

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2015

	Notes	2015 BGN'000	2014 BGN'000 <i>Restated *</i>
Revenue	3	173,803	201,461
Other operating income/(losses), net	4	3,651	3,560
Changes in inventories of finished goods and work in progress		6,667	14,039
Raw materials and consumables used	5	(61,619)	(73,507)
Hired services expense	6	(41,275)	(56,396)
Employee benefits expense	7	(35,331)	(37,605)
Depreciation and amortisation expense	15,16	(14,549)	(16,989)
Other operating expenses	8,9	(6,210)	(9,865)
Profit from operations		25,137	24,698
Impairment of non-current assets	10	(8,567)	(3,252)
Finance income	11	17,922	13,001
Finance costs	12	(6,312)	(4,727)
Finance income/(costs), net		11,610	8,274
Profit before income tax		28,180	29,720
Income tax expense	13	(2,826)	(2,429)
Net profit for the year	41	25,354	27,291
Other comprehensive income:			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of defined benefit pension plans	32	(51)	(310)
Loss on revaluation of property, plant and equipment	15	-	(6)
Income tax relating to items of other comprehensive income that will not be reclassified	13	-	1
		(51)	(315)
<i>Items that may be reclassified to profit or loss:</i>			
Net change in fair value of available-for-sale financial assets		193	113
		193	113
Other comprehensive income for the year, net of tax	14	142	(202)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	41	25,496	27,089
Earnings per share	BGN 28	0.20	0.21

The accompanying notes on pages 5 to 107 form an integral part of these financial statements.

Executive Director:

Ognian Donev, PhD

Finance Director:

Boris Borisov

Chief Accountant (preparer):

Yordanka Petkova



AUDITED BY AEA
25/03/2016

*Combined indicators; Note 2.3

SOPHARMA AD
SEPARATE STATEMENT OF FINANCIAL POSITION
as at 31 December 2015

	Notes	31 December 2015 BGN'000	31 December 2014 BGN'000 <i>Restated *</i>	1 January 2014 BGN'000 <i>Restated *</i>
ASSETS				
Non-current assets				
Property, plant and equipment	15	211,943	211,056	216,905
Intangible assets	16	2,507	3,210	4,429
Investment property	17	22,160	22,368	22,555
Investments in subsidiaries	18	132,899	94,434	92,573
Investments in associates	19	-	7,015	-
Available-for-sale investments	20	5,510	4,439	6,862
Long-term receivables from related parties	21	20,505	33,150	25,649
Other long-term receivables	22	3,257	6	17
		<u>398,781</u>	<u>375,678</u>	<u>368,990</u>
Current assets				
Inventories	23	61,701	57,360	53,713
Receivables from related parties	24	78,035	99,505	103,350
Trade receivables	25	21,466	23,397	22,221
Other receivables and prepayments	26	6,881	11,901	8,198
Cash and cash equivalents	27	3,745	4,076	9,220
		<u>171,828</u>	<u>196,239</u>	<u>196,702</u>
TOTAL ASSETS		<u>570,609</u>	<u>571,917</u>	<u>565,692</u>
EQUITY AND LIABILITIES				
EQUITY				
Share capital		134,798	132,000	132,000
Treasury shares		(17,597)	(17,203)	(18,105)
Reserves		284,227	246,243	220,935
Retained earnings		30,198	45,484	51,974
	28,41	<u>431,626</u>	<u>406,524</u>	<u>386,804</u>
LIABILITIES				
Non-current liabilities				
Long-term bank loans	29	30,819	37,972	48,763
Deferred tax liabilities	30	4,697	4,124	4,112
Government grants	31	6,371	3,968	4,264
Retirement benefit obligations	32	2,426	2,387	1,999
Finance lease liabilities	33	3	34	49
		<u>44,316</u>	<u>48,485</u>	<u>59,187</u>
Current liabilities				
Short-term bank loans	34	68,961	90,761	98,878
Current portion of long-term bank loans	29	7,380	7,431	4,301
Trade payables	35	8,014	7,909	6,296
Payables to related parties	36	3,070	4,154	3,595
Tax payables	37	965	938	1,425
Payables to personnel and for social security	38	4,769	4,564	4,049
Other current liabilities	39	1,508	1,151	1,157
		<u>94,667</u>	<u>116,908</u>	<u>119,701</u>
TOTAL LIABILITIES		<u>138,983</u>	<u>165,393</u>	<u>178,888</u>
TOTAL EQUITY AND LIABILITIES		<u>570,609</u>	<u>571,917</u>	<u>565,692</u>

The accompanying notes on pages 5 to 107 form an integral part of these financial statements.

The financial statements on pages 1 to 107 were approved for issue by the Board of Directors and signed on its behalf on 25 March 2016 by:

Executive Director:

Ognian Donev, PhD

Finance Director:

Boris Borisov

Chief Accountant (preparer):

Yordanka Petkova



AUDITED BY AFA
25/03/2016

*Combined indicators; Note 2.3

SEPARATE STATEMENT OF CASH FLOWS
for the year ended 31 December 2015

	Notes	2015 BGN'000	2014 BGN'000 <i>Restated *</i>
Cash flows from operating activities			
Cash receipts from customers		185,756	217,550
Cash paid to suppliers		(119,466)	(138,665)
Cash paid to employees and for social security		(34,090)	(35,583)
Taxes paid (except income taxes)		(5,892)	(6,310)
Taxes refunded (except income taxes)		4,727	3,615
Income taxes paid		(758)	(4,938)
Interest and bank charges paid on working capital loans		(2,519)	(3,015)
Foreign currency exchange gains/(losses), net		45	(132)
Other proceeds/(payments), net		595	(989)
Net cash flows from operating activities		28,398	31,533
Cash flows from investing activities			
Purchases of property, plant and equipment		(9,126)	(8,766)
Proceeds from sales of property, plant and equipment		134	335
Purchases of intangible assets		(29)	(50)
Purchases of investment property		-	(1,005)
Purchases of shares in associates		(14,818)	(3,136)
Purchases of available-for-sale investments		(1,451)	(1,425)
Proceeds from sales of available-for-sale investments		474	133
Purchases of shares in subsidiaries		(2,673)	(5,988)
Proceeds from sales of shares in subsidiaries		3,399	5,046
Loans granted to related parties		(14,297)	(19,480)
Loan repayments by related parties		28,787	12,555
Loans granted to other companies		(2,232)	(518)
Loan repayments by other companies		856	362
Dividends received from investments in subsidiaries		7,831	6,274
Dividends received from available-for-sale investments		8	58
Interest received on granted loans and deposits		2,727	3,587
Net cash flows used in investing activities		(410)	(12,018)
Cash flows from financing activities			
Repayment of long-term bank loans		(7,226)	(7,683)
Proceeds from short-term bank loans (overdraft), net		3,361	5,327
Repayment of short-term bank loans (overdraft), net		(25,175)	(13,328)
Interest and charges paid under investment purpose loans		(1,208)	(1,661)
Government grants received		3,000	-
Proceeds from sale of treasury shares		-	2,784
Treasury shares		(394)	(1,263)
Dividends paid		(10)	(8,811)
Payments of finance lease liabilities		(69)	(95)
Net cash flows used in financing activities		(27,721)	(24,730)
Net increase/(decrease) in cash and cash equivalents	41	267	(5,215)
Cash and cash equivalents at 1 January	41	3,478	8,693
Cash and cash equivalents at 31 December	27	3,745	3,478

The accompanying notes on pages 5 to 107 form an integral part of these financial statements.

Executive Director:

Ognian Donev, PhD

Finance Director:

Boris Borisov

Chief Accountant (preparer):

Yordanka Petkova



AUDITED BY AEA
25/03/2016

*Combined indicators; Note 2.3

SOPHARMA AD

SEPARATE STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

Notes	Share capital	Treasury shares	Statutory reserves	Revaluation reserve - property, plant and equipment	Available-for-sale financial assets reserve	Additional reserves	Retained earnings	Total equity
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Balance at 1 January 2014 (originally stated)	132,000	(18,105)	30,051	23,392	984	166,508	35,905	370,735
Effects of a subsidiary merger	-	-	-	-	-	-	16,069	16,069
Balance at 1 January 2014 (restated)	132,000	(18,105)	30,051	23,392	984	166,508	51,974	386,804
Changes in equity for 2014								
Effect of treasury shares acquisition	-	902	-	-	-	-	619	1,521
Distribution of profit for:	-	-	3,504	-	-	22,649	(35,043)	(8,890)
* reserves	-	-	3,504	-	-	22,649	(26,153)	-
* dividend	-	-	-	-	-	-	(8,890)	(8,890)
Total comprehensive income for the year (originally stated)	-	-	-	(5)	113	-	26,232	26,340
Effects of a subsidiary merger	-	-	-	-	-	-	749	749
Total comprehensive income for the year (restated), including:	-	-	-	(5)	113	-	26,981	27,089
* net profit for the year	-	-	-	-	-	-	27,291	27,291
* other comprehensive income, net of taxes	-	-	-	(5)	113	-	(310)	(202)
Transfer to retained earnings	-	-	-	(953)	-	-	953	-
Balance at 31 December 2014 (originally stated)	132,000	(17,203)	33,555	22,434	1,097	189,157	28,666	389,706
Effects of a subsidiary merger	-	-	-	-	-	-	16,818	16,818
Balance at 31 December 2014 (restated)	132,000	(17,203)	33,555	22,434	1,097	189,157	45,484	406,524
Changes in equity for 2015								
Effects of a subsidiary merger	2,798	-	8,785	344	-	-	(11,927)	-
Effect of treasury shares acquisition	-	(394)	-	-	-	-	-	(394)
Distribution of profit for:	-	-	2,916	-	-	26,238	(29,154)	-
* reserves	-	-	2,916	-	-	26,238	(29,154)	-
Total comprehensive income for the year, including:	-	-	-	-	193	-	25,303	25,496
* net profit for the year	-	-	-	-	-	-	25,354	25,354
* other comprehensive income, net of taxes	-	-	-	-	193	-	(51)	142
Transfer to retained earnings	-	-	-	(492)	-	-	492	-
Balance at 31 December 2015	134,798	(17,597)	45,256	22,286	1,290	215,395	30,198	431,626

The accompanying notes on pages 5 to 107 form an integral part of these financial statements.

Executive Director:

Ognish Doney, PhD

SOPHARMA AD

BULGARIA

Finance Director:

Boris Borisov

Chief Accountant (preparer):

Yordanka Petkova

AUDITED BY AFA

25/03/2016

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1. BACKGROUND CORPORATE INFORMATION

SOPHARMA AD is a business entity registered in Bulgaria with a seat and registered address of management: Sofia, 16, Iliensko Shousse St.

