share in ownership*
			31.12.2014	*31.12.2014*	*31.12.2013*	*31.12.2013*
OOO Vivaton Plus	Trade in pharmaceuticals	Belarus	161	50.00%	140	50.00%
OOO Med-dent	Trade in pharmaceuticals	Belarus	508	50.00%	498	50.00%
BOOO SpetzApharmacia	Trade in pharmaceuticals	Belarus	1,857	50.00%	-	0%
OOO Bellerophon	Trade in pharmaceuticals	Belarus	424	50.00%	-	0%
ZAO Interpharm	Trade in pharmaceuticals	Belarus	1,765	50.00%	-	0%
		Country	**4,715**		**638**	

The table below presents summarised financial information on each joint venture, which is material for the Group.

	31.12.2014					***31.12.2013***	
Financial indicators	***OOO Vivaton Plus***	***OOO Med-dent***	***BOOO SpetzApharmacia***	***OOO Bellerophon***	***ZAO Interpharm***	***OOO Vivaton Plus***	***OOO Med-dent***
Summarised information from the statement of financial position	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***
Current assets, including:	742	326	777	358	893	676	258
Cash and cash equivalents	*21*	*8*	*24*	*36*	*25*	*34*	*9*
Non-current assets	410	84	399	242	593	728	273
Current liabilities, including:	(1,135)	(225)	(617)	(284)	(331)	(1,232)	(270)
Current financial liabilities	*(66)*	*(12)*	*(40)*	*(13)*	*(101)*	*(55)*	-
(excluding trade and other payables and provisions)	(60)	(12)	(99)	(40)	(104)	(93)	(54)
Non-current liabilities, including:	*(60)*	*(12)*	*(32)*	*(40)*	*(104)*	*(93)*	*(45)*
Non-current financial liabilities	**(43)**	**173**	**460**	**276**	**1,051**	**79**	**207**
Summarised information from the statement of comprehensive income	***2014***	***2014***	***2014***	***2014***	***2014***	***2013***	***2013***
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***
Revenue	3,659	1,725	4,490	987	6,724	3,105	734
Depreciation and amortisation expense on tangible and intangible assets	*(103)*	*(181)*	*(28)*	*(10)*	*(145)*	*(98)*	*(2)*
Interest costs	*(6)*	-	-	-	-	*(27)*	-
Income tax expense	*40*	*30*	*9*	(4)	*11*	*(15)*	-
Net profit/(loss) for the year	(314)	(143)	(55)	40	(84)	(377)	41
Other comprehensive income for the year, net of tax	-	-	-	-	-	-	-
Total comprehensive income for the year	(314)	(143)	(55)	40	(84)	(377)	41
Proceeds from dividends under investments in joint ventures	-	-	-	-		-	-

The table below presents the reconciliation between the summarised financial information on the material interests in joint ventures and their carrying amount at 31 December, included in these consolidated financial statements:

31 December 2014	***OOO Vivaton Plus***	***OOO Med-dent***	***BOOO SpetzApharmacia***	***OOO Bellerophon***	***ZAO Interpharm***	***Total***
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***
Net assets	(43)	173	460	276	1,051	1,918
Group's share (%)	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Group's share in the net assets	(21)	87	230	138	526	960
Goodwill	190	436	1,650	302	1,239	3,817
Adjustments on transactions with Group's companies	(8)	(15)	(23)	(16)	-	(62)
Carrying amount of the investment	**161**	**508**	**1,857**	**424**	**1,765**	**4,715**

31 December 2013	***OOO Vivaton Plus***	***OOO Med-dent***	***Total***
	BGN'000	***BGN'000***	***BGN'000***
Net assets	79	207	286
Group's share (%)	50.00%	50.00%	50.00%
Group's share in the net assets	39	104	143
Goodwill	161	394	555
Effects of changes in accounting policies	(60)	-	(60)
Carrying amount of the investment	**140**	**498**	**638**

20.4. General information on the associates

Company name	***Principal activities***	***Country***	***Carrying amount***	***Interest share in ownership / Voting rights share***	***Carrying amount***	***Interest share in ownership / Voting rights share***
			31.12.2014	***31.12.2014***	***31.12.2013***	***31.12.2013***
Medica AD	Production and trade in pharmaceuticals	Bulgaria	7,672	24.38%	-	0%
BOOO SpetzApharmacia	Trade in pharmaceuticals	Belarus	-	0%	1,002	38%
			7,672		**1,002**	

The table below presents summarised financial information on each associate, which is material for the Group:

Financial indicators	***Medica AD***
	31.12.2014
	BGN'000
Summarised information from the statement of financial position	
Current assets	14,758
Non-current assets	14,499
Current liabilities	(2,128)
Non-current liabilities	(641)
Net assets	**26,488**
	01.11-31.12.2014
Summarised information from the statement of comprehensive income	***BGN'000***
Revenue	2,911
Net profit for the year	189
Other comprehensive income for the year, net of tax	(4)
Total comprehensive income for the year	185

Financial indicators	***BOOO SpetzApharmacia***
	31.12.2013
	BGN'000
Summarised information from the statement of financial position	
Current assets	739
Non-current assets	446
Current liabilities	(706)
Non-current liabilities	(186)
Net assets	**293**
Summarised information from the statement of comprehensive income	
Revenue	1,642
Net profit for the year	69
Other comprehensive income for the year, net of tax	-
Total comprehensive income for the year	69

The table below presents the reconciliation between the summarised financial information on the material interests in associates and their carrying amount at 31 December, included in these consolidated financial statements:

31 December 2014	***Medica AD***
	BGN'000
Net assets	30,694
Group's share (%)	24.38%
Group's share in the net assets	7,483
Goodwill	143
Other adjustments	46
Carrying amount of the investment	**7,672**

31 December 2013	***BOOO SpetzApharmacia***
	BGN'000
Net assets	293
Group's share (%)	38%
Group's share in the net assets	111
Goodwill	922
Other adjustments	(31)
Carrying amount of the investment	**1,002**

20.5. The cash outflows from acquisition of joint ventures and associates:

In 2014:

Cash flows on acquisition of control:	***BGN'000***
Associate (Medica AD)	3,139
Joint venture (BOOO SpetzApharmacia)	972
Joint venture (OOO Bellerophon)	430
Joint venture (OOO Vivaton Plus)	190
Joint venture (OOO Med-dent)	123
	4,854

In 2013:

Cash flows on acquisition of control:	***BGN'000***
Joint venture (BOOO SpetzApharmacia)	1,033
Joint venture (OOO Med-dent)	498
	1,531

21. AVAILABLE-FOR-SALE INVESTMENTS

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

	Country	*31.12.2014 BGN '000*	*Interest %*	*31.12.2013 BGN '000*	*Interest %*
Doverie Obedinen Holding AD	Bulgaria	2,759	14.88	2,303	14.88
Lavena AD	Bulgaria	1,307	11.02	1,279	10.9
Olainfarm AD	Latvia	1,256	0.77	1,313	0.77
Elana Money Market Fund	Bulgaria	252	1.14	-	-
ODO Alenpharm-plus	Belarus	207	10	-	-
Hydroizomat AD	Bulgaria	202	10.63	270	10.02
OOO Pharmico	Belarus	172	2	-	-
ODO SalusLine	Belarus	162	10	-	-
Elana Agrocredit AD	Bulgaria	102	1.95	101	1.95
ODO DKM-Pharm	Belarus	100	2	-	-
OOO Mobil Line	Belarus	92	10	-	-
OOO GalenaPharm	Belarus	86	10	-	-
OOO Set Aptek	Belarus	70	2	-	-
OOO Danapharm	Belarus	39	10	-	-
ODO Medjel	Belarus	31	10	-	-
Todorov AD	Bulgaria	26	4.7	39	4.5
Medica AD	Bulgaria	-	-	2,539	10.21
Elpharma AD	Bulgaria	-	0	136	19
Sopharma Properties REIT	Bulgaria	-	0	75	0.2
Other		105	-	132	-
Total		**6,968**		**8,187**	

In 2014 the Group purchased additionally shares in Medica AD at the amount of BGN 1,343 thousand and through this increase in the shares the company became an associate for the Group *(Note 20)*.

As at 31 December 2014, the Group has available-for-sale investments in Belarus at the total amount of BGN 959 thousand for the purpose of stepwise acquisition of control or significant influence over these companies in order to expand its share in this market. They are measured and presented in the consolidated financial statements at acquisition cost.

The other available-for-sale financial assets as at 31 December 2014, amounting to BGN 105 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.

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

	31.12.2014			*31.12.2013*		
	Number of shares held	*Fair value per share*	*Fair value as per the consolidated statement of financial position*	*Number of shares held*	*Fair value per share*	*Fair value as per the consolidated statement of financial position*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Doverie Obedinen Holding AD	2,789,345	0.99	2,759	2,789,345	0.83	2,303
Olainfarm AD	108,500	11.58	1,256	108,500	12.1	1,313
Lavena AD	29,380	44.49	1,307	29,062	44.01	1,279
Hydroizomat AD	317,901	0.64	202	299,499	0.9	270
Elpharma AD	-	-	-	95	1,431.58	136
Elana Agrocredit AD	100,000	1.02	102	100,000	1.01	101
Sopharma Properties REIT	-	-	-	30,656	2.46	75
Todorov AD	162,500	0.16	26	152,919	0.25	39
Elana Money Market Fund	1,666.6830	0.15	252	-	-	-
Medica AD	-	-	-	1,027,561	2.47	2,539
			5,904			**8,055**

The table below presents Group'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

Available-for-sale investments	***Fair value 31.12.2014***	***Level 1***	***Level 2***	***Level 3***
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***
Doverie Obedinen Holding AD	2,759	-	-	2,759
Lavena AD	1,307	-	1,307	-
Olainfarm AD - Latvia	1,256	1,256	-	-
Elana Money Market Fund	252	252	-	-
Hydroizomat AD	202	-	202	-
Elana Agrocredit AD	102	102	-	-
Todorov AD	26	26	-	-
Total	**5,904**	**1,636**	**1,509**	**2,759**

Available-for-sale investments	***Fair value 31.12.2013***	***Level 1***	***Level 2***	***Level 3***
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***
Medica AD	2,539	-	-	2,539
Doverie Obedinen 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 AD	75	-	75	-
Todorov AD	39	39	-	-
Total	**8,055**	**1,453**	**1,624**	**4,978**

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

Available-for-sale investments	***Level 1***	***Level 2***	***Level 3***	***Total***
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***
Balance at 1 January 2013	**1,182**	**1,040**	**21,085**	**23,307**
Purchases	109	686	791	1,586
Emissions	-	174	-	174
Reclassification to subsidiaries	-	-	(583)	(583)
Sales	(113)	(203)	(4,132)	(4,448)
Realised gain/(loss) included in the current profit and loss for the year in the item *Finance costs – Net loss on transactions with securities*	1	(6)	(5,721)	(5,726)
Transfers to Level 1	-	(29)	-	(29)
Transfers from Level 2	29	-	-	29
Unrealised gain/(loss) included in the current profit and loss for the year *(Note 13)*	-	(316)	(6,453)	(6,769)
Unrealised gain/(loss) included in other comprehensive income *(Note 16)*	245	278	(9)	514
Balance at 31 December 2013	**1,453**	**1,624**	**4,978**	**8,055**
Purchases	271	53	1,351	1,675
Sales	-	(121)	(146)	(267)
Reclassification to investments in associates and joint ventures *(Note 20)*	-	-	(3,882)	(3,882)
Realised gain/(loss) included in the current profit and loss for the year in the item *Finance costs – Net loss on transactions with securities*	-	(2)	2	-
Unrealised (loss)/gain included in the current profit and loss for the year *(Note 13)*	(24)	(64)	-	(88)
Unrealised gain/(loss) included in other comprehensive income *(Note 16)*	(64)	18	457	411
Balance 31 December 2014	**1,636**	**1,508**	**2,760**	**5,904**

Valuation techniques and significant unobservable inputs

The table below shows the valuation techniques applied for fair value measurement at Level 2 and Level 3 as well as the used significant unobservable inputs:

Available-for-sale financial investments (shares)	***Valuation approaches and techniques***	***Significant unobservable inputs***
Level 2	*Market comparables approach:* Valuation technique: Market multiples method	-
Level 3	*a. Income approach* Valuation technique: Discounted cash flows method	* projected annual rate of revenue growth * revenue growth rate after the projected period * projected annual rate of costs growth * discount rate (based on WACC)
	b. Market approach 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 in which significant unobservable inputs have been used (Level 3):

Valuation technique	***Unobservable inputs***	***Range (weighted average)***	***Relationship between significant unobservable inputs and fair value measurement – sensitivity to key assumptions***
Discounted cash flows			The estimated fair value would increase (decrease), if:
	* projected annual rate of revenue growth	* 1 % (weighted average 1%)	* the projected annual rate of revenue growth 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 rate of costs growth	* 0 % (weighted average 0 %)	* the projected annual rate of costs growth was lower (higher);
	* discount rate (based on WACC)	* 10.08% (weighted average 10.08 %)	* the discount rate was lower (higher)

Sensitivity analysis

The sensitivity analysis of the fair value of available-for-sale financial investments (shares) Level 3 to the significant unobservable inputs is based on the reasonably possible changes (increase or decrease) by 0.5% of each of the individual indicators presented:

a. projected annual rate of revenue growth
b. revenue growth rate after the projected period
c. projected annual rate of costs growth
d. discount rate (based on WACC)

while accepting that the others remain unchanged.