The Company was registered with court on 15 November 1991 by Decision No 1 / 1991 of Sofia City Court.

1.1. Ownership and management

Sopharma AD is a public company under the Public Offering of Securities Act.

As at 31 December 2015, the structure of Company's joint-stock capital was as follows:

	%
Donev Investments Holding AD	24.73
Telecomplect Invest AD	20.07
Rompharm Company OOD	18.04
Sopharma AD (treasury shares)	3.87
Other legal persons	29.79
Natural persons	3.50

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 Company is represented and managed by its Executive Director Ognian Donev, PhD.

As at 31 December 2015, the average number of Company's personnel was 2,010 workers and employees (2014: 2,093).

1.2. Principal activities

The principal activities of the Company include the following types of transactions and deals:

- production and trade in medicinal substances and finished drug forms;
- research and development activities in the field of medicinal products.

1.3. Main indicators of the economic environment

The main economic indicators of the business environment that have affected the Company's activities throughout the period 2013 – 2015, are presented in the table below:

Indicator	2013	2014	2015
GDP in million levs*	81,971	83,612	86,650
Actual growth of GDP **	1.3%	1.6%	3%
Year-end inflation	(0.9)%	(2.0)%	(0.9)%
Average exchange rate of USD for the year	1.47	1.47	1.76
Exchange rate of the USD at year-end	1.42	1.61	1.80
Basic interest rate at year-end	0.02	0.02	0.01
Unemployment rate at year-end	11.8%	10.7%	10.0%

Source: BNB

* Preliminary data for year 2015

** Preliminary data as at 30 September 2015

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY**2.1. Basis for preparation of the separate financial statements**

The separate financial statements of Sopharma AD 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 2015 and have been accepted by the Commission of the European Union.

For the current financial year the Company 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 have been relevant to its activities.

The adoption of these standards and/or interpretations, effective for annual periods beginning on 1 January 2015, has not caused changes in Company's accounting policies and respectively, in its assets, liabilities, transactions and performance due to the fact that the Company does not possess/operate such items and/or does not perform such deals and transactions.

The new and/or amended standards and interpretations include:

- *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 1 January 2015).* 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).

- *IFRIC 21 "Levies" (in force for annual periods beginning on or after 1 January 2014 – endorsed by EC for annual periods as of 17 June 2014) – 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 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 2015, which have not been adopted by the Company for early application.

The management has decided that out of them the following are likely to have a potential impact in the future for changes in the accounting policies, and in the classification and value of reporting items in Company's financial statements 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" (in force for annual periods beginning on or after 1 January 2018 – 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 has passed through three phases: Phase 1: Classification and measurement of financial assets and financial liabilities; Phase 2: Hedge accounting; and Phase 3: Impairment methodology. At present, IFRS 9 has been issued four times: in November 2009, October 2010, November 2013 and finally in July 2014. Phase 1: 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). Phase 2: 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 9 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 latest amendments to IFRS 9 its effective date 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 – the EC endorsement procedure has been postponed for an indefinite period).* 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 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 exemptions from consolidation for 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 11 (amended) "Joint Arrangements" – regarding acquisitions of interests in joint operations (in force for annual periods beginning on or after 1 January 2016 – 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 2018 – 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 sale 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;
- *IFRS 16 "Leases" (in force for annual periods beginning on or after 1 January 2019 – not endorsed by EC).* This standard has an entirely new concept. It establishes new principles for the recognition, measurement and presentation of the leases with the objective to ensure a more faithful and adequate representation of such transactions both for lessee and lessor. It will supersede the current standard related to leases – IAS 17. The main principle of the new standard is the introduction of a single lessee accounting model – for all contracts with duration of over 12 months – a right-of-use asset is recognised, which would be subsequently depreciated for the duration of the contract, and respectively, the liability would be stated for the lease contracts. This is the significant change in the accounting treatment. There would not be any significant changes with the lessors and they would continue to account for leases as per the old standard – operating and finance. As far as the new standard introduces a more thorough concept, a more detailed analysis of their contractual

terms should be carried out and it is possible that grounds for reclassification of the lease transactions may occur for them too.

- *IAS 1 (amended) "Presentation of Financial Statements" – regarding disclosure initiative (in force for annual periods beginning on or after 1 January 2016 – 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 7 (amended) "Statement of Cash Flows" – regarding disclosure initiative (in force for annual periods beginning on or after 1 January 2017 – not endorsed by EC).* This amendment is an important clarification of the standard itself with a focus on the information provided to the users of financial statements in order to improve their understanding of the liquidity and the financing activities of the entity. The amendment requires that additional disclosures be prepared in regards to the changes of liabilities of the entity from: (i) changes in financing activities, (ii) changes from obtaining or losing control of subsidiaries, (iii) changes in foreign exchange rates, (iv) changes in fair values, and (v) other changes. The requirements for disclosure of the changes in the liabilities from financing activities shall be disclosed separately from changes in other assets and liabilities.
- *IAS 12 (amended) "Income Taxes" (in force for annual periods beginning on or after 1 January 2017 – not endorsed by EC) – recognition of deferred tax assets for unrealised losses.* The amendment clarifies the following: (1) unrealised losses on debt instruments, measured at fair value for accounting purposes and at cost for tax purposes, give rise to deductible temporary differences; (2) the assumptions for future taxable profits shall not include effect of deductions resulting from deductible temporary differences; (3) if the tax legislation restricts the utilisation of tax losses, the review and assessment of deferred tax assets should be made in combination with the other deferred tax assets of the same type.
- *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 – 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 – 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 for annual periods as of 1 February 2015).* 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 period' 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 judgments and 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 – 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 is not treated as a change in the original plan of disposal as well as in 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, 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).

In addition, with regard to the stated below new standards, amended/revised standards and new interpretations, issued but not yet in force for annual periods beginning on 1 January 2015, the management

has concluded that they are unlikely to have a potential impact for changes in the accounting policies, and in the classification and value of reporting items in Company's financial statements, namely:

- *IFRS 14 "Regulatory Deferral Accounts" (in force for annual periods beginning on or after 1 January 2016 – EC has postponed the endorsement process for this interim standard until the issue of the final standard).* 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 – 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 for annual periods as of 1 February 2015).* 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 amendment clarifies that these contributions should be treated as a reduction in the service cost by being allocated to the period of service, when they are linked to the number of employee's years of service, and should be deducted from the service cost in the period in which the related services are rendered, when the contributions are independent of the number of years of service.

The separate financial statements of the Company have been prepared on a historical cost basis except for property, plant and equipment, investment property and available-for-sale financial instruments, which are measured at revalued amount and respectively, at fair value.

The Company keeps its accounting books in Bulgarian Levs (BGN), which is accepted as being its presentation currency. The data in the separate financial statements and the notes thereto is presented in thousand Bulgarian Levs (BGN'000) except where it is explicitly stated otherwise.

The presentation of financial statements in accordance with International Financial Reporting Standards requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, the amounts of income and expenses and the disclosure of contingent receivables and payables as at the date of the financial statements. These estimates, accruals and assumptions are based on the information, which is available at the date of the 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 financial statements, are disclosed in *Note 2.30, Note 15, Note 17 and Note 20*.

2.2. Consolidated financial statements of the Company

The Company has started the process of preparation of its consolidated annual financial statements for year 2015 in accordance with IFRS that are in force for year 2015 whereas these separate annual financial statements will be included therein. In accordance with the planned dates, the management expects that the consolidated financial statements will be approved for issue by the Board of Directors of the Company not later than 30 April 2016 and after this date the financial statements will be publicly made available to third parties.

2.3. Merger of Bulgarian Rose Sevtopolis into Sopharma AD (takeover)

(a) legal for of the merger

The merger of Bulgarian Rose Sevtopolis AD (transforming company) into Sopharma AD (receiving company) was made through the legal form of transformation, regulated by the Commercial Act. The merger was entered in the Commercial Register at the Registry Agency on 26 February 2015. As a result of the transaction, the total assets of Bulgarian Rose Sevtopolis AD were transferred to Sopharma AD while Bulgarian Rose Sevtopolis AD was wound-up without liquidation.

By virtue of a decision taken by an extraordinary General Meeting of the Shareholders, held on 9 January 2015, after the completion of the procedures, set out in the Commercial Act, the share capital of Sopharma AD was increased from BGN 132,000 thousand to BGN 134,798 thousand (Commercial Act, Art. 262y). New 2,797,899 shares were issued with nominal value of BGN 1 each and issue value of BGN 4.14 equal to the fair price of 1 share of Sopharma AD. Exchange ratio was calculated based on the net assets fair value of both companies. The exchange ratio was subject to examination by an assigned independent examiner who issued a report, dated 12 June 2014 (Commercial Act, Art. 262m). The Transformation Agreement and Examiner's Report were approved by the General Meeting of the receiving company on 9 January 2015.

The purpose of the transaction for transformation of both companies was as follows:

- restructuring of the companies in Sopharma Group in order to eliminate overlapping activities;
- focus of the efforts on production and trade activities, and respectively, optimisation of

administrative expenses;

- enhancing efficiency and achieving synergy in both management and production and trade activities as well as costs optimisation.

(b) method of accounting for the merger

For the purposes of accounting, the date 1 January 2015 was accepted as a merger date. Up to that date, Bulgarian Rose Sevtopolis AD has been a subsidiary of Sopharma AD. The performed transaction is treated as restructuring of the activities of both companies. The merger was accounted for by applying the 'uniting of interests' method. In line with the requirements and rules of this method, the operations and the assets of the companies are presented in these financial statements (01.01.2014) as if they have always been united from the beginning of the earliest period, presented in the financial statements, regardless of the legal events and procedures and their effect of the legal status and life of the receiving and the transforming company. The effects of all business operations between the receiving and the transforming company, including the outstanding balances, are eliminated regardless of whether arisen prior to or after the restructuring. All differences arising on the merger operation are stated in equity – within 'retained earnings' component (*Note 41*).

2.4. Comparatives

The Company usually presents comparative information for one prior year in its financial statements.

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

The comparative information for 2014, presented in the statement of financial position, the statement of comprehensive income and the statement of cash flows of the Company, has been prepared based on combined data from the separate annual financial statements of Sopharma AD (receiving company) and Bulgarian Rose Sevtopolis AD (transforming company) in relation to the performed merger, with unified accounting policies and eliminated internal accounts, transactions and settlements between them. The statement of financial position includes two comparative periods – 31 December 2014 and 1 January 2014 – as far as the combining of data from the financial statements of both companies leads to indicators that differ significantly from the separate indicators of Sopharma AD itself for these periods (*Note 41*).

The comparative information for 2014 in the statement of changes in equity also present combines indicators for the *balances and movements* of each uniform in composition component of equity (share capital, reserves, retained earnings) in the separate financial statements for 2014 of the receiving and the transforming company, despite the fact that the legal form of the merger was made on 26 February 2015.

Information on the composition of the equity components of the receiving and the transforming company is disclosed in *Note 28*.

2.5. Functional currency and recognition of exchange differences

The functional and reporting (presentation) currency of the Company is the Bulgarian Lev. Starting from 1 July 1997 the Bulgarian Lev was fixed under the Bulgarian National Bank Act to the German Mark at the ratio of BGN 1 : DEM 1, and with the introduction of the Euro as the official currency of the European Union, it has been fixed to the Euro at a ratio of 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 statement of financial position, which have been initially denominated in a foreign currency, are accounted for in the functional currency by applying the historical exchange rate at the transaction date and are not subsequently revalued at the closing exchange rate.

Foreign exchange gains or losses arising on the settlement or recording of foreign currency transactions at rates different from those at which they were converted on initial recognition, are recognised in the statement of comprehensive income (within profit or loss for the year) in the period in which they arise and are treated as 'other operating income/(losses)' (within profit or loss for the year) and presented net.

2.6. Revenue

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

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 date of the statement of financial position, if this stage as well as the transaction and completion costs, 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.

Net foreign exchange differences related to cash, trade receivables and payables, denominated in a foreign currency, are recognised in the statement of comprehensive income (within profit or loss for the year) when they arise and are presented net under 'other operating income/(losses)'.

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

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

Finance income is presented separately on the face of the statement of comprehensive income (within profit or loss for the year) and is comprised of interest income on granted loans and term deposits, net gain on exchange differences from revaluation of loans in a foreign currency, proceeds/gains from investments in securities and shares, including dividends.

2.7. Expenses

Expenses are recognised as they are incurred, following the accrual and matching concepts, to the extent that this would not cause recognition of assets and liabilities that do not satisfy the relevant definitions under IFRS.

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 statement of comprehensive income (within profit or loss for the year) on the line 'other operating income/(losses)'.

Finance costs are presented separately in the statement of comprehensive income (within profit or loss for the year) and are comprised of interest expenses under loans received, bank fees and charges under loans and guarantees, foreign exchange net loss from loans in foreign currencies, expenses/losses on investments in securities and shares and impairment of granted commercial loans.

2.8. Property, plant and equipment

Property, plant and equipment (fixed tangible assets) are presented 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.

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 Company credit resources with analogous maturity and purpose.

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

The useful life per group of assets is as follows:

- buildings – 20-70 years;
- facilities – 5-25 years;
- machinery and equipment – 7-34 years;
- computers and mobile devices – 2-5 years;
- servers and systems – 4-12 years;
- motor vehicles – 5-12 years;
- furniture and fixtures – 3-12 years.

The useful life, set for any tangible fixed asset, is reviewed at the end of each reporting period and in case of any material deviation from the future expectations on the 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 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 at the expense of this reserve and is presented in the statement of comprehensive income (within other comprehensive income) unless it exceeds the reserve amount and the surplus is included as expense in the statement of comprehensive income (within profit or loss for the year).

Gains and losses on disposal (sale)

Tangible fixed assets are derecognised from the 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' group are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated under 'other operating income/(losses), net' on the face of the 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 statement of changes in equity.

2.9. 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. 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 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 Company changes its approach and switches to measuring the asset at fair value less the estimated costs to sell.

2.10. Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition (the consideration given) over the fair value of the share of Sopharma AD in the net identifiable assets of the subsidiary (Bulgarian Rose Sevtopolis AD) at the date of its acquisition (the business combination). This goodwill on the merger of the subsidiary into the parent company is recognised in the separate statement of financial position of the parent. Goodwill is presented within the 'intangible assets' group.

Goodwill is measured at acquisition cost (cost), determined at the date of the actual business combination, less the accumulated impairment losses. It is not amortised. It is subject to annual review for existence of impairment indicators. Impairment losses on goodwill are presented in the separate 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 financial statements at acquisition cost (cost) less accumulated amortisation and any impairment losses in value.

The Company applies the straight-line amortisation method for the intangible assets with determined useful life of 5 – 10 years.

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 expense in the statement of comprehensive income (within profit or loss for the year).

Intangible assets are derecognised from the 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 under 'other operating income/(losses), net' on the face of the statement of comprehensive income (within profit or loss for the year).

2.11. Investment property

Investment property is property lastingly held by the Company to earn rentals and/or for capital appreciation. They are presented in the statement of financial position at fair value (*Note 2.29*). Gains or losses arising from a change in the fair value of investment property are recognised in the 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.

Investment property is derecognised from the 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 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 function and purpose 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 statement of comprehensive income (within other comprehensive

income) and within 'revaluation reserve – property, plant and equipment' in the statement of changes in equity.

2.12. Investments in subsidiaries and associates

Long-term investments representing shares in subsidiary and associate companies are presented in the financial statements at acquisition cost (cost) being the fair value of the consideration paid for the investment including any directly attributable costs incurred on the acquisition less accumulated impairment.

Company's investments in subsidiaries and associates are subject to annual review for impairment. Where conditions for impairment are identified, the impairment is recognised in the statement of comprehensive income (within profit or loss for the year).

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

Investments 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 control over the economic benefits from the respective specific type of investments are being lost. The gains or losses on the sale are presented respectively as 'finance income' or 'finance costs' in the statement of comprehensive income (within profit or loss for the year).

2.13. Available-for-sale investments

Investments in the form of available-for-sale 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 2.24*).

Subsequent measurement

The available-for-sale investments (financial assets), held by the Company, are subsequently measured at fair value (*Note 2.29*) 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 statement of comprehensive income (within other comprehensive income) and are recognised in the 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 (minority interest) is recognised as current income and presented in the 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 Company 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 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 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 statement of comprehensive income (within other comprehensive income).

2.14. Inventories

Inventories are valued in the financial statements as follows:

- raw materials, materials and goods – at the lower of purchase cost (acquisition cost) and 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. Fixed production overheads are included in the production cost of manufactured finished products, semi-finished products and work in progress based on the normal operating capacity determined on the grounds of commonly maintained average volume of production confirmed by the production plan. The base, chosen for their allocation at unit-of-production level, is the standard rate of man-hours of directly engaged staff in the production of the particular unit.

The Company applies 'standard production cost' for current valuation of finished products, semi-finished products and work in progress, and respectively, 'standard purchase 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 financial statements (*Note 2.30*).

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 for completion of this asset and the estimated costs necessary to make the sale.

2.15. Trade and other receivables

Trade receivables are recognised 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 2.24*).

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 statement of comprehensive income (within profit or loss for the year).

2.16. 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 amount given in 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 at amortised cost by applying the effective interest 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 statement of comprehensive income (within profit or loss for the year) as finance income (interest) or 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 Company has unconditionally the right to collect its receivable within a term of more than 12 months after the end of the reporting period (*Note 2.24*).

2.17. Cash and cash equivalents

Cash and cash equivalents include cash in hand, current accounts and short-term deposits with banks, with original maturity of less than three months (*Note 2.24*).

For the purposes of the 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 received investment purpose loans is reported as payments for financial activities while the interest on loans related to working capital for current activities is included in the operating 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 Company 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.

2.18. Trade and other payables

Trade and other current amounts payable are carried 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 method (*Note 2.24*).

2.19. Interest-bearing loans and other borrowings

All loans and other borrowings 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 borrowings. After the initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortised cost by applying the effective interest 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 statement of comprehensive income (within profit or loss for the year) as finance costs (interest) or income throughout the amortisation period, or when the liabilities are derecognised or reduced (*Note 2.24*).

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

2.20. Capitalisation of borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset 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 of the Company 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.

2.21. Leases

Finance lease

Lessee

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

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 Company, 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 statement of comprehensive income (within profit or loss for the year) in the inception 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 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 its tangible fixed assets 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.

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

The employment and social security relations with the workers and employees of the Company are based on the provisions of the Labour Code and the effective social security legislation in Bulgaria.

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 the end of each reporting period, the Company measures 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

In accordance with Company's Articles of Association and upon a decision of the General Meeting of Shareholders, the Executive Director is entitled to one-off remuneration (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'.

Long-term retirement benefits

Defined contribution plans

The major duty of the Company as an employer 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, the Guaranteed Receivables of Workers and Employees (GRWE) 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).

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.

There is no established and functioning private voluntary social security fund at the Company.

The contributions, payable by the Company 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 Labour Code, the Company in its capacity as an employer in Bulgaria is obliged to pay an indemnity to its personnel when coming of age for retirement, at an amount which, depending on the length of service with the entity, varies between two and six gross monthly salaries at the employment termination date. 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 shall be presented in the statement of financial position, and respectively, the change in their value – in the 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 end of each reporting period, the Company assigns certified actuaries who issue a report with their calculations about the long-term retirement benefit obligations to personnel. 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 Bulgaria where the Company itself operates.

Termination benefits

In accordance with the local provisions of the employment and social security regulations in Bulgaria, the Company as an employer is obliged, upon termination of the employment contracts prior to retirement, to pay certain types of indemnities.

The Company recognises employee benefit obligations on employment termination before the normal retirement date when it is demonstrably committed, based on a publicly 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 statement of financial position at their present value.

2.23. Share capital and reserves

The Company is a joint-stock one and is obliged to register with the Commercial Register a specified **share capital**, which should serve as a security for the creditors of the Company 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 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 Company is obliged to set aside a ***Reserve Fund*** by using the following resources:

- 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.

Treasury shares are presented in the statement of financial position at cost (acquisition price) and their gross amount is deducted from Company's equity. Gains or losses on sales of treasury shares are at the account of and carried directly to Company'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; and
- gain from the difference between the carrying amount of property, stated within the group 'owner occupied property', and their fair value at the date on which they are transferred to the group 'investment property'.

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

Revaluation reserve is transferred to the 'accumulated profits' component when the assets are derecognised from the statement of financial position or are fully depreciated.

The revaluation reserve covers the impairment of the assets with which it relates. It may be used in the implementation of Company'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 statement of comprehensive income (within profit or loss for the year) when the financial assets are disposed of (sold) by the Company and/or on identified permanent impairment of particular financial assets.

2.24. Financial instruments**2.24.1. Financial assets**

The Company classifies its financial assets in the following categories: 'loans and receivables' and 'available-for-sale financial assets'. The classification depends on the nature and purpose (designation) of the financial assets at the date of their acquisition. The management determines the classification of Company's financial assets at the time of their initial recognition on the statement of financial position.

The Company usually recognises its financial assets in the statement of financial position on the trade date, being the date on which the Company commits to purchase the respective financial assets. All financial assets are measured at their fair value plus the directly attributable transaction costs.