The effects of the change in the significant unobservable inputs on: (a) the *fair value* of the measured assets (Level 3), (b) the *current profit for the year*, and (c) the equity component *Available-for-sale financial assets reserve as at 31 December 2014*, are presented in the table below:

31 December 2014

Significant unobservable inputs	***Fair value of available-for-sale financial investments (shares) (Level 3)***		***Current profit for the year***		***Equity – component Available-for-sale financial assets reserve***	
Effect in BGN'000	***Increase***	***Decrease***	***Increase***	***Decrease***	***Increase***	***Decrease***
31 December 2014						
Projected annual rate of revenue growth	54	(5)	-	(5)	54	-
Revenue growth rate after the projected period	146	(130)	-	(127)	146	(3)
Projected annual rate of costs growth	-	-	-	-	-	-
Discount rate (based on WACC)	(185)	199	(182)	-	(3)	199

31 December 2013

Significant unobservable inputs	***Fair value of available-for-sale financial investments (shares) (Level 3)***		***Current profit for the year***		***Equity – component Available-for-sale financial assets reserve***	
Effect in BGN'000	***Increase***	***Decrease***	***Increase***	***Decrease***	***Increase***	***Decrease***
31 December 2013						
Projected annual rate of revenue growth	261	(321)	72	(188)	189	(133)
Revenue growth rate after the projected period	403	(359)	252	(233)	151	(126)
Projected annual rate of costs growth	(1,401)	1,488	(1,379)	1,377	(22)	111
Discount rate (based on WACC)	(536)	482	(399)	329	(137)	153

22. 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 under a common indirect control and include:

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

The long-term loans are granted to companies related through key managing personnel.

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

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

The long-term loans granted to related parties are intended to support the financing of these companies operations under common strategic targets. They are secured through pledges on securities (shares).

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

23. OTHER NON-CURRENT RECEIVABLES

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

	31.12.2014	***31.12.2013***
	BGN'000	***BGN'000***
Loans granted	293	467
Other	60	21
Total	**353**	**488**

The loans granted by the Group as at 31 December 2014 are to third parties, without collateral and with agreed annual interest of 8% (31 December 2013: from 2 % to 8.08 %).

24. INVENTORIES

Inventories include:	***31.12.2014***	***31.12.2013***
	BGN'000	***BGN'000***
Goods	79,237	64,351
Finished products	36,414	33,969
Materials	30,464	33,886
Work in progress	5,986	5,754
Semi-finished products	3,809	2,392
Total	**155,910**	**140,352**

Goods *by type* are as follows:	***31.12.2014***	***31.12.2013***
	BGN'000	***BGN'000***
Tablet dosage forms	44,070	35,031
Ampoule dosage forms	12,196	10,420
Syrups	6,782	2,691
Drops	4,057	1,412
Ointments	3,611	2,038
Goods in transit	245	883
Other	8,276	11,876
Total	**79,237**	**64,351**

Finished products existing at 31 December include:

	31.12.2014	***31.12.2013***
	BGN'000	***BGN'000***
Tablet dosage forms	23,008	20,082
Ampoule dosage forms	5,713	5,081
Syrups	2,493	2,970
Other	5,200	5,836
Total	**36,414**	**33,969**

Materials by type are as follows:	***31.12.2014***	***31.12.2013***
	BGN'000	***BGN'000***
Basic materials	26,804	31,141
Materials in transit	1,323	457
Auxiliary materials	485	610
Technical materials	474	413
Spare parts	372	374
Other	1,006	891
Total	**30,464**	**33,886**

Basic materials by type are as follows:

	31.12.2014	***31.12.2013***
	BGN'000	***BGN'000***
Substances (active ingredients)	14,528	20,789
Chemicals	4,423	2,224
Vials, tubes and ampoules	2,809	3,317
Packaging materials	1,478	2,013
PVC and aluminium foil	1,262	1,159
Herbs	1,170	859
Other	1,134	780
Total	**26,804**	**31,141**

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 30, 35 and 41).*

25. TRADE RECEIVABLES

Trade receivables include:	***31.12.2014 BGN'000***	***31.12.2013 BGN'000***
Receivables from clients	*194,010*	*189,816*
Impairment of uncollectable receivables	*(2,382)*	*(2,758)*
Receivables from clients, net	191,628	187,058
Advances to suppliers	*4,875*	*4,123*
Impairment of advances	*(173)*	*(54)*
Advances granted, net	4,702	4,069
Total	**196,330**	**191,127**

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

Usually the Group companies negotiate with their clients payment terms 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 managing bodies of the Group companies assess collectability by analysing the exposure of the particular client, the opportunities for settlement (of the client and through the collateral) and take decision on the amount, recognition and charging of the respective impairment.

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

	31.12.2014 BGN'000	***31.12.2013 BGN'000***
up to 30 days	56,906	53,773
from 31 to 90 days	45,588	52,377
from 91 to 180 days	4,907	18,419
from 181 to 365 days	2,158	6,172
from 1 to 2 years	7	3,824
over 2 years	2,771	635
Total	**112,337**	**135,200**

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

	31.12.2014 BGN'000	***31.12.2013 BGN'000***
from 31 to 90 days	18,455	9,409
from 91 to 180 days	8,889	4,287
from 181 to 365 days	13,988	11,006
from 1 to 2 years	9,504	2,520
over 2 years	1,246	365
Total	**52,082**	**27,587**

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).

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

	31.12.2014 BGN'000	***31.12.2013 BGN'000***
from 31 to 90 days	262	822
from 91 to 180 days	112	3,343
from 181 to 365 days	19,697	10,042
from 1 to 2 years	8,052	9,464
over 2 years	1,468	3,358
Allowance for impairment	(2,382)	(2,758)
Total	**27,209**	**24,271**

The impairment amount is calculated on an individual basis by applying the discounted cash flows method, with discount rate based on the price of company's borrowed resources adjusted against the average net return and conservative prognosis for the expected cash flows determined on the grounds of debtor's history and signed agreements, respectively, court decisions in this regard. The receivables, or the portion thereof, with collectability assessed by the management as highly improbable and not secured by collateral, are 100% impaired. *(Note 2.33)*

As at 31 December 2014, there are established special pledges on trade receivables at the amount of BGN 88,577 thousand (31 December 2013: BGN 88,700 thousand) as collateral under bank loans received by the Group and issued bank guarantees *(Notes 30, 35 and 41).*

Movement of the allowance for impairment

	2014	*2013*
	BGN'000	*BGN'000*
Balance at the beginning of the year	**2,758**	**3,345**
Impairment amount	*2,164*	*1,368*
Amounts written-off under uncollectable receivables	*(1,596)*	*(389)*
Reversed impairment	*(944)*	*(1,118)*
Transfer to impairment of court and awarded receivables *(Note 27)*	-	*(448)*
Effect of restatement	-	-
Balance at the end of the year	**2,382**	**2,758**

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

	31.12.2014	*31.12.2013*
	BGN'000	*BGN'000*
Services	*1,174*	*1,935*
Raw materials and consumables	*2,894*	*1,259*
Goods	*710*	*899*
Other	*97*	*30*
Allowance for impairment	*(173)*	*(54)*
Total	**4,702**	**4,069**

26. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:

	31.12.2014	*31.12.2013*
	BGN'000	*BGN'000*
Receivables from companies related through key managing personnel	14,471	17,792
Receivables from companies under a common indirect control	10,385	10,703
Receivables from joint ventures	462	654
Total	**25,318**	**29,149**

The ***receivables from related parties*** by type are as follows:

	31.12.2014	*31.12.2013*
	BGN'000	*BGN'000*
Trade loans granted	22,253	25,359
Receivables on sales of finished products and materials	3,065	3,790
Total	**25,318**	**29,149**

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

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

The ***granted loans*** are as follows:

Currency	*Contracted amount*	*Maturity*	*Interest*	*31.12.2014*		*31.12.2013*	
	'000		*%*	*BGN '000*	*BGN '000 including interest*	*BGN '000*	*BGN '000 including interest*
to companies related through key managing personnel							
EUR	10,824	31.12.2015	4.50%	9,537	18	11,346	16
BGN	34,020	31.12.2015	5.50%	3,097	9	5,662	14
BGN	6,000	22.07.2015	5.50%	1,236	26	-	-
BGN	1,300	31.12.2015	5.50%	477	17	551	50
BGN	190	31.12.2015	5.50%	128	1	167	-
to companies under a common indirect control							
EUR	7,661	31.12.2015	4.50%	7,632	155	7,477	-
BGN	120	31.12.2015	6.00%	146	40	156	36
Total:				**22,253**	**266**	**25,359**	**116**

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 (including substances – active ingredients). The Group has set a maximum credit period of up to 365 days for sales counterparts – related parties. Any delay after this period is regarded by the Group as an indicator for impairment. The managing bodies of the Group companies assess collectability by analysing 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 recognised and charged on an individual basis and at what amount.

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

	31.12.2014	*31.12.2013*
	BGN'000	***BGN'000***
up to 30 days	970	1,947
from 31 to 90 days	607	742
from 91 to 180 days	86	112
from 181 to 365 days	-	172
Total	**1,663**	**2,973**

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

	31.12.2014	***31.12.2013***
	BGN'000	***BGN'000***
from 31 to 90 days	321	145
from 91 to 180 days	234	92
from 181 to 365 days	473	247
from 1 to 2 years	244	-
Total	**1,272**	**484**

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

	31.12.2014	***31.12.2013***
	BGN'000	***BGN'000***
over 1 year	271	519
Allowance for impairment	(141)	(186)
Total	**130**	**333**

Movement of the allowance for impairment

	2014	***2013***
	BGN'000	***BGN'000***
Balance at 1 January	**186**	**478**
Impairment amount	141	186
Reversed impairment	(186)	(225)
Impairment of uncollectable receivables written-off	-	(253)
Balance at 31 December	**141**	**186**

As at 31 December 2014, there are special pledges, established as collateral under received bank loans, on receivables from related parties at the amount of BGN 16,229 thousand (31 December 2013: BGN 16,229 thousand) *(Note 35).*

27. OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments of the Group include:

	31.12.2014 BGN'000	***31.12.2013 BGN'000***
Court and awarded receivables	*8,644*	*6,023*
Impairment of court receivables	*(4,753)*	*(5,226)*
Court and awarded receivables, net	3,891	797
Taxes refundable	8,580	5,614
Prepayments	4,057	1,668
Grants from public institutions *(Note 34)*	2,604	-
Loans granted to third parties	1,517	1,242
Guarantees under litigations *(Note 41)*	863	727
Receivables on deposits placed as guarantees	381	705
Amounts granted to investment intermediaries	125	327
Other	427	529
Total	**22,445**	**11,609**

The court and awarded receivables originate mainly in relation to sales to state hospitals. Repayment schedules have been agreed or are in a process of agreement for most of them. 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, the receivables under government grants at the amount of BGN 2,604 thousand (31 December 2013: none) have originated in relation with investment and current expenses, subject to refund from a grant under Operational Programme "Development of the Competitiveness of the Bulgarian Economy 2007 – 2013" in line with a payment request of 11 November 2014 submitted to the Ministry of Economy and Energy – General Directorate "European Funds for Competitiveness" (financing institution). (*Note 34*)

The completed project approval by the financing institution is expected in 2015.