Financial assets are derecognised from Company's statement of financial position when the rights to receive cash (flows) from these assets have expired or have been transferred, and the Company has transferred substantially all the risks and rewards of the asset ownership to another entity (person). If the Company retains substantially all risks and rewards associated with the ownership of a particular transferred financial asset, it continues to recognise the transferred asset on its 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 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 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 statement of financial position (*Notes 2.15, 2.16 and 2.17*). 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 statement of comprehensive income (within profit or loss for the year) under the item 'finance income'.

At the end of each reporting period, the Company assesses whether events and circumstances have occurred that indicate the existence of objective evidence necessitating loans and receivables to be impaired (*Note 2.30*).

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. These are usually shares or interest in other companies, acquired for investment purposes (available-for-sale investments), and are included within non-current assets, except where the Company intends to sell them in the following 12 months and is actively searching for a buyer (*Note 2.13*).

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 2.13*).

The effects, gains or losses, of revaluation to fair value of the available-for-sale investments are included in the statement of comprehensive income (within other comprehensive income) under the item 'net change in fair value of available-for-sale financial assets' and are accumulated 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 statement of comprehensive income (within profit or loss for the year) as 'finance costs'. Analogously, on each sale of investments of this type, the unrealised gains accumulated in the reserve are recognised in the statement of comprehensive income (within profit or loss for the year) as 'finance income'.

The recycling of accumulated effects from change in the fair value of available-for-sale investments are presented with other comprehensive income (in the item '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 statement of comprehensive income (within profit or loss for the year) when the Company's right to receive the dividends is established.

The available-for-sale investments are reviewed at each 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.

2.24.2. Financial liabilities and equity instruments

The Company 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

Financial liabilities include loans and payables to suppliers and other counterparts. They are initially recognised in the 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 2.18, Note 2.19 and Note 2.21*).

2.25. Income taxes

Company's *current income taxes* are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act. The nominal income tax rate in Bulgaria for year 2015 was 10 % (2014: 10%).

Deferred income taxes are determined using the liability method on all of Company's temporary differences between the carrying amounts of the assets and liabilities and their tax bases, existing at the date of the financial statements.

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 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 (Bulgaria) under the jurisdiction of which the respective deferred asset or liability is expected to be recovered or settled.

The deferred tax assets of the Company are presented net against its deferred tax liabilities when and as much as it is the tax payer for them in the respective jurisdiction (Bulgaria), 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.

The deferred income tax liabilities of the Company as at 31 December 2015 were assessed at a rate, valid for 2016, at the amount of 10% (31 December 2014: 10%).

2.26. Government grants

Gratuitous aids from public institutions (municipal, government and international, 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 Company 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 proportionately to the amount of the recognised depreciation charge.

2.27. Earnings per share

Basic earnings per share are calculated by dividing net profit or loss attributable to ordinary equity holders 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 split, the number of the outstanding ordinary shares as at the date of such event, is adjusted as to reflect the proportional change in the number of outstanding ordinary shares as if the event has occurred in the beginning of the earliest presented period.

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

2.28. Segment reporting

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

Company's operating segments are currently monitored and directed separately as each of them represents a separate business area that offers various products and bears various business risks and rewards. Company's operating segments include the business fields by individual lines of medicinal forms production – tablets, ampoules, other.

Information by operating segments

The Company uses one basic 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. Usually they include: (a) for revenue - sales of finished products; (b) for expenses - raw materials and consumables used, depreciation and amortisation and production staff remuneration; (c) for assets - property, plant and equipment and inventories; (d) for liabilities - payables to personnel and for social security. 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 Company manages its investments in securities, trade accounts and financial resources granted/received as well as taxes at entity's level and 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 Company as well as revenue, expenses, liabilities and assets that are not subject to allocation are stated separately in the item 'total at Company 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, trade and other receivables, trade payables and loans received, tax accounts, general-purpose production and administrative equipment.

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

2.29. Fair value measurement

Some of Company'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 independent 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 Company 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 Company applies various valuation techniques that would be relevant to the specific features of the respective conditions and for which it has sufficient available inputs while trying to use at a maximum the publicly observable information, and respectively, to minimize the use of unobservable information. It uses the three acceptable approaches – *the market approach, the income approach and the cost approach* – whereas the most frequently applied valuation techniques include directly quoted 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 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.

For assets and liabilities that are recognised at fair value in the financial statements on a recurring basis, the Company determines at the end of each reporting period 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.

The Company has developed internal rules and procedures for measuring the fair value of various types of assets and liabilities. For the purpose, a specifically designated individual, subordinated to the Finance Director, organised the performance of the overall valuation process and also coordinates and observes the work of the external appraisers.

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

In accordance with Company's 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 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 from the process of fair value measurement are presented to the audit committee and to Company's independent auditors.

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

2.30. Critical accounting judgments on applying the Company's accounting policies. Key estimates and assumptions of high uncertainty.

Inventories

Normal capacity

Company's normal production capacity is determined on the basis of management assessments (made after relevant analyses) for optimum load of the production facilities and return on the investments made therein, with structure of the manufactured finished products accepted as being common for the Company. When the actually achieved volume for individual articles is below the volume at the normal production capacity, set by the Company, the relevant recalculation are made for the fixed overheads, included in the cost of stocks of finished products and work in progress.

Allowance for impairment

At the end of each financial year, the Company reviews the state, useful life and usability of the existing inventories. In case of identified inventories bearing a potential of not being realised at their current carrying amount in the following reporting periods, the Company impairs these inventories to net realisable value.

As a result of the reviews and analyses, made in 2015, impairment of inventories was stated at the amount of BGN 2,822 thousand (2014: BGN 3,003 thousand) (*Notes 5 and 8*).

Actuarial calculations

Calculations of certified actuaries have been used 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*).

Operating lease

The Company has classified a building, partially leased to related parties under operating lease terms, in the group of 'property, plant and equipment'. Since a significant part of the building is used thereby in its own

operations as well, the management has decided that the building shall not be treated as investment property.

Impairment of investments in subsidiaries

At each reporting date, the management makes an assessment about whether indicators for impairment exist in respect of its investments in subsidiaries. The calculations were made by the management with the assistance of independent certified appraisers.

As a result of the calculations, made in 2015, the Company found necessity to recognise impairment of particular investments in subsidiaries at the amount of BGN 8,567 thousand was necessary (2014: BGN 2,880 thousand) (*Note 10*).

Impairment of trade receivables

The Company estimates the losses from doubtful and bad debts at the end of each reporting period on an individual basis. 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 of the respective receivable is recognised in the statement of comprehensive income (within profit or loss for the year) as impairment loss (*Note 8*).

After 180 days of delay it is already considered that indicators for impairment may exist. In the judgment of collectability of receivables, the management performs analysis of the total exposure of each counterpart in order to establish the actual chance for their collection and not only at the level of past due individual receivables of a counterpart, including the potential opportunities for collecting eventual interest for compensating delay. 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, warrant, bank guarantee) and thus with ensured collection (through future realisation of the collateral or guarantee payment). Where the management has judged that a very high uncertainty exists as to the collectability of certain receivables or part of them and they are not secured by collateral, the receivables are fully written off.

For 2015, the change in the recognised impairment of trade receivables totals to BGN 234 thousand – (accrued)/reversed impairment, net (2014: BGN (2,651) thousand (accrued)/reversed impairment, net) (*Note 9*).

Impairment of commercial loans granted

At the end of each reporting period, the Company performs a review of the commercial loans granted on an individual basis in order to identify and calculate impairment losses. When deciding whether to recognise impairment loss in the statement of comprehensive income (within profit or loss for the year), Company's management assesses whether and what visible indications and data exist as objective evidence that shows a measurable decrease in the expected cash flows from the respective counterpart – borrower. Such indications and data represent the existence of unfavourable change in the payment capacity of the borrower

or national, economic or other conditions related to certain risk for a particular loan. The following basic criteria referring to borrowers are taken into account in the analysis of the risks of impairment losses: financial position and performance, including ability for generating own cash flows, problems in the servicing as well as in the quality of provided collateral in view of its type and realisation opportunities.

The recognised impairment (net of the reversed ones) for 2015, related to trade loans granted, amount totally to BGN 1,954 thousand (2014: BGN 37 thousand) (*Note 12*).

Deferred tax assets

There are unrecognised deferred tax assets at the amount of BGN 2,541 thousand (31 December 2014: BGN 1,510 thousand), related to impairment of investments in subsidiaries because the management is not planning to dispose of these investments and has concluded that it is unlikely the temporary difference to be manifested in a foreseeable future. The temporary difference on which no tax asset is recognised amounts to BGN 25,409 thousand (31 December 2014: BGN 15,098 thousand).

Litigation provisions

With regard to the pending litigations against the Company, the management, jointly with Company's lawyers, has decided that at this stage the probability and risks of a negative outcome therefrom is still below 50% and therefore, it has not included provisions for litigation payables in the statement of financial position as at 31 December 2015 (*Note 40*).

3. REVENUE

The *main revenue* earned from sales of Company's finished products includes:

	<i>2015</i>	<i>2014</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Export	109,997	137,955
Domestic market	63,806	63,506
Total	173,803	201,461

<i>Sales by product - export</i>	<i>2015</i>	<i>2014</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Tablet dosage forms	83,404	102,093
Ampoule dosage forms	12,969	17,195
Ointments	5,910	7,111
Syrup dosage forms	5,640	7,741
Lyophilic products	1,125	3,050
Suppositories	689	550
Drops	260	215
Total	109,997	137,955

<i>Sales by product – domestic market</i>	<i>2015</i>	<i>2014</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Tablet dosage forms	31,629	34,607
Ampoule dosage forms	19,610	17,210
Lyophilic products	4,721	3,650
Inhalation products	3,433	3,155
Ointments	1,763	1,918
Syrup dosage forms	1,642	1,941
Drops	545	610
Suppositories	454	385
Other	9	30
Total	63,806	63,506

The breakdown of *sales* by geographic region is as follows:

	<i>2015 BGN '000</i>	<i>Relative share</i>	<i>2014 BGN'000</i>	<i>Relative share</i>
Europe	91,608	53%	119,464	59%
Bulgaria	63,806	37%	63,506	32%
Other countries	18,389	11%	18,491	9%
Total	173,803	100%	201,461	100%

The total revenue from transaction with the largest clients of the Company is as follows:

	<i>2015 BGN '000</i>	<i>% of revenue</i>	<i>2014 BGN '000</i>	<i>% of revenue</i>
Client 1	63,806	37%	63,497	53%
Client 2	32,550	19%	-	-
Client 3	31,762	18%	67,181	33%
Client 4	1,841	1%	24,409	12%

Client 2 is a new customer of the Company in 2015.

4. OTHER OPERATING INCOME AND LOSSES

Company's *other operating income and losses* include:

	<i>2015 BGN '000</i>	<i>2014 BGN '000</i>
Services rendered	3,364	3,567
<i>Sales of goods</i>	1,783	1,185
<i>Cost of goods sold</i>	(1,520)	(993)
Gain on sales of goods	263	192
Grants under European projects	397	297
Fines and penalties income	204	109
<i>Sales of materials</i>	6,007	6,466
<i>Cost of materials sold</i>	(5,890)	(6,348)
Gain on sale of materials	117	118
Gains on revaluation of biological assets to fair value (<i>Note 15</i>)	14	9
Losses on revaluation on investment property to fair value (<i>Note 17</i>)	(79)	(187)
<i>Sales of non-current assets</i>	686	261
<i>Carrying amount of non-current assets sold</i>	(824)	(504)
Loss on sales of non-current assets	(138)	(243)
Net loss on exchange differences under trade receivables and payables and current accounts	(800)	(431)
Other income	309	129
Total	3,651	3,560

The *sales of materials* comprise mainly: sales of substances, chemical products and packaging materials.

Services rendered include:

	2015	2014
	BGN '000	BGN '000
Rentals	1,803	1,779
Social activities	638	604
Manufacturing services	333	675
Laboratory analyses	198	120
Regulatory services	121	114
Gamma irradiation	90	115
Transport organisation	47	60
Other	134	100
Total	3,364	3,567

Sales of goods include:

	2015	2014
	BGN '000	BGN '000
Foodstuffs	938	852
Cosmetics	440	92
Food supplements	231	210
Medicinal and sanitary products and dressing materials	149	-
Goods with technical designation	25	31
Total	1,783	1,185

The *cost of goods sold* is as follows:

	2015	2014
	BGN '000	BGN '000
Foodstuffs	869	800
Cosmetics	378	82
Medicinal and sanitary products and dressing materials	135	-
Food supplements	116	80
Goods with technical designation	22	31
Total	1,520	993

5. RAW MATERIALS AND CONSUMABLES USED

The *raw materials and consumables used* include:

	<i>2015</i> <i>BGN '000</i>	<i>2014</i> <i>BGN '000</i>
Basic materials	47,075	56,076
Electric energy	3,934	3,650
Heat power	3,227	4,042
Laboratory materials	1,498	2,113
Auxiliary materials	1,253	1,221
Spare parts	1,211	1,431
Technical materials	1,028	1,229
Fuels and lubricating materials	672	1,137
Working clothes and personal protective equipment for labour	654	741
Water	494	752
Impairment of materials (<i>Note 9</i>)	401	737
Scrapped materials	172	378
Total	61,619	73,507

Expenses on basic materials include:

	<i>2015</i> <i>BGN '000</i>	<i>2014</i> <i>BGN '000</i>
Substances	22,230	28,665
Packaging materials	9,490	10,490
Liquid and solid chemicals	7,734	8,332
Herbs	2,467	2,436
Ampoules	1,951	2,816
Tubes	1,568	1,523
Vials	1,043	1,020
Aluminium and PVC foil	592	794
Total	47,075	56,076

6. HIRED SERVICES EXPENSE*Hired services expense includes:*

	<i>2015</i> <i>BGN '000</i>	<i>2014</i> <i>BGN '000</i>
Manufacturing of medicinal products	8,967	12,041
Advertisements	7,902	9,285
Buildings and equipment maintenance	3,030	3,076
Consulting services	2,963	12,206
Transportation	2,623	3,101
Rentals	2,233	2,411
Logistic services – domestic market	2,032	1,892
Clinical trials	1,339	300
Local taxes and charges	1,142	1,148
Security	976	867
Medical services	789	744
Subscription fees	756	848
Services on medicinal products registration	743	1,281
Services under civil contracts	699	806
State and regulatory charges	646	774
Logistic services (export)	630	1,366
Insurance	595	654
Taxes on expenses	467	559
Announcements and communications	424	454
Vehicles repair and maintenance	345	436
Licence fees and charges	337	207
Commission fees	302	229
Documentation translation	219	252
Destruction of pharmaceuticals	215	192
Fees and charges on current bank accounts	151	187
Courier services	121	114
Other	629	966
Total	41,275	56,396

7. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense includes:

	2015	2014
	BGN '000	BGN '000
Current wages and salaries	26,557	28,312
Social security/health insurance contributions	4,960	5,291
Social benefits and payments	2,123	2,254
Tantieme	792	801
Accruals for unused paid leaves	474	551
Social security/health insurance contributions on leaves	80	95
Accruals for long-term retirement benefit obligations (<i>Note 32</i>)	345	301
Total	35,331	37,605

8. OTHER OPERATING EXPENSES

Other expenses include:

	2015	2014
	BGN '000	BGN '000
Impairment of finished products and work in progress (<i>Note 9</i>)	2,421	2,266
Entertainment allowances	2,073	2,421
Business trip costs	697	831
Donations	373	191
Scrapping of non-current assets	270	388
Other taxes and payments to the state budget	243	51
Training	205	136
Unrecognised input tax under VATA	43	115
Unrecognised excise duty	12	22
Awarded amounts under litigations	7	61
Scrapped finished products and work in progress	2	183
Accrued/(reversed) impairment of trade and other receivables, net (<i>Note 9</i>)	(234)	2,651
Receivables written-off	-	158
Other	98	391
Total	6,210	9,865

9. IMPAIRMENT OF CURRENT ASSETS

Impairment losses on current assets include:

	2015	2014
	BGN '000	BGN '000
Impairment of finished products (<i>Note 8</i>)	2,240	2,238
Impairment of materials (<i>Note 5</i>)	401	737
Impairment of work in progress (<i>Note 8</i>)	181	28
<i>Impairment of trade and other receivables</i>	242	2,947
<i>Reversed impairment of trade and other receivables</i>	(476)	(296)
Net change in the impairment trade and other receivables (<i>Note 8</i>)	(234)	2,651
Total	2,588	5,654

10. IMPAIRMENT OF NON-CURRENT ASSETS

Impairment losses on non-current assets include:

	2015	2014
	BGN '000	BGN '000
Impairment of investments in subsidiaries	8,567	2,880
Impairment of property, plant and equipment	-	372
	8,567	3,252

11. FINANCE INCOME

Finance income includes:

	2015	2014
	BGN '000	BGN '000
Income from equity investments	7,881	6,361
Net gain on transactions with investments in securities and shares	6,908	3,509
<i>including gain on sale of subsidiaries</i>	6,851	-
Interest income on loans granted	3,120	3,131
Net gain on exchange differences on loans	13	-
Total	17,922	13,001

12. FINANCE COSTS*Finance costs include:*

	2015	2014
	BGN '000	BGN '000
Interest expense on loans received	3,510	4,344
Impairment of receivables under trade loans granted	1,955	37
Impairment of available-for-sale investments	398	88
Bank fees and charges on loans and guarantees	270	240
Impairment of cash (<i>Note 27</i>)	165	-
Interest expense on finance lease	14	-
Net loss from exchange differences on loans	-	18
Total	6,312	4,727

13. INCOME TAX EXPENSE

Statement of comprehensive income (profit or loss for the year)	2015	2014
	BGN '000	BGN '000
Taxable profit for the year under tax return	23,042	24,167
Revaluation reserve included as an increase in the annual tax return	(349)	(266)
Taxable profit for the year	22,693	23,901
Current income tax expense for the year – 10% (2014: 10%)	2,269	2,390
Prior periods tax expense	(76)	-
<i>Deferred income taxes related to:</i>		
Origination and reversal of temporary differences	633	39
Total income tax expense carried to the statement of comprehensive income (within profit or loss for the year)	2,826	2,429

Reconciliation of income tax expense applicable to the accounting profit or loss

<i>Accounting profit for the year</i>	28,180	29,720
Income tax – 10% (2014: 10%)	2,818	2,972

From unrecognised amounts as per tax returns related to:

increases – BGN 11,113 thousand (2014: BGN 4,381 thousand)	1,111	438
decreases – BGN 10,281 thousand (2014: BGN 10,033 thousand)	(1,028)	(1,004)
Recognised deferred taxes originated in prior years	1	23
Prior periods tax expense	(76)	-
Total income tax expense carried to the statement of comprehensive income (within profit or loss for the year)	2,826	2,429

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

	2015			2014		
	BGN '000			BGN '000		
	Pre-tax amount	Tax effects recognised in equity	Amount net of tax	Pre-tax amount	Tax effects recognised in equity	Amount net of tax
Items that will not be reclassified to profit or loss						
(Losses)/gains on revaluation of property, plant and equipment	-	-	-	(6)	1	(5)
Remeasurements of defined benefit pension plans	(51)	-	(51)	(310)	-	(310)
Items that may be reclassified to profit or loss						
Net change in fair value of available- for-sale financial assets	193	-	193	113	-	113
Total other comprehensive income for the year	142	-	142	(203)	1	(202)

14. OTHER COMPREHENSIVE INCOME

Other comprehensive income includes:

	2015 BGN '000	2014 BGN '000
Net change in fair value of available-for-sale financial assets:		
<i>Gains arising during the year</i>	485	250
<i>Less: Reclassification adjustments for (gains)/losses included in profit or loss for the current year</i>	(292)	(137)
Remeasurements of defined benefit pension plans	(51)	(310)
(Losses)/gains on revaluation of property, plant and equipment	-	(6)
	142	(203)
Income tax relating to items of other comprehensive income	-	1
Total comprehensive income for the year	142	(202)

15. PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings</i>		<i>Machinery and equipment</i>		<i>Other</i>		<i>Assets in progress</i>		<i>Total</i>	
	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
<i>Book value</i>										
Balance at 1 January	131,399	130,870	150,344	148,041	23,795	24,987	7,188	1,122	312,726	305,020
Additions	158	242	560	1,446	140	657	15,211	9,149	16,069	11,494
Transfer to property, plant and equipment	956	305	8,003	2,001	38	721	(8,997)	(3,027)	-	-
Transfer from investment property	127	-	2	-	-	-	-	-	129	-
Effect from remeasurement to fair value	-	-	-	-	14	9	-	-	14	9
Allowance for impairment	-	-	-	(274)	-	(98)	-	-	-	(372)
Disposals	(128)	(18)	(1,906)	(870)	(1,225)	(2,481)	-	(56)	(3,259)	(3,425)
Balance at 31 December	132,512	131,399	157,003	150,344	22,762	23,795	13,402	7,188	325,679	312,726
<i>Accumulated depreciation</i>										
Balance at 1 January	14,806	10,994	70,972	63,075	15,892	14,046	-	-	101,670	88,115
Depreciation charge for the year	3,841	3,817	8,495	8,758	2,086	3,808	-	-	14,422	16,383
Depreciation written-off	-	(5)	(1,272)	(867)	(1,084)	(1,962)	-	-	(2,356)	(2,834)
Allowance for impairment	-	-	-	6	-	-	-	-	-	6
Balance at 31 December	18,647	14,806	78,195	70,972	16,894	15,892	-	-	113,736	101,670
Carrying amount at 31 December	113,865	116,593	78,808	79,372	5,868	7,903	13,402	7,188	211,943	211,056
Carrying amount at 1 January	116,593	119,876	79,372	84,966	7,903	10,941	7,188	1,122	211,056	216,905

As at 31 December 2015, Company's tangible fixed assets include: land amounting to BGN 33,251 thousand (31 December 2014: BGN 32,747 thousand) and buildings of carrying amount BGN 80,614 thousand (31 December 2014: BGN 83,846 thousand).