Taxes refundable include:

	31.12.2014 BGN'000	***31.12.2013 BGN'000***
Excise duties	4,040	4,110
Income tax	2,590	629
VAT	1,950	840
Withholding taxes	-	35
Total	**8,580**	**5,614**

Prepayments include:	***31.12.2014***	***31.12.2013***
	BGN'000	***BGN'000***
Rentals	1,714	88
Insurance	796	603
Advertising	717	287
Subscriptions	492	364
Licence and patent fees	36	49
Vouchers	18	33
Other	284	244
Total	**4,057**	**1,668**

The loans granted to third parties amounted to BGN 1,517 thousand (31 December 2013: BGN 1,242 thousand) and were granted to eight entities (2013: nine entities) – counterparts for working capital. The annual interest agreed for these loans for 2014 was between 5.05% and 8% (2013: 2 % and 8.08%).

28. CASH AND CASH EQUIVALENTS

	31.12.2014	***31.12.2013***
	BGN'000	***BGN'000***
Cash at current bank accounts	20,750	20,801
Short-term deposits	3,007	3,875
Cash in hand	1,454	1,866
Short-term blocked funds	88	65
Cash and cash equivalents presented in the consolidated statement of cash flows	**25,299**	**26,607**
Blocked cash under litigations and under issued bank guarantees	1,523	527
Cash and cash equivalents presented in the consolidated statement of financial position	**26,822**	**27,134**

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

The average level of the annual interest on current accounts in BGN and foreign currency is within the range from 0.01% to 1% (2013: from 0.01% to 0.5%) and that on deposit accounts in BGN and foreign currency is within the range from 0.3% % to 25% (2013: from 0.3 % to 5.25 %).

The short-term blocked funds as at 31 December 2014 amounting to BGN 88 thousand (31 December 2013: BGN 65 thousand) represent mainly performance guarantees.

With regard to the current accounts of the Group, there are blocked funds under issued bank guarantees at the amount of BGN 922 thousand (31 December 2013: none) and an active distraint levied under a litigation at the amount of BGN 598 thousand (USD 372 thousand) (31 December 2013: BGN 527 thousand) *(Note 41)*.

29. EQUITY

Share capital

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

The shares are ordinary, non-cash, with a right to dividend and liquidation share and are registered for trade in the Bulgarian Stock Exchange – Sofia AD and Warsaw Stock Exchange.

At an extraordinary General Meeting of the Shareholders, held on 9 January 2015, a decision was taken to increase the share capital of Sopharma AD in relation with the merger of Bulgarian Rose Sevtopolis AD into Sopharma AD (takeover) *(Note 48).*

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

Statutory reserves at the amount of BGN 33,555 thousand (31 December 2013: BGN 30,051 thousand) 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 BGN 23,754 thousand (31 December 2013: BGN 24,657 thousand), 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.

The ***available-for-sale financial assets reserve***, amounting to BGN 1,190 thousand – a positive figure (31 December 2013: BGN 961 thousand – a positive figure), 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 associates on their valuation under the equity method).

The ***translation of foreign operations reserve***, amounting to BGN 4,335 thousand – a negative figure (31 December 2013: BGN 4,648 thousand – 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 the component 'other reserves', which contains the amounts distributed from profits of the Group companies generated in prior years, as well as the component 'accumulated profits and losses'.

The ***retained earnings***, amounting to BGN 203,260 thousand at 31 December (31 December 2013: BGN 195,896 thousand), include also the recognised accumulated actuarial loss at the amount of BGN 1,284 thousand (31 December 2013: BGN 975 thousand), stated upon remeasurements of defined benefit pension plans in relation with the amendment to IAS 19 *Employee Benefits.*

Basic earnings per share

	2014	***2013***
Weighted average number of shares	126,700,075	127,148,634
Net profit for the year, attributable to the equity holders of the parent (BGN'000)	20,178	29,392
Basic earnings per share (BGN)	**0.16**	**0.23**

30. LONG-TERM BANK LOANS

	Contracted loan amount	*Maturity*	*31.12.2014*			*31.12.2013*		
			Non-current portion	*Current portion*	*Total*	*Non-current portion*	*Current portion*	*Total*
	BGN'000		*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Credit lines and working capital loans								
EUR	1,452	31.12.2017	1,055	579	1,634	1,622	582	2,204
BGN	4,250	16.04.2023	3,925	315	4,240	1,342	201	1,543
EUR	450	31.12.2017	337	175	512	514	174	688
EUR	113	30.11.2015	-	61	61	62	68	130
EUR	690	04.01.2016	72	862	934	-	301	301
BYR	300,000	12.02.2016	14	28	42	-	-	-
Investment-purpose loans								
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	973	3,418	3,341	566	3,907
EUR	1,800	25.07.2014	-	-	-	-	543	543
EUR	1,617	30.01.2015	-	40	40	40	479	519
EUR	800	09.12.2015	-	348	348	348	347	695
Total			**45,820**	**10,772**	**56,592**	**55,992**	**7,083**	**63,075**

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 35).*

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 favour of the creditor banks:

- Real estate mortgages *(Note 17);*
- Special pledges on:
  - machinery and equipment *(Note 17);*
  - inventories *(Note 24);*
  - trade receivables *(Note 25).*

As at 31 December 2014, there were special pledges on receivables from related parties, subject to consolidation, eliminated for the purpose of the consolidated financial statements at the amount of BGN 1,481 thousand (31 December 2013: BGN 1,481 thousand). They were established as collateral under received by the Group bank loans and issued bank guarantees *(Notes 30, 35 and 41).*

31. DEFERRED TAX ASSETS AND LIABILITIES

The total change in ***deferred tax assets and liabilities*** of the Group for the respective financial year is as follows:

	2014	2013
	BGN'000	*BGN'000*
Balance at 1 January	**(1,668)**	**(3,341)**
Acquired on purchase of a subsidiary	-	(789)
Recognised in profit or loss for the year	(601)	2,209
Recognised in other comprehensive income	25	35
Derecognised on disposal of a subsidiary	104	-
Translation of foreign operations reserve	261	218
Balance at 31 December	**(1,879)**	**(1,668)**

On recognising deferred tax assets, the probability of a reversal of the individual differences and the abilities of the Group companies to generate sufficient taxable profit in the future, have been taken into account *(Note 2.33.2).*

The change in the balance of ***deferred tax assets*** for 2014 by items of temporary differences is as follows:

Deferred tax assets (by temporary differences)	*Balance at 1 January 2014*	*Acquired on purchase of a subsidiary*	*Recognised in profit or loss for the year*	*Recognised in other comprehensive income*	*Derecognised on disposal of a subsidiary*	*Translation of foreign operations reserve*	*Balance at 31 December 2014*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Intangible assets	197	-	(26)	-	-	-	171
Available-for-sale investments	243	-	(139)	-	-	(4)	100
Inventories	4,090	-	59	-	-	13	4,162
Trade receivables	1,476	-	(374)	-	-	(2)	1,100
Retirement benefit obligations to personnel	696	-	(3)	-	-	-	693
Other current liabilities	288	-	94	-	-	(7)	375
Total	**6,990**	**-**	**(389)**	**-**	**-**	**-**	**6,601**

The change in the balance of ***deferred tax liabilities*** for 2014 by items of temporary differences is as follows:

Deferred tax liabilities (by temporary differences)	*Balance at 1 January 2014*	*Acquired on purchase of a subsidiary*	*Recognised in profit or loss for the year*	*Recognised in other comprehensive income*	*Derecognised on disposal of a subsidiary*	*Translation of foreign operations reserve*	*Balance at 31 December 2014*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(7,246)	-	(458)	25	11	173	(7,495)
Intangible assets acquired in business combinations	(1,412)	-	246	-	93	88	(985)
Total	**(8,658)**	**-**	**(212)**	**25**	**104**	**261**	**(8,480)**

The change in the balance of ***deferred tax assets*** for 2013 by items of temporary differences is as follows:

Deferred tax assets (by temporary differences)	*Balance at 1 January 2013*	*Acquired on purchase of a subsidiary*	*Recognised in profit or loss for the year*	*Recognised in other comprehensive income*	*Derecognised on disposal of a subsidiary*	*Translation of foreign operations reserve*	*Balance at 31 December 2013*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Intangible assets	200	-	(4)	-	-	1	197
Available-for-sale investments	199	-	51	-	-	(7)	243
Inventories	3,229	-	814	-	-	47	4,090
Trade receivables	932	-	544	-	-	-	1,476
Retirement benefit obligations to personnel	492	-	207	-	-	(3)	696
Other current liabilities	67	(2)	208	-	-	15	288
Total	**5,119**	**(2)**	**1,820**	**-**	**-**	**53**	**6,990**

The change in the balance of ***deferred tax liabilities*** for 2013 by items of temporary differences is as follows:

Deferred tax liabilities (by temporary differences)	*Balance at 1 January 2013*	*Acquired on purchase of a subsidiary*	*Recognised in profit or loss for the year*	*Recognised in other comprehensive income*	*Derecognised on disposal of a subsidiary*	*Translation of foreign operations reserve*	*Balance at 31 December 2013*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(7,650)	-	308	35	-	61	(7,246)
Intangible assets acquired in business combinations	(810)	(787)	81	-	-	104	(1,412)
Total	**(8,460)**	**(787)**	**389**	**35**	**-**	**165**	**(8,658)**

Deferred tax assets for the following temporary differences have not been recognised (cumulatively):

	31.12.2014	***31.12.2014***	***31.12.2013***	***31.12.2013***
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***
	temporary difference	*tax*	*temporary difference*	*tax*
Tax loss carried forward	16,656	2,746	6,251	811
Impairment of assets	16,196	1,620	13,316	1,332
Other	-	-	314	31
Total	**32,852**	**4,366**	**19,881**	**2,174**

32. RETIREMENT BENEFIT OBLIGATIONS

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

	2014	***2013***
	BGN '000	***BGN '000***
Long-term retirement benefit obligations	3,575	3,412
Long-term benefit obligations for tantieme	211	145
Total	**3,786**	**3,557**

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 at least the last 10 years of the service period for the same employer – six gross monthly salaries at the time of retirement *(Note 2.24)*.

Employer's obligations to 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 a social pension, which the company accrues after employees' retirement due to specific work conditions;
- *Latvia and Belarus* – the employer does not have a legal obligation to personnel upon retirement;
- *Poland, USA and United Kingdom* – the Group has no hired personnel and therefore, no obligation;
- *Kazakhstan* – the employer does not have a legal obligation to personnel upon retirement;

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.

Movements in the present value of retirement benefit obligations to personnel were as follows:

	2014 *BGN'000*	*2013* *BGN'000*
Present value of the obligation at 1 January	**3,412**	**2,614**
Current service cost for the year	296	838
Interest cost for the year	183	139
Net actuarial gain recognised for the period	11	-
Past service cost in relation with staff curtailment	(13)	-
Payments made in the year	(518)	(296)
Effect of restatement	(275)	-
Remeasurement gains or losses for the year, including:	479	117
Actuarial losses arising from changes in financial assumptions	*42*	*72*
Actuarial losses arising from changes in demographic assumptions	*3*	*7*
Actuarial losses arising from experience adjustments	*434*	*38*
Present value of the obligations at 31 December	**3,575**	**3,412**

The amounts of long-term retirement benefits of personnel accrued in the consolidated statement of comprehensive income are as follows:

	2014	***2013***
	BGN'000	***BGN'000***
Current service cost	296	838
Interest cost	183	139
Net actuarial gain recognised for the period	11	-
Past service cost in relation with staff curtailment	(13)	-
Components of defined benefit plan costs recognised in profit or loss *(Note 8)*	**477**	**977**
Remeasurement gains or losses on the retirement benefit obligations, including:		
Actuarial losses arising from changes in financial assumptions	42	72
Actuarial losses arising from changes in demographic assumptions	3	7
Actuarial losses arising from experience adjustments	434	38
Components of defined benefit plan costs recognised in other comprehensive income *(Note 16)*	**479**	**117**
Total	**956**	**1,094**

The following actuarial assumptions were used for calculating the present value of the liabilities for the companies in Bulgaria as at 31 December 2014:

- The discount factor is calculated by using 3.8% annual interest rate as basis (2013: 4%). The assumption is based on yield data for long-term government securities with 10-year maturity;
- The assumption for the future level of work salaries is based on the information provided by Company’s management and amounts to 5% annual growth compared to the prior reporting period (2013: 5%);
- Mortality rate – in accordance with the table on the total mortality rate of the population in Bulgaria, issued by the National Statistics Institute for the period 2011 - 2013 (2013: 2010 - 2012);
- Staff turnover rate – from 0% to 20% for the five age groups formed (2013: from 0% to 16%).

This defined benefit plan exposes the Group companies to the following risks: investment risk, interest risk, longevity risk and salary growth related risk: The management of the parent defines them as follows:

- investment risk – as far as this is unfunded plan, the Group companies should monitor and balance currently the forthcoming payments under it with the ensuring of sufficient cash resources. The historical experience and the liability structure show that the annual resource required is not material compared to the commonly maintained liquid funds;
- interest risk – any increase in the yield of government securities with similar term will increase the plan liability;
- longevity risk – the present value of the retirement benefit liability is calculated by reference to the best estimate and updated information about the mortality of plan participants. An increase in life expectancy would result in a possible increase in the liability. A relative stability of this indicator has been observed in the recent years; and

- salary growth related risk – the present value of the retirement benefit liability is calculated by reference to the best estimate of the future increase in plan participants' salaries. Such an increase would increase the plan liability.

The sensitivity analysis of the main actuarial assumptions is based on the reasonably possible changes of these assumptions at the end of the reporting period, assuming that all other assumptions are held constant.

The effects of the change (increase or decrease) by 1% of salary growth, discount rate and staff turnover rate on the amount of the stated current service cost and interest cost for 2014 and respectively, on the present value of the obligation for payment of defined retirement benefits, are assessed as follows:

Effects of changes in the basic assumptions on the amount of stated expenses for 2014:

	Increase	***Decrease***
	BGN '000	*BGN '000*
Change in salary growth	47	(35)
Change in discount rate	(6)	12
Change in staff turnover rate	(32)	30

Effects of changes in the basic assumptions on the amount of the stated liability as at 31 December 2014:

	Increase	***Decrease***
	BGN '000	*BGN '000*
Change in salary growth	300	(228)
Change in discount rate	(229)	263
Change in staff turnover rate	(180)	171

The weighted average duration of the defined benefit obligation to personnel is from 4.1 to 13.7 years.

The expected indemnity payments upon retirement under the defined benefit plan for the following five years are as follows:

Forecasted payments	***Total***
	BGN '000
Payments in 2015	755
Payments in 2016	398
Payments in 2017	381
Payments in 2018	451
Payments in 2019	368
Total	**2,353**

Long-term benefit obligations for tantieme

As at 31 December 2014, the long-term benefit obligations to personnel include also the amount of BGN 211 thousand (31 December 2013: BGN 145 thousand), representing a payable to personnel related to tantieme payment for a period of more than 12 months – until year 2017 (2013: until year 2016).

33. 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 future interest due and are as follows:

Term	***31.12.2014 BGN'000***	***31.12.2013 BGN'000***
Up to one year *(Note 40)*	943	700
Over one year	2,103	2,382
Total	**3,046**	**3,082**

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

Term	***31.12.2014 BGN'000***	***31.12.2013 BGN'000***
Up to one year	1,023	797
From one to three years	2,197	3,137
	3,220	3,934
Future finance costs under finance leases	(174)	(852)
Total	**3,046**	**3,082**

The lease payments due within the next 12 months are presented in the consolidated statement of financial position as 'other current liabilities' *(Note 40).*

34. GOVERNMENT GRANTS

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

	31.12.2014 BGN'000	***31.12.2013 BGN'000***
Government grants, non-current portion	7,558	5,612
Government grants, current portion *(Note 40)*	939	667
Total	**8,497**	**6,279**

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

	31.12.2014	*31.12.2013*
	BGN'000	*BGN'000*
Sopharma AD	3,535	3,712
Biopharm Engineering AD	2,569	-
Unipharm AD	1,645	1,690
Bulgarian Rose Sevtopolis AD	730	850
Sopharma Trading AD	18	27
Total	**8,497**	**6,279**

The government grants are received by the Group companies under European Operational Programmes mainly in relation to the acquisition of machinery and equipment *(Notes 17 and 41).*

The current portion of the grants, amounting to BGN 939 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 40).*

35. SHORT-TERM BANK LOANS

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

Currency	*Contracted amount '000*	*Maturity*	*31.12.2014 BGN'000*	*31.12.2013 BGN'000*
Bank loans (overdrafts)				
EUR	20,000	31.08.2015	38,847	38,522
EUR	19,000	31.08.2015	32,375	24,514
EUR	10,000	31.08.2015	19,518	19,529
EUR	7,000	25.06.2015	13,691	13,691
EUR	10,000	14.01.2015	13,477	8,472
BGN	10,000	31.08.2015	9,990	10,002
BGN	10,000	31.08.2015	9,984	9,980
BGN	5,000	15.06.2015	9,786	9,806
EUR	5,000	25.04.2015	9,764	-
EUR	7,500	25.04.2015	7,809	10,757
EUR	3,000	25.04.2015	5,861	4,876
EUR	3,500	03.09.2015	5,349	4,193
EUR	2,050	30.10.2015	3,904	3,904
USD	1,300	09.07.2016	1,964	1425
BGN	5,000	15.06.2015	1,083	5,072
BGN	500	20.09.2015	263	206
BYR	500,000	05.10.2016	59	-
USD	50	10.02.2016	55	-
EUR	500	15.09.2014	-	677
			183,779	**165,626**

Credit lines				
EUR	8,434	31.08.2015	15,874	15,884
BGN	18,000	30.10.2015	9,965	13,041
BGN	15,000	31.01.2015	4,494	7,335
EUR	5,000	31.08.2015	3,119	6,628
EUR	129	31.08.2015	129	129
			33,581	**43,017**
Total			**217,360**	**208,643**

The bank loans obtained in Euro are contracted at interest rate determined on the basis of EURIBOR plus a mark-up of up to 3% or EONIA plus a mark-up of up to 2.1%, for loans in BGN – interest is based on SOFIBOR plus a mark-up of up to 3.26% and for loans in USD – on LIBOR plus a mark-up of up to 3.25%, floating or fixed 14% (2013: for loans in EUR – EURIBOR plus a mark-up of up to 3.5% or EONIA plus a mark-up of up to 2.1%, for loans in BGN – SOFIBOR plus a mark-up of up to 3.75%, for loans in USD – LIBOR plus a mark-up of up to 3.25%, floating or fixed 9.50% and for loans in UAH – 5.446%). 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 17);*
- raw materials, consumables and finished products *(Note 24);*
- trade receivables *(Note 25).*

As at 31 December 2014, there were special pledges on receivables from related parties, subject to consolidation, eliminated for the purpose of the consolidated financial statements at the amount of BGN 16,229 thousand (31 December 2013: BGN 16,229 thousand). They were established as collateral under received by the Group bank loans and issued bank guarantees *(Notes 30, 35 and 41).*

36. TRADE PAYABLES

Trade payables include:	***31.12.2014*** ***BGN'000***	***31.12.2013*** ***BGN'000***
Payables to suppliers	70,624	60,236
Advances from clients	1,128	1,197
Total	**71,752**	**61,433**

The ***payables to suppliers*** refer to:	***31.12.2014*** ***BGN'000***	***31.12.2013*** ***BGN'000***
Suppliers outside Bulgaria	52,633	39,222
Suppliers from Bulgaria	17,991	21,014
Total	**70,624**	**60,236**

The payables to suppliers are regular, interest-free and refer to supplies of materials, goods and services. The average credit period, for which usually no interest is charged on trade payables, is up to 180 days.

The payables to suppliers are denominated as follows:

- in EUR: BGN 39,776 thousand (31 December 2013: BGN 29,685 thousand);
- in BGN: BGN 16,230 thousand (31 December 2013: BGN 20,978 thousand);
- in USD: BGN 6,510 thousand (31 December 2013: BGN 766 thousand);
- in BYR: BGN 6,688 thousand (31 December 2013: BGN 6,971 thousand);
- in other currency: BGN 1,420 thousand (31 December 2013: BGN 1,836 thousand).

37. PAYABLES TO RELATED PARTIES

The ***payables to related parties*** refer to:

	31.12.2014 BGN'000	***31.12.2013 BGN'000***
Payables to companies related through key managing personnel	175	3,013
Payables to companies under a common indirect control	1,437	787
Payables to main shareholding companies	2	22
Payables to other related parties	20	-
Total	**1,634**	**3,822**

The payables to related parties by type are as follows:

	31.12.2014 BGN'000	***31.12.2013 BGN'000***
Payables on supply of goods and materials	1,475	3,822
Other	159	-
Total	**1,634**	**3,822**

The payables to related parties refer entirely to supply of goods and materials. 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.

38. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security include:

	31.12.2014	***31.12.2013***
	BGN'000	***BGN'000***
Payables to personnel, including:	6,000	5,347
current wages and salaries	*2,792*	*2,527*
tantieme	*1,810*	*1,537*
accruals on unused compensated leaves	*1,398*	*1,283*
Payables for social security/health insurance, including:	1,514	1,384
current payables under contributions for social security	*1,292*	*1,199*
accruals on unused compensated leaves	*222*	*185*
Total	**7,514**	**6,731**

39. TAX PAYABLES

Tax payables include:

	31.12.2014	***31.12.2013***
	BGN'000	***BGN'000***
VAT	4,640	2,060
Withholding taxes	572	406
Taxes on the income of physical persons	416	374
Income taxes	245	1,531
Other	150	37
Total	**6,023**	**4,408**

By the date of issue of these consolidated financial statements the following inspections and audits of Group companies have been performed:

Company	Full-scope tax audit	VAT inspection	Inspection under the social security legislation
Sopharma AD	31.12.2011	30.11.2011	30.09.2013
Sopharma Trading AD	31.12.2011	31.12.2011	31.12.2004
Bulgarian Rose Sevtopolis AD	31.12.2009	31.01.2010	31.12.2008
Biopharm Engineering AD	31.12.2009	31.10.2010	30.04.2009
Momina Krepost AD	31.12.2005	31.10.2006	31.10.2006
Pharmalogistica AD	31.12.2005	31.03.2007	none
Sopharma Buildings REIT	none	30.11.2014	none
Electroncommerce EOOD	31.12.2005	30.04.2006	none
Unipharm AD	31.12.2005	30.04.2006	31.08.2013

Ivančić and Sinovi d.o.o.	none	31.12.2012	none
PAO Vitamini	31.12.2013	31.12.2013	01.04.2014
OOO Sopharma Ukraine	31.12.2013	none	none
Briz SIA	31.12.2010	28.02.2014	31.12.2014
SOOO Brititrade	31.12.2011	31.12.2011	31.12.2011
OOO Tabina	31.12.2010	31.12.2010	31.12.2006
ODO Alean	28.02.2011	28.02.2011	none
SOOO Brizpharm	31.12.2012	31.12.2012	none
ODO Vestpharm	30.04.2005	30.04.2005	31.03.2004
OOO NPK Biotest	31.12.2011	31.12.2011	31.03.2007
ODO BelAgroMed	28.02.2003	28.02.2003	30.05.2005
ZAO Interpharm	31.10.2007	31.10.2007	30.06.2006
OOO Vivaton Plus	29.02.2012	29.02.2012	29.02.2012
OOO Med-dent	31.12.2010	31.12.2010	31.12.2007
BOOO SpetzApharmacia	31.03.2014	31.03.2014	31.12.2007
OOO Bellerophon	01.04.2010	01.04.2010	none
Medica AD	31.12.2002	31.01.2013	30.06.2008

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 ultimately 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, in Serbia – within a term of ten years and in Lithuania – within a term of five years.

40. OTHER CURRENT LIABILITIES

Other current liabilities include:	***31.12.2014 BGN'000***	***31.12.2013 BGN'000***
Awarded amounts under litigations	1,612	1,380
Finance lease liabilities *(Note 33)*	943	700
Government grants *(Note 34)*	939	667
Liabilities under sold rights on shares issued	880	941
Dividends payable	572	569
Trade loans received from third parties	393	670
Deductions from work salaries	198	222
Other	104	133
Total	**5,641**	**5,282**

41. 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).

By a ruling of the Polish bankruptcy court, dated 11 July 2014, the insolvency proceedings for the client-debtor were terminated because of insufficient availability of funds in the bankruptcy estate to satisfy the creditors with accepted receivables.

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 777 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 40).* 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 was paid to the SCC account without the interest and expenditures for stopping the execution of the ACS ruling.

By a ruling of 10 December 2014, the case was admitted to cassation appeal of the ACS ruling.

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 additional tax liabilities to the state budget at the amount of BGN 282 thousand (principal and interest) under the VATA for previous reporting periods and 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 part repealed the decision of the Administrative Court in Burgas regarding the part under CITA and returned the case to the first-instance court for a new hearing. The Administrative Court in Burgas started case No 2947 / 2013 and ordered an accounting expertise.