Tangible fixed assets in progress as at 31 December include:

- advances granted for:
 - purchase of machinery and equipment – BGN 3,188 thousand (31 December 2014: BGN 3,431 thousand);
 - construction and assembly works – none (31 December 2014: BGN 841 thousand);
- expenses on construction of new warehouse – BGN 10,132 thousand (31 December 2014: BGN 2,815 thousand);
- buildings reconstruction – none (31 December 2014: BGN 100 thousand);
- other – BGN 82 thousand (31 December 2014: BGN 1 thousand).

As at 31 December, the carrying amount of property, plant and equipment includes machinery and equipment, purchased using Grant Agreements under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 (Note 33) as follows:

- for a new tablet production facility at the amount of BGN 8,056 thousand (31 December 2014: BGN 8,589 thousand);
- for ampoule production at the amount of BGN 5,861 thousand (31 December 2014: none).

The amount of other assets as at 31 December 2015 includes also biological assets – Golden Chain (*Laburnum anagyroides*) plantation at the amount of BGN 131 thousand (31 December 2014: BGN 128 thousand).

Operating lease

The Company has leased tangible fixed assets with carrying amount of BGN 6,263 thousand as at 31 December 2015 to related parties (31 December 2014: BGN 7,074 thousand). In addition, tangible fixed assets at carrying amount of BGN 228 thousand are leased to third parties as at 31 December 2015 (31 December 2014: BGN 240 thousand).

Finance lease

As at 31 December 2015, assets at the carrying amount of BGN 111 were acquired under finance lease contracts (31 December 2014: BGN 166 thousand).

Other data

The book value of fully depreciated tangible fixed assets, used in the Company's activities according to their groups, is as follows:

- Buildings – BGN 123 thousand (31 December 2014: BGN 150 thousand);
- Machinery and equipment – BGN 34,576 thousand (31 December 2014: BGN 30,173 thousand);
- Motor vehicles – BGN 3,266 thousand (31 December 2014: BGN 3,568 thousand);
- Furniture and fixtures – BGN 6,878 thousand (31 December 2014: BGN 5,125 thousand);
- Other – BGN 63 thousand (31 December 2014: BGN 41 thousand).

The following encumbrances were constituted on Company's tangible fixed assets as at 31 December 2015 in relation with received loans:

- Land and buildings with carrying amount of BGN 22,009 thousand and BGN 61,271 thousand, respectively (31 December 2014: respectively, BGN 23,711 thousand and BGN 69,152 thousand) (*Note 29, Note 34 and Note 40*);
- Pledges on equipment – BGN 38,316 thousand (31 December 2014: BGN 26,236 thousand) (*Note 29, Note 34 and Note 40*).

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 tangible fixed assets 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 accounted for.

The following two basic approaches and valuation methods were used in these revaluations to measure the fair value of the different types 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 market price determined under the comparative method was accepted as fair value;

- 'Assets (cost)-based approach' through the 'Method of amortised recoverable amount' – for special-purpose buildings for which neither actual market nor comparable sales of analogous assets existed – their amortised recoverable amount at current purchase prices 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 wear, functional and economic impairment.

Revaluation reserve at the amount of BGN 2,706 thousand was then recognised as a result of the revaluation net of impairment.

The Company's management again analysed its key assets price changes as at 31 December 2015 and concluded that no conditions and grounds were available for a new revaluation of the assets before expiry of adopted usual term of five years (*Note 2.8*).

16. INTANGIBLE ASSETS

	<i>Goodwill</i>		<i>Intellectual property rights</i>		<i>Software</i>		<i>Assets in progress</i>		<i>Total</i>	
	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Book value										
Balance at 1 January	768	768	1,869	2,329	4,180	4,150	131	353	6,948	7,600
Additions	-	-	49	-	4	30	21	65	74	95
Transfer	-	-	-	287	-	-	-	(287)	-	-
Disposals	-	-	(444)	(747)	(450)	-	(95)	-	(989)	(747)
Balance at 31 December	<u>768</u>	<u>768</u>	<u>1,474</u>	<u>1,869</u>	<u>3,734</u>	<u>4,180</u>	<u>57</u>	<u>131</u>	<u>6,033</u>	<u>6,948</u>
Accumulated amortisation										
Balance at 1 January	-	-	1,216	1,186	2,522	1,985	-	-	3,738	3,171
Amortisation charge for the year	-	-	191	429	269	537	-	-	460	966
Amortisation written-off	-	-	(222)	(399)	(450)	-	-	-	(672)	(399)
Balance at 31 December	<u>-</u>	<u>-</u>	<u>1,185</u>	<u>1,216</u>	<u>2,341</u>	<u>2,522</u>	<u>-</u>	<u>-</u>	<u>3,526</u>	<u>3,738</u>
Carrying amount at 31 December	<u>768</u>	<u>768</u>	<u>289</u>	<u>653</u>	<u>1,393</u>	<u>1,658</u>	<u>57</u>	<u>131</u>	<u>2,507</u>	<u>3,210</u>
Carrying amount at 1 January	<u>768</u>	<u>768</u>	<u>653</u>	<u>1,143</u>	<u>1,658</u>	<u>2,165</u>	<u>131</u>	<u>353</u>	<u>3,210</u>	<u>4,429</u>

The rights on intellectual property include mainly products of development activities.

Intangible assets in progress as at 31 December include:

- expenses on permits for use of medicinal products – BGN 36 thousand (31 December 2014: BGN 131 thousand);
- expenses on acquisition of software – BGN 21 thousand. (31 December 2014: none).

The book value of fully amortised intangible fixed assets, used in the Company's activities according to their groups, is as follows:

- rights on intellectual property (products of development activities) – BGN 764 thousand (31 December 2014: BGN 730 thousand);
- software – BGN 1,412 thousand. (31 December 2014: BGN 1,668 thousand).
- other – BGN 7 thousand (31 December 2014: BGN 7 thousand).

17. INVESTMENT PROPERTY

	31.12.2015 BGN '000	31.12.2014 BGN '000
Balance at 1 January	22,368	22,555
Transfer to property, plant and equipment	(129)	-
Net loss on fair value adjustment, included in profit or loss	(79)	(187)
Balance at 31 December	22,160	22,368

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

<i>Group of assets</i>	31.12.2015 BGN '000	31.12.2014 BGN '000
Warehouse premises	18,380	18,498
Offices	2,331	2,310
Production buildings	1,056	1,140
Social objects	393	420
Total	22,160	22,368

There are established encumbrances as at 31 December 2015 on investment property as follows:

- mortgage of warehouse premises – BGN 9,308 thousand (31 December 2014: BGN 8,095 thousand) (*Notes 34 and 40*).
- pledges on attached equipment – BGN 5,912 thousand (31 December 2014: BGN 6,138 thousand) (*Note 34*).

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:

	<i>Warehouse premises</i>	<i>Offices</i>	<i>Production buildings</i>	<i>Social objects</i>	<i>Total</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January 2014	18,622	2,329	1,170	434	22,555
Net change in fair value through profit or loss – unrealised	(124)	(19)	(30)	(14)	(187)
Balance at 31 December 2014	18,498	2,310	1,140	420	22,368
Transfer to property, plant and equipment	-	-	(129)	-	(129)
Net change in fair value through profit or loss – unrealised	(118)	21	45	(27)	(79)
Balance at 31 December 2015	18,380	2,331	1,056	393	22,160

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	<i>a. Income approach</i> 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
	<i>b. Cost approach</i> Valuation technique: Method of replacement costs – depreciated recoverable amount (supportive valuation technique)	Adjusted prices for construction of identical properties and purchase prices of machinery and equipment, similar to those attached
Offices, production buildings and social objects	<i>Income approach</i> 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

Key assumptions used in the calculation of the fair value of investment properties as at 31 December 2015:

- rate of return – from 4.6 % to 8.93 %;
- term to entrance into rental deals – from 3 to 6 months;

As a result of the calculations made in 2015, necessity was established for recognition of losses, net of the gains on remeasurement to fair value at the amount of BGN 79 thousand (2014: BGN 187 thousand) (*Note 4*).

18. INVESTMENTS IN SUBSIDIARIES

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

		<i>31.12.2015</i>	<i>Interest</i>	<i>31.12.2014</i>	<i>Interest</i>
		<i>BGN '000</i>	<i>%</i>	<i>BGN '000</i>	<i>%</i>
Sopharma Trading AD	Bulgaria	28,557	71.85	28,529	71.89
Briz SIA	Latvia	22,270	66.13	22,270	66.13
Medica AD	Bulgaria	21,832	66.72	-	-
Unipharm AD	Bulgaria	19,448	49.99	19,448	49.99
Sopharma Ukraine	Ukraine	16,991	100.00	9	100.00
Biopharm Engineering AD	Bulgaria	8,384	97.15	8,384	97.15
Ivančić and Sinovi d.o.o.	Serbia	5,739	51.00	5,739	51.00
Momina Krepost AD	Bulgaria	4,833	92.78	2,701	52.98
Vitamina AD	Ukraine	1,980	99.56	3,544	99.56
Pharmalogistica AD	Bulgaria	1,058	78.37	1,911	76.54
Sopharma Buildings REIT	Bulgaria	573	40.75	595	40.75
Sopharma Kazakhstan EOOD	Kazakhstan	502	100.00	502	100.00
Electroncommerce EOOD	Bulgaria	384	100.00	384	100.00
Sopharma Warsaw EOOD	Poland	323	100.00	323	100.00
Phyto Palauzovo AD	Bulgaria	25	95.00	95	95.00
Total		132,899		94,434	

As at 31 December 2015, the composition of investments in the subsidiaries includes the investment in Sopharma Poland OOD – in liquidation, Poland, which is fully impaired (31 December 2014: the investments in Sopharma Poland OOD – in liquidation, Poland and Extab Corporation, USA and Sopharma USA were fully impaired).