The results thereof was examines at a hearing held on 30 September 2014. The conclusion of the expert was entirely in favour of the company and was not challenged by the attending representative of the National Revenue Agency (NRA).

The court acknowledged the case as clarified and placed it for resolution. By a subsequent ruling of 29 December 2014, the Administrative Court in Burgas assigned a new expertise and scheduled a court session for 24 February 2015 at which the court assigned additional tasks to the expert. During a court session held on 28 April 2015 the court acknowledged the case as clarified and placed it for resolution. The ruling is expected within the pronouncement term of one month after the session date.

The position of company's management is that the amounts, by which the financial result for prior periods under CITA was increased in the course of the audit, do not lead to tax payables as far as the company has reported losses for the respective years and this financial result does not include provisions for the litigation.

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**		**Debt status**
			Original currency	**BGN'000**	***31.12.2013*** **BGN'000**
Sopharma Imoti REIT	2024	EUR	22,619	44,238	42,715
Pharmaplant AD	2015-2019	BGN	1,329	1,329	1,268
Telecomplect AD	2015	BGN	5,009	5,009	1,252
Veta Pharma AD	2015	BGN	1,000	1,000	993
Energoinvestment AD	2015	BGN	2,018	2,018	518
Mineralcommerce AD	2015-2017	EUR	150	294	205
Mineralcommerce AD	2015	EUR	175	175	175
Total					**47,126**

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:

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
SG Expressbank AD	3,986	3,187
Raiffeisenbank	3,807	3,241
ING Bank	2,804	2,812
BNP Paribas – Bulgaria Branch	-	51
	10,597	**9,291**

The collateral for issued bank guarantees is as follows:

- Special pledge on goods in circulation at the amount of BGN 9,801 thousand (31 December 2013: BGN 5,867 thousand)
- Special pledge on PPE (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 74 thousand were issued for the company within the limit of the loan agreement as at 31 December 2014.

Electroncommerce EOOD

The bank guarantees issued for the company amounted to BGN 52 thousand as at 31 December 2014.

Assets held under safe custody

Sopharma Trading AD

According to concluded pre-distribution contracts, the company received goods for safe custody at the amount of 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 in relation with 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 received a government grant at the amount of BGN 3,787 thousand by virtue of a grant contract under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007–2013 intended for technological renovation and modernisation of tablet production facilities *(Notes 34 and 40).* The Company undertook a commitment that for a period of 5 years after the completion of the project, counted as of 11 March 2013, it shall not be subject to 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 a 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 being fulfilled.

Sopharma Trading AD

The company is a beneficiary under a government grant contract under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" for the project on Development and Implementation of Information Security Management System Project in accordance with ISO 27001:2007 in the amount of BGN 82 thousand *(Notes 34 and 40).*

Unipharm AD

In 2013, the Company assumed a self-participation commitment at the amount of BGN 36 thousand in relation with a grant contract under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 2013 for the project on Implementation in Regular Production of Innovative Eye Drops of Artificial Tears Type, Developed by Unipharm AD. The project amount is BGN 359 thousand and the implementation term is 15 months. At 31 December 2014, the company received an advance payment under the contract at the amount of BGN 210 thousand.

The company obtained financing for construction and assembly works on buildings and for the purchase of non-current assets under a grant contract titled "Modernisation and Development of Unipharm AD". The project was completed and in November 2011 the assets were subject to operational start-up *(Notes 34 and 40).* The deferred grant income under the project amounted to BGN 1,262 thousand as at 31 December 2014 (31 December 2013: BGN 1,564 thousand).

The engagement term under the project "Development of a New Haemodialysis Solution and Proving its Therapeutic Effect" to the National Innovation Fund started in 2010 and presently the technology for the new haemodialysis solution is implemented in the production. The deferred grant income under the project amounted to BGN 68 thousand as at 31 December 2014 (31 December 2013: BGN 126 thousand).

Bulgarian Rose Sevtopolis AD

The company is a beneficiary as per a grant contract under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007–2013 with regard to a project for technological renovation and modernisation of tablet production facilities at the amount of BGN 1,200 thousand *(Notes 34 and 40).* The term of the contract is 5 years and commenced on 9 February 2011. According to the contract, the project shall not be subject to 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 a change in the nature of ownership over an infrastructural component or suspension of production activities. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the consolidated annual financial statements, all contractual requirements were being fulfilled.

<u>Other</u>

Sopharma AD has met its obligations under the Waste Management Act (WMA) and therefore, has not included a product charge liability in the consolidated statement of financial position as at 31 December 2014 regardless of the fact that the official document evidencing that Ecobulpack (the organization in which it is a member) has fulfilled its commitments under WMA, has not been issued yet at the date of preparation of these financial statements.

42. SEGMENT REPORTING

The segment reporting in the Group is organised on the basis of two basic business segments – 'production of pharmaceutical products' and 'distribution of pharmaceutical products (goods)'. The group 'other' includes mainly production and distribution of non-pharmaceutical products.
The ***items of income, expenses and result of business segments,*** determined in the Group, include:

	Production of pharmaceutical products		*Distribution of pharmaceutical products (goods)*		*Other*		*Elimination*		*Consolidated*	
	2014	*2013*	*2014*	*2013*	*2014*	*2013*	*2014*	*2013*	*2014*	*2013*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
External sales	*115,348*	*116,550*	*712,901*	*631,262*	*12,268*	*13,324*	*-*	*-*	*840,517*	*761,136*
Intersegmental sales	*118,018*	*129,905*	*-*	*324*	*185*	*187*	*(118,203)*	*(130,416)*	*-*	*-*
Total revenue	**233,366**	**246,455**	**712,901**	**631,586**	**12,453**	**13,511**	**(118,203)**	**(130,416)**	**840,517**	**761,136**
Segment result (margin)	**113,654**	**131,783**	**75,211**	**65,631**	**2,878**	**2,480**	**(5,913)**	**(22,860)**	**185,830**	**177,034**
Non-allocated operating income									5,465	4,893
Non-allocated operating expenses									(151,271)	(126,036)
Profit from operations									**40,024**	**55,891**
Finance (costs)/income, net									(12,202)	(15,936)
Impairment of non-current assets									(494)	(2,898)
Loss on disposal of subsidiaries									1,561	(11)
Loss from associates, net									310	(673)
Gain on net monetary position from restatement for hyperinflation									-	1,565
Profit before income tax									**29,199**	**37,938**
Income tax expense									(5,082)	(5,159)
Net profit for the year									**24,117**	**32,779**
Attributable to equity holders of the parent									20,178	29,301
Non-controlling interest									3,939	3,478

The ***assets and liabilities of the business segments*** include:

Assets by business segment	*Production of pharmaceutical products*		*Distribution of pharmaceutical products (goods)*		*Other*		*Total*	
	2014	*2013*	*2014*	*2013*	*2014*	*2013*	*2014*	*2013*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Property, plant and equipment	156,395	163,677	43,300	42,402	10,844	13,571	210,539	219,650
Inventories	77,113	77,541	77,353	60,305	1,444	2,506	155,910	140,352
Receivables from related parties	55,716	51,305	2,401	2,762	351	731	58,468	54,798
Trade receivables	26,256	26,373	160,352	154,460	9,722	10,294	196,330	191,127
Cash and cash equivalents	14,240	15,469	8,784	8,404	2,275	2,734	25,299	26,607
Segment assets	**329,720**	**334,365**	**292,190**	**268,333**	**24,636**	**29,836**	**646,546**	**632,534**
Non-allocated assets							170,817	151,429
Total assets							**817,363**	**783,963**

Liabilities by business segment	***Production of pharmaceutical products***		***Distribution of pharmaceutical products (goods)***		***Other***		***Total***	
	2014	*2013*	*2014*	*2013*	*2014*	*2013*	*2014*	*2013*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Payables to personnel and for social security	1,861	1,933	1,900	1,610	309	203	4,070	3,746
Trade payables	8,264	6,822	62,262	52,392	1,226	2,219	71,752	61,433
Payables to related parties	298	3,124	1,326	575	10	123	1,634	3,822
Bank loans	142,907	156,865	131,045	114,853	-	-	273,952	271,718
Segment liabilities	**153,330**	**168,744**	**196,533**	**169,430**	**1,545**	**2,545**	**351,408**	**340,719**
Non-allocated liabilities							34,318	28,972
Total liabilities							**385,726**	**369,691**

The capital expenditures, depreciation/amortisation and non-monetary expenses other than depreciation/amortisation by business segment include:

	Production of pharmaceutical products		***Distribution of pharmaceutical products (goods)***		***Other***		***Total***	
	2014	*2013*	*2014*	*2013*	*2014*	*2013*	*2014*	*2013*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Capital expenditures	8,674	18,387	1,475	1,715	419	1,127	10,568	21,229
Depreciation/amortisation	13,990	11,929	5,865	6,662	630	1,278	20,485	19,869
Non-monetary expenses, other than depreciation and amortisation	3,906	2,889	188	1,271	-	-	4,094	4,160

The distribution of Group revenue *by type and by geographic area* is as follows:

	Bulgaria		***Europe***		***Other countries***		***Total***	
	2014	*2013*	*2014*	*2013*	*2014*	*2013*	*2014*	*2013*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Sales of finished products	86,263	85,090	154,619	159,830	18,491	22,734	259,373	267,654
Sales of goods	498,693	433,550	82,241	59,932	210	-	581,144	493,482
	584,956	**518,640**	**236,860**	**219,762**	**18,701**	**22,734**	**840, 517**	**761,136**

The carrying amount as at 31 December 2014 of Group's non-current assets other than financial instruments, *distributed by geographic area*, is as follows:

	Bulgaria		***Europe***		***Other countries***		***Total***	
	2014	*2013*	*2014*	*2013*	*2014*	*2013*	*2014*	*2013*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Property, plant and equipment	276,445	282,992	22,244	23,330	348	406	299,037	306,728
Intangible assets	8,782	9,417	4,446	6,087	42	-	13,270	15,504
Goodwill	6,094	5,635	4,824	7,208	-	-	10,918	12,843
Investment property	9,407	9,329	1,199	1,197	-	-	10,606	10,526
	300,728	**307,373**	**32,713**	**37,822**	**390**	**406**	**333,831**	**345,601**

The total revenue from transaction with the largest clients of the Group and the respective business segment is as follows:

	2014	***%***	***2013***	***%***
	BGN'000		***BGN'000***	
Client 1	133,387	16%	91,937	12%
Client 2	67,181	8%	63,237	8%

Client 1 is an association of a group of enterprises with similar business characteristics, which are under common control by the Bulgarian state.

43. 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 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 managing bodies 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:

Financial assets	***31.12.2014***	***31.12.2013***
	BGN '000	***BGN '000***
	291,536	***280,319***
Loans and receivables, including:	**284,568**	**272,132**
Receivables and loans (Notes 22, 23, 25, 26 and 27)	259,269	*245,525*
Cash and cash equivalents (Note 28)	25,299	*26,607*
Available-for-sale financial assets	**6,968**	**8,187**
Available-for-sale investments *(Note 21)*	**6,968**	8,187

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
Financial liabilities	***352,061***	***341,565***
Financial liabilities at amortised cost	**352,061**	**341,565**
Short-term and long-term bank loans (Notes 30 and 35)	*273,952*	*271,718*
Other loans and liabilities (Notes 33, 34, 36, 37 and 40)	*78,109*	*69,847*

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 recognised assets and liabilities denominated in foreign currency and as to the net investments in foreign companies. The rest of the companies abroad perform sales mainly to the local markets, which leads to currency risk to their currencies as well – Serbian Dinar (RSD), Zloty (PLN) and Lithuanian Lit (LTL).

In addition, the total inflation in Belarus for the period 2011 – 2013 exceeded 100% and Belarus was regarded a hyperinflationary economy, which to a large degree resulted in increased volatility of the functional currency exchange rate of the companies operating in such environment to Group's presentation currency. As far as all of these macroeconomic effects were beyond the control of the Group companies operating in Belarus the management of the Group undertook actions to control this currency risk by regulating currently the working capital of these companies and making efforts to maintain a reasonable balance of their current assets and liabilities whereby to regulate on a timely basis the significant adverse effects for the Group as a whole.

The remaining part of most operations of the Group companies are usually denominated in BGN, in EUR or in LVL. The fact that the BGN and the LVL are fixed currencies to the EUR reduces the potential currency volatility for the companies of the Group.