Sopharma AD has direct or indirect control on the above-mentioned companies.

The scope of activities of the subsidiaries and the dates of their acquisition are as follows:

- Pharmalogistica AD – Scope of activities: secondary packaging and real estate leases. Date of acquisition – 15 August 2002.
- Electroncommerce EOOD – Scope of activities: trade, transportation and packaging of radioactive materials and nuclear equipment, household electronics and electrical equipment. Date of acquisition – 9 August 2005.
- Sopharma Poland OOD – in liquidation – Scope of activities: market and public opinion research. Date of acquisition – 16 October 2003. The company is in a procedure of liquidation.
- Sopharma Trading AD – Scope of activities: trade in pharmaceuticals. Date of acquisition – 8 June 2006.
- Biopharm Engineering AD – Scope of activities: manufacture and trade in solutions for infusion. Date of acquisition – 10 March 2006.
- Phyto Palauzovo AD – Scope of activities: production, collection of crops and trade in herbs and medicinal plants. Date of acquisition (as from the merger of Bulgarian Rose Sevtopolis

AD) – 1 January 2014.

- Vitamina AD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 18 January 2008.
- Ivančić and Sinovi d.o.o. – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 10 April 2008.
- Sopharma Buildings REIT – Scope of activities: 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. Date of acquisition – 4 August 2008.
- Momina Krepost AD – Scope of activities: development, implementation and production of medical goods for human and veterinary medicine. Date of acquisition – 1 January 2008.
- Briz OOD – Scope of activities: trade in pharmaceuticals; Date of acquisition – 10 November 2009.
- Unipharm AD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 27 October 2010.
- Sopharma Warsaw EOOD – Scope of activities: market and public opinion research. Date of acquisition – 23 November 2010.
- Sopharma Ukraine EOOD – Scope of activities: trade in pharmaceuticals; Date of acquisition – 7 August 2012.
- TOO Sopharma Kazakhstan – Scope of activities: trade in pharmaceuticals. Date of acquisition – 30 September 2014.
- Extab Corporation – Scope of activities: management of financial assets and investment portfolios. Date of acquisition – 5 August 2009. On 14 May 2015, the Company sold 75% of its investment in Extab Corporation – USA.
- Sopharma USA – Scope of activities: trade in pharmaceuticals and food supplements. Date of acquisition – 25 April 1997. As at 31 December 2015, the investment in this company is written-off since it has been suspended in USA.
- Medica AD – Scope of activities: production of dressing materials, sanitary and hygiene articles and finished medicinal products. Date of acquisition – 26 October 2015.

The shares of Sopharma Trading AD are traded on the stock exchange, the average monthly price of realised transactions for December 2015 being BGN 5.29 per share (December 2014: BGN 5.53 thousand).

The earnings per share based on net assets for 2015 are BGN 2.00 (2014: BGN 1.90).

The shares of Momina Krepost AD are traded on the stock exchange, the average monthly price of realised transactions for December 2015 being BGN 2.12 per share (December 2014: BGN 3.28).

The earnings per share based on accounting net assets for 2015 are BGN 2.82 (2014: BGN 2.92).

The shares of Sopharma Buildings REIT are traded on the stock exchange at a limited volumes with no deals realised in December 2015 (December 2014: no deals). The earnings per share based on accounting net assets for 2015 are BGN 2.16 (2014: BGN 2.24).

The shares of Unipharm AD are traded on the stock exchange, the average monthly price of realised transactions for December 2015 being BGN 3.83 per share (December 2014: BGN 3.21). The earnings per share based on accounting net assets for 2015 are BGN 2.95 (2014: BGN 3.01).

The shares of Medica AD are traded on the stock exchange with no deals realised in December 2015 (December 2014: BGN 3.22). The earnings per share based on accounting net assets for 2015 are BGN 2.90 (2014: BGN 2.63).

The movement of investments in subsidiaries is presented below:

<i>Investments in subsidiaries</i>		
	<i>31.12.2015</i>	<i>31.12.2014</i>
<i>Acquisition cost</i>	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January	110,630	98,659
Capital increase	24,326	-
Transfer from associates	21,832	-
Additional interest acquired	2,235	13,101
Interest sold without loss of control	(25)	(1,632)
Newly acquired subsidiaries	-	502
Balance at 31 December	158,998	110,630
 <i>Impairment charged</i>		
Balance at 1 January	16,196	13,316
Impairment charged	9,903	2 880
Balance at 31 December	26,099	16,196
Carrying amount at 31 December	132,899	94,434
Carrying amount at 1 January	94,434	85,343

In 2015 there were no newly established subsidiaries (2014: TOO Sopharma Kazakhstan).

On 30 September 2015 a contract was concluded for transformation through a merger between Sopharma AD (receiving company) and Momina Krepost AD (transforming company). On 21 January 2016 Sopharma AD deposited in the Financial Supervision Commission an agreement for termination by common consent of the above mentioned contract for transformation through a merger. The decision for termination of the procedure was taken in the interest of both parties and for the purpose of keeping their good market positions.

Impairment of investments in subsidiaries

At each reporting date, the management makes an assessment about whether indicators for impairment exist in respect of its investments in subsidiaries. The following are accepted as main indicators for impairment: significant volume reduction (over 25%) or termination of activities of the subsidiary where investments have been made; reporting of losses for a longer period of time (over three years) as well as reporting of negative net assets or assets below the registered share capital. The calculations were made by the management with the assistance of independent certified appraisers. As a base for projected pre-tax cash

flows, the Company uses financial budgets developed by the respective companies that cover a 3- to 5-year period, as well as other average-term and long-term plans and intents for their development, including projections for basic economic ratios at national level and at the level of EU/the Balkans. The key assumptions used in the calculations of recoverable amount as at 31 December 2015 are as follows:

- growth rate – from 0 % to 17.7 %;
- growth after the projected period upon calculation of terminal value – 1.5 to 5%;
- interest rate (cost of debt) – from 2.1 % to 26.4%;
- discount rate (based on WACC) – from 6.9% to 36.9%.

The key assumptions used in the calculations have been determined specifically for each 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 assumptions of the management for impairment of investments are made through the prism of its projections and intents on the future economic benefits, which are expected from the subsidiaries, including trade and industrial experience, ensuring position in the Bulgarian and in foreign markets, expectations for future sales, etc.

As a result of the calculations, made in 2015, the Company found necessity to recognise impairment of particular investments in subsidiaries at the amount of BGN 8,567 thousand was necessary (2014: BGN 2,880 thousand) (*Note 10*).

19. INVESTMENTS IN ASSOCIATES

As at 31 December 2014, the carrying amount of the investments in associates was BGN 7,015 thousand and included interest at the rate of 24.38% of the capital of Medica AD.

Medica AD has a scope of activity covering the production of dressing materials, sanitary and hygiene articles and finished medicinal products.

On 26 October 2015 Sopgarma AD acquired 3,080,000 shares of Medica AD and as a result the latter was transformed into a subsidiary.

The movement of investments in associates is presented below:

	<i>31.12.2015</i> <i>BGN '000</i>	<i>31.12.2014</i> <i>BGN '000</i>
Balance at 1 January	7,015	-
Acquisition of shares	14,818	3,152
Sale of shares	(1)	(15)
Transfer to subsidiaries	(21,832)	-
Transfer of available-for-sale investments (Level 3)	-	3,878
Carrying amount at 31 December	-	7,015

Impairment of investments in associates

At each reporting date, the management makes an assessment about whether indicators for impairment exist in respect of its investments in associates. The following are accepted as main indicators for impairment: significant volume reduction (over 25%) or termination of activities of the subsidiary where investments have been made; reporting of losses for a longer period of time (over three years) as well as reporting of negative net assets or assets below the registered share capital. The calculations were made by the management with the assistance of independent certified appraisers. As a base for projected pre-tax cash flows, the Company uses financial budgets developed by the respective companies that cover a 3- to 5-year period, as well as other average-term and long-term plans and intents for their development, including projections for basic economic ratios at national level and at the level of EU/the Balkans. The key assumptions used in the calculations of recoverable amount as at 31 December 2014 are as follows:

- growth rate – 2%;
- growth after the projected period upon calculation of terminal value – 2%;
- interest rate (cost of debt) – 7%;
- discount rate (based on WACC) – 8.9%.

The tests and assumptions of the management for impairment of investments are made through the prism of its projections and intents on the future economic benefits, which are expected from the associates, including trade and industrial experience, ensuring position in the Bulgarian and in foreign markets, expectations for future sales, etc.

As a result of the calculations made in 2014, no necessity was identified for recognition of impairment of the investments in in the associate.

20. AVAILABLE-FOR-SALE INVESTMENTS

The *available-for-sale investments (financial assets)* at carrying amount include the interest (shares) in the following companies:

	31.12.2015	Interest	31.12.2014	Interest
	BGN '000	%	BGN '000	%
Doverie Obedinen Holding AD	2,102	14.90	1,836	9.90
Olainfarm AD - Latvia	1,553	0.77	1,256	0.77
Lavena AD	1,296	9.12	1,007	8.49
Extab Pharma Inc. – USA	290	5.00	-	-
Hydroizomat AD	132	10.65	202	10.63
Elana Agrocredit AD	67	1.26	102	1.95
Sopharma Properties AD	37	0.05	-	-
Todorov AD	22	4.74	26	4.70
Ecobulpack AD	7	1.48	7	1.48
UniCredit Bulbank AD	3	0.001	3	0.001
Chimimport AD	1	0.00003	-	-
Total	5,510		4,439	

All above companies except for Olainfarm AD, Latvia, and Extab Pharma Inc., USA, have their seat and operations in Bulgaria.

The fair value per share at 31 December is as follows:

<i>Available-for-sale investments</i>	<i>Number of shares</i>	31.12.2015 <i>Fair value per share</i>	<i>Fair value as per the statement of financial position</i>	<i>Number of shares</i>	31.12.2014 <i>Fair value per share</i>	<i>Fair value as per the statement of financial position</i>
		BGN	BGN		BGN	BGN
Doverie Obedinen Holding AD	2,791,352	0.75	2,102	1,854,352	0.83	1,836
Olainfarm AD - Latvia	108,500	14.31	1,553	108,500	12.10	1,256
Lavena AD	24,309	53.31	1,296	22,641	44.01	1,007
Hydroizomat AD	318,301	0.41	132	317,901	0.90	202
Elana Agrocredit AD	64,350	1.03	67	100,000	1.02	102
Sopharma Properties AD	8,695	4.28	37	-	-	-
Todorov AD	161,014	0.14	22	159,919	0.25	26
Chimimport AD	1,000	1.38	1	-	-	-
Total			5,210			4,429

The investments in Ecobulpack AD, UniCredit Bulbank AD and Extab Pharma Inc., USA, are valued and presented at acquisition price (cost).