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 a foreign currency have been granted mainly in EUR.

The assets and liabilities of the Group denominated in BGN and presented by a foreign currency are as follows:

31 December 2014	*in BGN*	*in EUR*	*in BYR*	*in UAH*	*in other currency*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	4,745	1,256	2	-	965	6,968
Loans and receivables, including:	178,768	81,115	12,596	4,624	7,465	284,568
Receivables and loans	*163,111*	*78,645*	*11,316*	*2,004*	*4,193*	*259,269*
Cash and cash equivalents	*15,657*	*2,470*	*1,280*	*2,620*	*3,272*	*25,299*
Total financial assets	**183,513**	**82,371**	**12,598**	**4,624**	**8,430**	**291,536**
Short-term and long-term bank loans	97,229	173,322	2,064	-	1,337	273,952
Other loans and liabilities	21,867	40,037	7,194	481	8,530	78,109
Total financial liabilities	**119,096**	**213,359**	**9,258**	**481**	**9,867**	**352,061**

31 December 2013	*in BGN*	*in EUR*	*in BYR*	*in UAH*	*in other currency*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	6,857	-	13	-	1,317	8,187
Loans and receivables, including:	169,204	79,076	8,150	7,000	8,702	272,132
Receivables and loans	*156,278*	*71,477*	*6,337*	*6,176*	*5,257*	*245,525*
Cash and cash equivalents	*12,926*	*7,599*	*1,813*	*824*	*3,445*	*26,607*
Total financial assets	**176,061**	**79,076**	**8,163**	**7,000**	**10,019**	**280,319**
Short-term and long-term bank loans	117,019	153,274	-	-	1,425	271,718
Other loans and liabilities	26,262	31,834	7,582	1,057	3,112	69,847
Total financial liabilities	**143,281**	**185,108**	**7,582**	**1,057**	**4,537**	**341,565**

Foreign currency sensitivity analysis

The foreign currency sensitivity of the Group exposures is mainly related with the Ukrainian Hryvnia (UAH) as a currency in a hyperinflationary economy. With regard to the other currencies in which the Group operates (USD) or in which other companies of the Group operate (Serbian Dinar, Polish Zloty and Lithuanian Lit) the foreign currency risk of the Group is limited, because their exposures in these currencies are relatively small and are more easily regulated by the managing bodies of the respective subsidiaries.

The effect of foreign currency sensitivity to 10 % increase/decrease in current exchange rates of BGN to Belarusian Ruble (BYR), Ukrainian Hryvnia (UAH) and in general to the other foreign currency exposures, based on the structure of foreign currency assets and liabilities at 31 December and on the assumption that the influence of all other variables is ignored, has been measured and presented as impact on the post-tax consolidated financial result and on the equity of the Group.

	2014		2013	
	BYR	UAH	BYR	UAH
	BGN '000	BGN '000	BGN '000	BGN '000
Financial result	301	373	(1)	487
Retained earnings	301	373	(1)	487

In case of 10% increase in the exchange rate of BYR to BGN, the ultimate impact on the (post-tax) profit of the Group for 2014 would be an increase by BGN 301 thousand (1.511%), while for 2013 it would be a decrease by BGN 1 thousand (-0.003%). The effect in terms of value on Group's equity – through the component 'retained earnings' – would be the same. Due to the functioning of the companies in Belarus in hyperinflationary environment, the management of the Group analyses the currency exposure in this currency and undertakes timely measures to reduce its effects on the results of the Group.

In case of 10% increase (2013: 10%) in the exchange rate of UAH to BGN, the ultimate impact on the (post-tax) profit of the Group for 2014 would be an increase by BGN 373 thousand (1.9%), while for 2013 it would be an increase by BGN 487 thousand (1.7%). The effect in terms of value on Group's equity – through the component 'retained earnings' – would be the same.

Respectively, on 10% decrease in the exchange rates of BYR and UAH to BGN, the ultimate impact on the (post-tax) profit of the Group would be equal and reciprocal of the stated above.

Due to the significant reduction in the exchange rate of the Ukrainian Hryvnia to the Bulgarian Lev for the period from the end of the reporting period to the date of issue of the consolidated financial statements, the management has undertaken currency sensitivity analysis of the net exposure in this currency on 50% increase/decrease and the impact on the (post-tax) profit of the Group for year 2014 would have been BGN 1,864 thousand increase/decrease.

'Other currencies' include mainly: BGN 3,941 thousand in USD net financial liabilities, BGN 1,294 thousand in PLN net financial assets, BGN 1,246 thousand in RSD net financial assets (2013: BGN 282 thousand in USD net financial liabilities, BGN 2,010 thousand in PLN net financial assets, BGN 1,870 thousand in RSD net financial assets).

The impact of the remaining currencies (other than the Ukrainian Hryvnia, Belarusian Ruble, Euro and Latvian Lat) on Group's (post-tax) profit in case of 10% increase in their exchange rates to the Bulgarian Lev is as follows:

	2014			2013		
	USD	PLN	RSD	USD	PLN	RSD
		BGN '000			BGN '000	
Financial result	(334)	105	106	(24)	163	159
Retained earnings	(334)	105	106	(24)	163	159

Respectively, on 10% decrease in the exchange rates of the US Dollar, Polish Zloty and Serbian Dinar to the Bulgarian Lev, the ultimate impact on the (post-tax) profit of the Group would be equal and reciprocal of the stated above.

The effect on equity is of the same amount and in a direction of a decrease and reflects in the component 'retained earnings'.

Group's management is of the opinion that the presented above currency sensitivity analysis based on the balance sheet structure of foreign currency denominated assets and liabilities is representative for the usual currency sensitivity of the Group for the reporting year.

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 optimisation 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, 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 48% 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 and if the delinquencies are not settled 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*, in case of a 5-day delay after the expiry of the credit period, the subsequent sales under deferred payment terms are suspended. If delinquencies are not settled by the 45th 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 visits to clients' premises, but also – collection of information on monthly turnovers and in some cased a promissory note is required in favour 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 Director of the parent company and, respectively, by the managing bodies 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 by client and counterpart in total for the Group.

As at 31 December 2014, the Group has no concentration in trade receivables from a single counterpart that exceeds 10% of the total amount of trade receivables as presented in the consolidated statement of financial position. The concentration of the first five clients with regard to trade receivables of the Group is as follows:

	31.12.2014	*% credit exposure to total trade receivables*	*31.12.2013*	*% credit exposure to total trade receivables*
	BGN'000	%	*BGN'000*	%
Client 1	19,637	10%	12,779	7%
Client 2	16,595	9%	11,922	7%
Client 3	15,083	8%	11,452	6%
Client 4	5,156	3%	4,695	4%
Client 5	4,446	2%	4,531	3%

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 but the end of the hyperinflation in 2014 eliminated this risk. 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 optimisation 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 a payable becomes due for payment. The amounts include principal and interest.

31 December 2014	*up to 1 month*	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*1 to 2 years*	*2 to 5 years*	*over 5 years*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Short-term and long-term bank loans	22,568	10,735	41,326	156,166	17,254	25,662	9,848	**283,559**
Other loans and liabilities	31,846	29,380	895	1,544	4,448	118	10,214	**78,445**
Total liabilities	**54,414**	**40,115**	**42,221**	**157,710**	**21,702**	**25,780**	**20,062**	**362,004**

31 December 2013	*up to 1 month*	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*1 to 2 years*	*2 to 5 years*	*over 5 years*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Short-term and long-term bank loans	9,445	35,428	119,575	59,694	12,811	28,862	17,603	**283,418**
Other loans and liabilities	29,163	26,803	8,046	4,845	654	1,291	-	**70,802**
Total liabilities	**38,608**	**62,231**	**127,621**	**64,539**	**13,465**	**30,153**	**17,603**	**354,220**

Risk of interest-bearing cash flows

Interest-bearing assets, presented in the structure of Group's assets include: cash, bank deposits and loans granted, which are with fixed interest rate. On the other hand, the borrowings of the Group 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) optimisation 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 fixed one and a variable one, the correlation between them, as well as their absolute value, are maintained in a proportion favourable for the Group companies. The fixed 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 unfavourable change of cash flows is reduced to a minimum.

The managing bodies of the Group companies together with the management of the parent currently monitor and analyse the exposure of the respective company to the changes in interest levels. Simulations are carried out for various scenarios of refinancing, renewal of existing positions, and alternative financing. The impact of a defined interest rate shift, expressed in points or percentage, on the financial result and equity is calculated based on these scenarios. 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.

Interest analysis	***interest-free***	***with floating interest %***	***with fixed interest %***	***Total***
31 December 2014	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Available-for-sale financial assets	6,968	-	-	6,968
Loans and receivables, including:	182,612	12,957	88,999	284,568
Receivables and loans	*179,869*	*15*	*79,385*	*259,269*
Cash and cash equivalents	*2,743*	*12,942*	*9,614*	*25,299*
Total financial assets	**189,580**	**12,957**	**88,999**	**291,536**
Short-term and long-term bank loans	3,331	270,468	153	273,952
Other loans and liabilities	75,054	2,610	445	78,109
Total financial liabilities	**78,385**	**273,078**	**598**	**352,061**

Interest analysis	*interest-free*	*with floating*	*with fixed*	*Total*
31 December 2014		*interest %*	*interest %*	
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	8,187	-	-	8,187
Loans and receivables, including:	192,324	20,815	58,993	272,132
Receivables and loans	*190,392*	*15*	*55,118*	*245,525*
Cash and cash equivalents	*1,932*	*20,800*	*3,875*	*26,607*
Total financial assets	**200,511**	**20,815**	**58,993**	**280,319**
Short-term and long-term bank loans	267	271,451	-	271,718
Other loans and liabilities	66,760	3,082	5	69,847
Total financial liabilities	**67,027**	**274,533**	**5**	**341,565**

The table below demonstrates Group's sensitivity to possible changes in interest rates by 0.5% based on the structure of assets and liabilities as at 31 December and with the assumption that the influence of all other variables is ignored. The effect is measured and presented as impact on the financial result after taxes and respectively, on equity.

Increase / decrease in interest rate	***Impact on post-tax financial result and equity profit/(loss)***	
	2014	**2013**
	BGN'000	**BGN'000**
Increase	(1,246)	(1,230)
Decrease	1,246	1,230

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 the total amount of employed capital. 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 amount is calculated as the sum of equity (incl. the non-controlling interests) 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: 35-45 %). The table below shows the gearing ratios based on capital structure as at 31 December:

	31.12.2014 BGN'000	***31.12.2013 BGN'000***
Total borrowings, including:	**276,997**	**274,800**
Bank loans	273,952	271,718
Loans and finance lease liabilities	3,045	3,082
Less: Cash and cash equivalents	**(25,299)**	**(26,607)**
Net debt	**251,698**	**248,193**
Total equity	**431,637**	**414,272**
Total capital	**683,335**	**662,465**
Gearing ratio	**0.37**	**0.37**

The liabilities shown in the table are disclosed in *Notes 29, 30, 33 and 35.*

Fair values

The fair value concept presumes realisation 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 realise these financial assets also through their total refund or respectively, settlement over time. Therefore, they are presented at amortised 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 based on market value (deposits placed with banks, investments in securities, loans with floating interest rate) 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.

44. ACQUISITIONS AND INCREASING THE INTERESTS IN SUBSIDIARIES

44.1. Acquisition of subsidiaries

In 2014, the parent company established TOO Sopharma Kazakhstan through contribution at the amount of BGN 502 thousand for 100% of the shares in company's capital. In addition, at 31 December 2014

Sopharma Trading AD transferred an advance payment at the amount of BGN 7 thousand to set up a subsidiary, Sopharmacy EOOD, the registration of which was entered in February 2015.

In 2013 the Group acquired the following new subsidiaries through its subsidiary company Briz SIA:

	date of acquisition	**effective % interest**	**acquired net assets at fair value**
			BGN '000
OOO Farmacevt Plus, Belarus	01.06.2013	26.01%	412
UAB TBS Pharma, Lithuania	01.03.2013	26.01%	2
ODO Vestpharm, Belarus	04.07.2013	31.62%	255
ODO Alean, Belarus	07.02.2013	24.48%	85
OOO NPK Biotest, Belarus	02.09.2013	29.07%	651
ODO BelAgroMed, Belarus	30.07.2013	29.07%	87

The principal activities of the acquired subsidiaries are disclosed in *Note 1.*

The companies were acquired in 2013 through the purchase of the following interest in their capital by the subsidiary company Briz SIA, Latvia:

	Interest
OOO Farmacevt Plus, Belarus	51%
ODO Vestpharm, Belarus	62%
ODO Alean, Belarus	57%
OOO NPK Biotest, Belarus	57%
ODO BelAgroMed, Belarus	57%

UAB TBS Pharma UAB, Lithuania, was established in 2013 by Briz SIA, Latvia, through contribution at the amount of BGN 3 thousand for 51% of the shares in company's capital.

The carrying amounts and fair values of the net assets on acquisition of new subsidiaries (*Note 2.3.*2) are presented below:

In 2013:

	fair value BGN'000	***carrying amount BGN'000***
Property, plant and equipment *(Note 17)*	752	752
Intangible assets *(Note 18)*	4,363	1
Inventories	5,707	5,707
Other receivables and assets	5,725	6,078
Cash and cash equivalents	324	324
Loans	(1,324)	(1,324)
Trade payables	(9,120)	(9,120)
Other current liabilities	(1,152)	(366)
Total net assets	**5,275**	**2,052**

	Total net assets at:		Non-controlling interests	Share of non-controlling interest		Net assets acquired by the Group	
	fair value	carrying amount		fair value	carrying amount	fair value	carrying amount
	BGN'000	BGN'000	%	BGN'000	BGN'000	BGN'000	BGN'000
OOO Farmacevt Plus, Belarus	1,585	386	74%	1,173	286	412	100
ODO Vestpharm, Belarus	807	97	68%	552	66	255	31
ODO Alean, Belarus	346	18	76%	261	14	85	4
OOO NPK Biotest, Belarus	2,239	1,489	71%	1,588	1,056	651	433
ODO BelAgroMed, Belarus	298	62	71%	211	44	87	18
Total	**5,275**	**2,052**		**3,785**	**1,466**	**1,490**	**586**

The investment price on the acquisition of subsidiaries and the resulting goodwill at the date of the transaction for acquisition of control by the parent company itself were as follows:

In 2013:

Acquisition cost	**OOO Farmacevt Plus, Belarus**	**ODO BelAgroMed, Belarus**	**ODO Vestpharm, Belarus**	**ODO Alean, Belarus**	**OOO NPK Biotest, Belarus**	**Total**
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***
Interest by the acquisition of control date	-	92	401	181	491	1,165
Measurement to fair value of previous interest by the date of acquisition of control	(331)	(35)	(128)	(23)	(72)	(589)
Amounts paid in current period	1,901	161	391	58	959	3,470
Share of the non-controlling interests in the investment on indirect acquisition	(932)	(124)	(388)	(131)	(710)	(2,285)
Total acquisition cost	**638**	**94**	**276**	**85**	**668**	**1,761**
Fair value of the acquired net assets	**(412)**	**(87)**	**(255)**	**(85)**	**(651)**	**(1,490)**
Goodwill	**226**	**7**	**21**	**-**	**17**	**271**

Share of the capital of TOO Sopharma Kazakhstan, amounting to BGN 502 thousand, was paid ***in 2014***.

The cash outflows from acquisition of control were as follows :

In 2013:

Cash flows on acquisition of control	**OOO Farmacevt Plus, Belarus** *BGN'000*	**ODO BelAgroMed, Belarus** *BGN'000*	**ODO Vestpharm, Belarus** *BGN'000*	**ODO Alean, Belarus** *BGN'000*	**OOO NPK Biotest, Belarus** *BGN'000*	**Total** *BGN'000*
Consideration paid in cash	1,901	161	391	58	959	3,470
Cash and cash equivalents in the acquired companies	(81)	(48)	(39)	(9)	(147)	(324)
Cash outflow on acquisition of control, net	**1,820**	**113**	**352**	**49**	**812**	**3,146**

Share of the capital of UAB TBS Pharma UAB, Lithuania, amounting to BGN 3 thousand, was paid in 2013.

44.2. Increasing interest (purchases of non-controlling interests)

The Group performed the following transactions for purchase of additional shares of non-controlling interests:

In 2014, the Group acquired the following shares:

Increases in interests (purchases of non-controlling interests)	**transaction date**	**% change in interest**	**acquired net assets** *BGN '000*
UAB TBS Pharma	31.12.2014	6.62%	3
ODO BelAgroMed	31.12.2014	16.66%	63
Momina Krepost AD	31.12.2014	0.04%	2
ODO Alean	31.12.2014	9.22%	38
SOOO Brizpharm	31.12.2014	7.66%	45
Briz SIA	31.12.2014	12.99%	3,130
SOOO Brititrade	31.12.2014	12.80%	(29)
OOO Tabina	31.12.2014	11.56%	66
OOO Farmacevt Plus	31.12.2014	6.63%	69
ODO Vestpharm	31.12.2014	16.47%	171
OOO NPK Biotest	31.12.2014	16.00%	368
			3,926

In 2013:

Increases in interests **(purchases of non-controlling interests)**	**transaction date**	**% change in interest**	**acquired net assets**
			BGN '000
Sopharma Buildings REIT	31.12.2013	0.25%	4
ODO BelAgroMed	31.12.2013	1.22%	5
Momina Krepost AD	31.12.2013	1.99%	154
ODO Alean	31.12.2013	13.25%	40
SOOO Brizpharm	31.12.2013	5.34%	(8)
Briz SIA	31.12.2013	2.14%	397
SOOO Brititrade	31.12.2013	2.11%	(38)
OOO Farmacevt Plus	31.12.2013	1.09%	5
ODO Vestpharm	31.12.2013	11.42%	94
OOO NPK Biotest	31.12.2013	1.22%	31
Total			**684**

The acquisition cost of the purchased additional shares in 2014, the effects and the cash outflows, relating to these transactions, were as follows:

Increases in interests (purchases of non-controlling interests)	**Total**
	BGN'000
Acquisition cost	
Paid through issue of capital	(13,887)
Consideration paid in cash	(426)
Indirect acquisition through investment in a subsidiary	(1,629)
Share of the non-controlling interests on indirect acquisition	260
Total acquisition cost	**(15,682)**
Fair value of the acquired net assets	**12,580**
Effects assumed by the Group at the account of Group's 'accumulated profits' reserve	**(3,102)**
Cash outflow on increases in interests (purchases of non-controlling interests)	**(426)**

The acquisition cost of the purchased additional shares in 2013, the effects and the cash outflows, relating to these transactions, were as follows:

Increases in interests (purchases of non-controlling interests)	**Total**
	BGN'000
Acquisition cost	
Paid through issue of capital	(2,218)
Consideration paid in cash	(904)
Indirect acquisition through interest increase in Briz SIA	(110)
Share of the non-controlling interests on indirect acquisition	2,075
Total acquisition cost	**(1,157)**
Fair value of the acquired net assets	**686**
Effects assumed by the Group at the account of Group's 'retained earnings' reserve	**(471)**
Cash outflow on increases in interests (purchases of non-controlling interests)	**(904)**

45. DISPOSAL OF SUBSIDIARIES AND JOINT VENTURES AND DECREASING THE INTERESTS IN SUBSIDIARIES

45.1. Total disposal of subsidiaries and joint ventures

In 2014 the Group disposed of its interest in the following subsidiary:

Company	Date of sale	Effective interest %
ZAO Interpharm	31.12.2014	36.96%

The net assets of the disposed of company are presented as follows:

Disposal with loss of control	
Date of disposal of interest	**31.12.2014**
	BGN'000
Property, plant and equipment *(Note 17)*	71
Intangible assets *(Note 18)*	522
Inventories	807
Other receivables and assets	60
Cash and cash equivalents	25
Deferred tax liabilities	(104)
Trade payables	(228)
Other payables and liabilities	(102)
Net assets	**1,051**

The financial result from the disposal of the subsidiary is as follows:

	BGN'000
Cash received	395
Fair value of retained interest	1,765
	2,160
Less:	
Net assets written-off	(1,051)
Goodwill	(12)
Share of non-controlling interests	464
Gain on disposal of a subsidiary	**1,561**

Net cash flows on disposal of a subsidiary	***BGN'000***
Cash received	395
Less:	
Cash	(25)
Net cash flows on disposal of a subsidiary	**370**

In 2013 the Group disposed of its total interest in the following joint venture:

Company	Date of sale	% interest
Sopharma Zdrovit S.A.	25.02.2013	50.01%

The net assets of the disposed of company are presented as follows:

Disposal with loss of joint control	**100%**
Date of disposal of interest	**25.02.2013**
	BGN'000
Cash and cash equivalents	218
Total net assets	**218**
Totally disposed of share of net assets	**109**

The financial result from the disposal of the joint venture is as follows:

	BGN'000
Fair value of the consideration received	109
Recycling of translation of foreign operations reserve	11
	120
Less:	
Disposed of share of net assets (50%)	109
Loss on disposal of a joint venture	**11**

Net cash flows on disposal of a joint venture	***BGN'000***
Cash received	109
Less:	
Cash in the joint venture	(109)
Net cash flows on disposal of a joint venture	**-**

45.2. Decreasing interests (sales of non-controlling interests)

In 2014:

Decreases in interests (sales of non-controlling interests)	**transaction date**	**% change in interest**	**net assets sold**
			BGN '000
Sopharma Trading AD	31.12.2014	-4.03%	(2,523)
Sopharma Buildings REIT	31.12.2014	-2.14%	(31)
Unipharm AD	31.12.2014	-0.09%	(22)
			(2,576)

Decreases in interests (sales of non-controlling interests)	**Total**
	BGN'000
Proceeds from partial disposal of shares in Group's subsidiaries	5,045
Carrying amount of the net assets at the date of partial disposal of shares in subsidiaries	(2,576)
Effects assumed by non-controlling interests at the account of Group's 'retained earnings' reserve	**2,469**
Received advance payment for partial disposal of shares in Group's subsidiary	540
Cash inflow on partial disposal of shares in subsidiaries	**5,585**

In 2013:

The decrease (partial disposals of) in interest (shares) in subsidiaries without loss of control, the effects and cash flows, relating to the transactions, were as follows:

Decreases in interests (sales of non-controlling interests)	**transaction date**	**% change in interest**	**net assets sold**
			BGN '000
Momina Krepost AD	31.12.2013	-1.04%	(53)
Sopharma Trading AD	31.12.2013	-5.10%	(3,022)
Bulgarian Rose Sevtopolis AD	31.12.2013	-2.78%	(677)
Unipharm AD	31.12.2013	-0.34%	(84)
Phyto Palauzovo AD	31.12.2013	-2.64%	(2)
ZAO Interpharm	31.12.2013	-6.60%	(95)
OOO Tabina	31.12.2013	-0.65%	(2)
			(3,935)

Decreases in interests (sales of non-controlling interests)	**Total**
	BGN'000
Proceeds from partial disposal of shares in Group's subsidiaries	4,718
Deductible portion for non-controlling interests	(440)
Proceeds from partial disposal of shares in Group's subsidiaries	**4,278**
Carrying amount of the net assets at the date of partial disposal of shares in subsidiaries	(3,935)
Effects assumed by non-controlling interests at the account of Group's 'retained earnings' reserve	181
Cash inflow on partial disposal of shares in subsidiaries	**4,718**

46. SUMMARISED INFORMATION ON SUBSIDIARIES

The table below presents the groups of subsidiaries depending on the availability of lack of non-controlling interests (NCI):

	31.12.2014	31.12.2013
	number	**number**
Subsidiaries entirely owned by the Group	5	4
Subsidiaries with non-controlling interests material for the Group	9	8
Subsidiaries with non-controlling interests immaterial for the Group	14	16
	28	**28**

The table below presents information on the share, which the material non-controlling interest have in the operations of the Group:

Country and subsidiary	*NCI share in ownership / Voting rights share held by NCI*		*Profit / (loss) distributed to NCI*		*NCI at 31 December*	
	31.12.2014	**31.12.2013**	**2014**	**2013**	**31.12.2014**	**31.12.2013**
	%	%	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
Bulgaria						
Sopharma Trading AD	28.11	24.08%	2,991	1,592	17,598	14,242
Bulgarian Rose Sevtopolis AD	50.01	50.01%	469	625	12,633	12,079
Pharmalogistica AD	23.46	23.46%	(23)	(33)	1,053	1,012
Momina Krepost AD	46.67	46.71%	(50)	49	2,306	2,351
Unipharm AD	48.22	48.13%	416	(118)	11,955	11,603
			3,803	2,115	45,545	41,287
Latvia						
Briz SIA	33.87	46.86%	224	492	12,593	8,224
Serbia						
Ivančić and Sinovi d.o.o.	49.00	49.00%	1,052	836	4,775	4,517
Belarus						
OOO NPK Biotest	53.71	69.71%	20	46	1,235	900
SOOO Brititrade	34.86	47.66%	408	-	197	-
			428	46	1,432	900
Immaterial NCI			(711)	(99)	3,193	(542)
Total			4,796	3,390	67,538	54,386

The table below presents summarised financial information on subsidiaries having non-controlling interests material for the Group. The amounts, presented in the table, are before the elimination of intragroup balances and transactions and after adjustments made to reflect differences in the Group accounting policies and the accounting base, as well as the effects of valuation of assets and liabilities at fair value at the acquisition date.

31 December 2014

Financial indicators	*Sopharma Trading AD*	*Bulgarian Rose Sevtopolis AD*	*Pharmalogistica AD*	*Momina Krepost AD*	*Unipharm AD*	*Briz SIA*	*SOOO Brititrade ***	*Ivančić and Sinovi d.o.o.*	*OOO NPK Biotest*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Summarised statement of financial position as at 31 December 2014									
Current assets	220,981	9,662	539	2,804	8,638	34,049	19,328	7,346	1,819
Non-current assets	27,807	18,505	4,206	3,153	20,440	35,070	348	5,692	1,759
Current liabilities	(180,370)	(1,963)	(48)	(690)	(1,629)	(31,238)	(19,068)	(3,032)	(1,161)
Non-current liabilities	(5,813)	(943)	(207)	(326)	(2,274)	(700)	(43)	(261)	(117)
Equity attributable to:	**62,605**	**25,261**	**4,490**	**4,941**	**25,175**	**37,181**	**565**	**9,745**	**2,300**
Equity holders of the parent	*45,007*	*18,160*	*3,228*	*3,552*	*18,098*	*26,729*	*406*	*7,006*	*1,653*
Non-controlling interests	*17,598*	*7,101*	*1,262*	*1,389*	*7,077*	*10,452*	*159*	*2,739*	*647*
Summarised statement of comprehensive income for the year ended 31 December 2014									
Revenue	576,100	19,052	611	3,871	18,300	33,265	30,718	14,368	5,653
Net profit for the year attributable to:	**10,639**	**938**	**(98)**	**(108)**	**863**	**661**	**1,169**	**2,146**	**37**
Equity holders of the parent	*7,648*	*674*	*(70)*	*(78)*	*620*	*475*	*840*	*1,543*	*27*
Non-controlling interests	*2,991*	*264*	*(28)*	*(30)*	*243*	*186*	*329*	*603*	*10*
Total comprehensive income for the year attributable to:	**10,804**	**927**	**(98)**	**(112)**	**843**	**661**	**1,169**	**2,107**	**37**
Equity holders of the parent	*7,767*	*666*	*(70)*	*(81)*	*606*	*475*	*840*	*1,515*	*27*
Non-controlling interests	*3,037*	*261*	*(28)*	*(31)*	*237*	*186*	*329*	*592*	*10*
Dividends paid to non-controlling interests	(1,822)	-	-	-	(260)	-	-	(569)	-
Summarised statement of cash flows for the year ended 31 December 2014									
Net cash flows from/(used in) operating activities	(4,951)	1,382	(14)	287	2,861	374	(1,016)	3,091	622
Net cash flows from/(used in) investing activities	(1,215)	(766)	(102)	(78)	(1,610)	(7,743)	15	(82)	(518)
Net cash flows from/(used in) financing activities	5,797	(497)	-	(207)	(975)	7,005	772	(1,572)	(133)
Effects of restatements for foreign subsidiaries and hyperinflationary economies	-	-	-	-	-	2	22	(140)	(10)
Net increase/(decrease) in cash and cash equivalents	**(369)**	**119**	**(116)**	**2**	**276**	**(362)**	**(207)**	**1,297**	**(39)**

31 December 2013

Financial indicators	*Sopharma Trading AD*	*Bulgarian Rose Sevtopolis AD*	*Pharmalogistica AD*	*Momina Krepost AD*	*Unipharm AD*	*Briz SIA*	*SOOO Brititrade ***	*Ivančić and Sinovi d.o.o.*	*OOO NPK Biotest*
Net cash flows from/(used in) operating activities	(30,323)	743	(107)	(127)	2,649	(4,740)	1,014	2,600	(207)
Net cash flows from/(used in) investing activities	(8,388)	(450)	253	(80)	(733)	(7,760)	3	(276)	(7)
Net cash flows from/(used in) financing activities	38,599	(522)	-	206	(1,263)	12,441	(654)	(1,498)	198
Effects of restatements for foreign subsidiaries and hyperinflationary economies	-	-	-	-	-	(3)	(59)	(20)	(11)
Net increase/(decrease)	**(112)**	**(229)**	**146**	**(1)**	**653**	**(62)**	**304**	**806**	**(27)**

in cash and cash equivalents

47. RELATED PARTY TRANSACTIONS

Related parties	*Relation type*	*Relation period*
Telecomplect Invest AD	Main shareholding company	2014 and 2013
Donev Investments AD	Main shareholding company	2014 and 2013
Sopharma Properties REIT	Company under a common indirect control	2014 and 2013
Sofprint Group AD	Company under a common indirect control	2014 and 2013
Elpharma AD	Company under a common indirect control	2014 and 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 and 2013
Telecomplect AD	Company related through key managing personnel	2014 and 2013
DOH Group	Company related through key managing personnel	2014 and 2013
Riton P AD	Company related through key managing personnel	2013
Media Group Bulgaria Holding OOD	Company related through key managing personnel	until 25.04.2013

Related party transactions are as follows:

Supplies from related parties:	***2014***	***2013***
	BGN '000	***BGN '000***
Supply of inventories from:		
Companies under a common indirect control	10,472	9,840
Companies under a common indirect control through key managing personnel	294	660
	10,766	**10,500**
Supply of services from:		
Companies under a common indirect control through key managing personnel	4,275	2,831
Companies under a common indirect control	2,842	2,936
Main shareholding companies	250	325
	7,367	**6,092**
Supply of property, plant and equipment from:		
Companies under a common indirect control through key managing personnel	435	4,075
Companies under a common indirect control	-	100
	435	**4,175**
Supplies for acquisition of non-current assets:		
Companies under a common indirect control through key managing personnel	3,099	11,760
	3,099	**11,760**
	21,667	**32,527**

Sales to related parties	***2014***	***2013***
	BGN '000	***BGN '000***
Sales of inventories to:		
Companies under a common indirect control	1,847	4,268
Companies under a common indirect control through key managing personnel	4,897	3,806
Joint ventures	2,762	-
	9,506	**8,074**
Sales of services to:		
Companies under a common indirect control	90	197
Companies under a common indirect control through key managing personnel	322	104
Associates	14	-
	426	**301**
Other sales to:		
Companies under a common indirect control through key managing personnel	67	11
Companies under a common indirect control	-	187
	67	**198**

Interest on loans granted:		
Companies under a common indirect control through key managing personnel	2,239	2,917
Companies under a common indirect control	336	467
Main shareholding companies	-	166
	2,575	**3,550**
	12,574	**12,123**

The accounts and balances with related parties are disclosed in *Notes 22, 26 and 37.*

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 (2013: BGN 4,561 thousand), including:

* current wages and salaries – BGN 4,195 thousand (2013: BGN 4,075 thousand);

* tantieme – BGN 313 thousand (2013: BGN 486 thousand).

48. EVENTS AFTER THE REPORTING PERIOD

At 25 November 2014, the subsidiary company Sopharmacy EOOD was established. The entry of the company in the Commercial Registry was made on 19 January 2015.

On 9 January 2014, the extraordinary General Meeting of Shareholders approved the contract for transformation through a merger of Bulgarian Rose Sevtopolis AD into Sopharma AD (takeover).

The exact amount of the share capital increase of Sopharma AD in relation with the merger (takeover) of Bulgarian Rose Sevtopolis AD was determined by a decision of the Board of Directors of 10 February 2015 as follows: increase from BGN 132,000,000 to BGN 134,797,899 through the issue of 2,797,899 new shares with nominal value of BGN 1 each. The monetary payments to the shareholders of the transferring company Bulgarian Rose Sevtopolis AD were set at the amount of BGN 2,597 in accordance with Art. 261b, para 2 of the Commercial Act. The entry in the Commercial Register was made on 26 February 2015.

In the period 26 January – 19 March 2015, partial contributions to the share capital of the subsidiary Sopharma Kazakhstan, newly established in 2014, at the amount of BGN 258 thousand (EUR 132 thousand) were made. The timeline for the capital payment is 31 May 2015.

On 28 January 2015 a hearing was held before the court in Poland on a case filed by Sopharma AD for recognition and enforcement of a ruling by the Court of Arbitration in Paris (Note 41). The defendant under the case filed a refusal to accept and fulfil the arbitrary decision. The court in Poland ruled on 25 February 2015 that the arbitrary decision shall be executed. This court ruling has not come into force due to a pending appeal procedure against it.

On 11 March 2015, the Commission on Protection of Competition (CPC) gave its consent to Sopharma AD to purchase shares of Medica AD and to acquire sole control on the Group.

On 17 March 2015 an out-of-court agreement was concluded between Sopharma AD (as a contracting party under a supply contract and universal successor of Bulgarian Rose Sevtopolis AD, which was wound-up because of its merger into Sopharma AD) and the company – supplier of the merged subsidiary, which arranges the relations under all disputes between the parties, including the related thereto interim cases (Note 41). On the same date (17 March 2015) in line with the agreement between the parties, Sopharma AD paid to the company – supplier of Bulgarian Rose Sevtopolis AD the amount of BGN 1,246 thousand (USD 673 thousand and EUR 4 thousand), representing the amount outstanding after the mutual offsetting between the parties. On 19 March 2015 each of the parties withdrew its appeals against the court rulings under the cases and requested annulment of the imposed thereby securities and return of the guarantees given in relation with these securities (Note 28).

On 19 March 2015 Sopharma AD and PAO Vitamini concluded a contract on the basis of which trade receivables of Sopharma AD, amounting to EUR 12,774 thousand, should be transformed into their equivalent amount in Hryvnia – UAH 316,532 thousand. This right to a receivable will be used, following a decision taken by the BD of Sopharma AD, as an additional contribution to the share capital of OOO Sopharma Ukraine. The process of capital increase was finalised on 30 March 2015.

On 23 March 2015 the Board of Directors took a decision to start a procedure under the Public Offering of Securities Act (POSA) for making a commercial proposal in accordance with Art. 149, para 6 of POSA whereunder all shares of Momina Krepost AD held by other shareholders to be purchased by Sopharma AD. On 24 March 2015 an application for a commercial proposal was submitted to the Financial Supervision Commission, which has not yet taken up a position thereon.

On 31 December 2014, the Unified State Register in Minsk (in accordance with Note 6) entered an amendment to the Articles of Association of SOOO Brititrade in relation with a purchase-and-sale contract, dated 7 November 2014, for 20% of capital share. The transaction price is USD 342,000. As a result, owners of the company are: Briz SIA – 78.5%, physical persons – 21.5%.

After the end of the reporting period and by the date of the consolidated financial statements, the Group through its subsidiary SOOO Brititrade performed transactions with shares in companies, in which the subsidiary Briz SIA was holding 10% interest as at 31 December 2014, classified as available-for-sale investments in the consolidated financial statements (Note 21).

At 31 March 2015, the interest of Brititrade in these companies is as follows:

OOO Mobil Line	30%
ODO SalusLine	25%
OOO GalenaPharm	80%
OOO Danapharm	80%
ODO Alenpharm-plus	25%
ODO Medjel	80%

The political crisis in Ukraine

Starting from the end of 2013, including at the date of issue of these consolidated 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 21% while the interest rates have increased by 4% for the period until April 2015 compared to the rates at the end of 2014 and according to information of the Ukrainian National Bank the inflation for the period January - March 2015 is about 24%. The purchasing power of the population shows a trend of a downturn. This circumstance continues of have a certain effect on the pharmaceutical market.

In the current situation in Ukraine the existence of a local distributor (OOO Sopharma Ukraine) is of crucial significance, which decreases the risk of uncollectability of receivables from third parties because the trade policy of this subsidiary is primarily focused on sales of goods to other distributors after their previous obligations have been paid. The applied prices and trade terms aim to minimise the adverse effect of the crisis while at the same time the Group retained its presence and position on the market.