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

Fair value hierarchy

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

<i>Available-for-sale financial investments (shares)</i>	<i>Fair value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
	31.12.2015			
	BGN '000	BGN '000	BGN '000	BGN '000
Doverie Obedinen Holding AD	2,102	-	-	2,102
Olainfarm AD - Latvia	1,553	1,553	-	-
Lavena AD	1,296	-	1,296	-
Hydroizomat AD	132	-	132	-
Elana Agrocredit AD	67	67	-	-
Sopharma Properties AD	37	37	-	-
Todorov AD	22	22	-	-
Chimimport AD	1	1	-	-
Total	5,210	1,680	1,428	2,102

<i>Available-for-sale financial investments (shares)</i>	<i>Fair value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
	31.12.2014			
	BGN '000	BGN '000	BGN '000	BGN '000
Doverie Obedinen Holding AD	1,836	-	-	1,836
Olainfarm AD - Latvia	1,256	1,256	-	-
Lavena AD	1,007	-	1,007	-
Hydroizomat AD	202	-	202	-
Elana Agrocredit AD	102	102	-	-
Todorov AD	26	26	-	-
Total	4,429	1,384	1,209	1,836

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

<i>Available-for-sale financial investments (shares)</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BGN</i>			
	<i>'000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January 2014	1,454	1,327	4,071	6852
Purchases	2	75	1,347	1,424
Sales	-	(121)	(10)	(131)
Transfer to investments in associates (<i>Note 19</i>)	-	-	(3,878)	(3,878)
Realised gain/(loss) included in the current profit and loss for the year in the item Finance income – <i>Net gain on transactions with securities</i>	-	(2)	2	-
Unrealised loss included in the current profit and loss for the year (<i>Note 12</i>)	(8)	(80)	-	(88)
Unrealised gain/(loss), net, included in other comprehensive income (<i>Note 14</i>)	(64)	10	304	250
Balance at 31 December 2014	1,384	1,209	1,836	4,429
Purchases	106	94	894	1,094
Issue of shares	68	-	-	68
Sales	(180)	(3)	-	(183)
Realised gain/(loss) included in the current profit and loss for the year in the item Finance income – <i>Net gain on transactions with securities</i>	7	-	-	7
Unrealised loss included in the current profit and loss for the year (<i>Note 12</i>)	(4)	(70)	(324)	(398)
Unrealised gain/(loss), net, included in other comprehensive income (<i>Note 14</i>)	299	198	(304)	193
Balance at 31 December 2015	1,680	1,428	2,102	5,210

Valuation techniques and significant unobservable inputs

The table below shows the valuation techniques applied as at 31 December 2015 for fair value measurement at Level 2 and Level 3 as well as the used significant unobservable inputs:

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

Quantitative information about fair value measurements Level 3

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

<i>Valuation technique</i>	<i>Unobservable inputs</i>	<i>Range (weighted average)</i>	<i>Relationship between significant unobservable inputs and fair value measurement – sensitivity to key assumptions</i>
<i>Discounted cash flows</i>			The estimated fair value would increase (decrease), if:
	* projected annual 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 % (weighted average 10 %)	* 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. change in EBIDTA
- b. change in post-projection revenue growth
- c. discount rate (based on WACC)

while accepting that the others remain unchanged.

The effects of the change in the significant unobservable inputs Level 3 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 2015, are presented in the table below:

<i>Significant unobservable inputs</i> <i>Effect in BGN'000</i>	<i>Fair value of available-for-sale financial investments (shares) (Level 3)</i>		<i>Current profit for the year</i>		<i>Equity – component Available-for-sale financial assets reserve</i>	
	<i>Increase</i>	<i>Decrease</i>	<i>Increase</i>	<i>Decrease</i>	<i>Increase</i>	<i>Decrease</i>
31 December 2015						
Change in EBIDTA	66	(66)	-	(66)	66	-
Change in post-projection revenue growth	148	(131)	-	(131)	148	-
Discount rate (based on WACC)	(210)	233	(210)	-	-	233

21. LONG-TERM RECEIVABLES FROM RELATED PARTIES

The long-term receivables from related parties include:

	<i>31.12.2015</i> <i>BGN '000</i>	<i>31.12.2014</i> <i>BGN '000</i>
Long-term loans granted	20,213	32,857
Long-term rental deposit granted	292	293
Total	20,505	33,150

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:

<i>Currency</i>	<i>Contracted amount '000</i>	<i>Maturity</i>	<i>Interest %</i>	<i>31.12.2015</i>		<i>31.12.2014</i>	
				<i>BGN '000</i>	<i>BGN '000 including interest</i>	<i>BGN '000</i>	<i>BGN '000 including interest</i>
<i>EUR</i>	16,177	01.12.2018	5.00%	13,074	18	26,038	217
<i>EUR</i>	3,272	01.12.2018	5.00%	7,139	739	6,819	419
				20,213	757	32,857	636

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

The long-term deposit receivable is from a company related through a main shareholder under a concluded rental contract for administrative offices with valid until 1 August 2022.

22. OTHER LONG-TERM RECEIVABLES

Company's *other long-term receivables* represent receivables under a sold investment in a subsidiary with deferred payment until the completion of regulatory actions for registration of permits for medicinal products at the amount of BGN 3,257 thousand and expected maturity on 31 December 2018 (31 December 2014: a loan granted to a third party with maturity on 2 August 2016 and contracted annual interest rate of 8.08% at the total amount of BGN 6 thousand as at 31 December 2014).

23. INVENTORIES

Company's *inventories* include:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Materials	27,868	25,754
Finished products	22,841	22 282
Semi-finished products	5,262	3,809
Work in progress	5,255	5,303
Goods	475	212
Total	61,701	57,360

Materials by type are as follows:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Basic materials	24,864	23,384
Materials in transit	2,151	1,323
Technical materials	469	536
Spare parts	218	211
Auxiliary materials	120	243
Other	46	57
Total	27,868	25,754

Basic materials by type are as follows:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Substances	13,924	13,380
Chemicals	4,154	4,346
Ampoules	2,063	2,141
Packaging materials	1,675	1,158
PVC and aluminium foil	1,254	1,051
Herbs	999	816
Tubes	606	193
Vials	189	299
Total	24,864	23,384

Finished products existing at 31 December include:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Tablet dosage forms	15,482	14,312
Ampoule dosage forms	2,916	3,980
Syrups	2,535	1,723
Ointments	951	664
Drops	387	353
Inhalation products	334	627
Lyophilic products	122	527
Suppositories	114	96
Total	22,841	22,282

Pledges were established on Company's inventories with carrying amount of BGN 31,341 thousand as at 31 December 2015 as collateral to bank loans received (31 December 2014: BGN 30,388 thousand) (*Notes 34 and 40*).

24. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Receivables from subsidiaries	59,515	79,618
<i>Impairment of uncollectable receivables</i>	(3,025)	(2,286)
	56,490	77,332
Receivables from companies related through key managing personnel	21,545	22,173
Total	78,035	99,505

The receivables from related parties by type are as follows:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Receivables on sales of finished products and materials	50,847	69,473
<i>Impairment of uncollectable receivables</i>	<u>(1,062)</u>	<u>(2,278)</u>
	49,785	67,195
Trade loans granted	30,213	32,318
<i>Impairment of uncollectable receivables</i>	<u>(1,963)</u>	<u>(8)</u>
	28,580	32,310
Total	<u>78,035</u>	<u>99,505</u>

The receivables on sales are interest-free and BGN 28,364 thousand of them are denominated in BGN (31 December 2014: BGN 26,776 thousand) and in EUR – BGN 21,421 thousand (31 December 2014: BGN 40,419 thousand).

The receivables from a subsidiary with principal activities in the field of trade in pharmaceuticals were the most significant and amounted to BGN 27,103 thousand as at 31 December 2015 or 54.44 % of all receivables on sales of finished products and materials to related parties (31 December 2014: BGN 28,390 thousand – 42.25%).

The Company usually negotiates with its subsidiaries payment terms of 180 days for receivables on sales of finished products and up to 90 days for receivables on sales of materials (incl. substances).

The Company determined a period of up to 270 days in total for which no interest was usually charged to sales counterparts - related parties and this was in line with the specifics of the end users – hospitals, Health Insurance Fund and other. Any delay after this period is regarded by the Company as an indicator for impairment. The management assesses collectability on an individual basis by analysing the specific receivables and the circumstances relating to the delay in order that impairment is charged.

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

	31.12.2015	31.12.2014
	BGN '000	BGN '000
up to 30 days	9,368	14,888
from 31 to 90 days	22,850	18,332
from 91 to 180 days	7,269	4,747
from 181 to 240 days	838	1,708
over 241 days	<u>1,372</u>	<u>1,238</u>
Total	<u>41,697</u>	<u>40,913</u>

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

	31.12.2015	31.12.2014
	BGN '000	BGN '000
from 31 to 90 days	7	178
from 91 to 180 days	1,712	4,224
from 180 to 365 days	6,369	15,942
Total	8,088	20,344

The past due but not impaired receivables are mainly from subsidiaries, which are in a process of implementing the purposes of the Group for expanding its market share, promotion of its products and its strategic objectives for presence on the territory in which they operate. The collection methods and schemes are under current monitoring at 'company' level and 'group' level and comply with the achievement of the market objectives of the group.

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

	31.12.2015	31.12.2014
	BGN '000	BGN '000
over 1 year	1,062	8 216
Allowance for impairment	(1,062)	(2,278)
Total	-	5,938

The past due receivables are partially impaired by taking into account the collateral provided by debtor companies mainly as pledges on corporate shares and securities.

The *movement of the allowance for impairment* associated with the receivables, under sales of finished products and materials, from related parties is as follows:

	2015	2014
	BGN '000	BGN '000
Balance at 1 January	2,278	171
Stated impairment	120	2,183
Transfer to impairment of investments in subsidiaries	(1,336)	-
Reversed impairment	-	(76)
Balance at 31 December	1,062	2,278

Special pledges have been established as at 31 December 2015 on receivables from related parties at the amount of BGN 18,229 thousand as collateral under bank loans received (31 December 2014: BGN 16,229 thousand) (*Note 34*).

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

	31.12.2015 BGN '000	31.12.2014 BGN '000
Receivables from companies related through key managing personnel	21,545	22,107
Receivables from subsidiaries	8,668	10,211
Impairment of commercial loans	(1,963)	(8)
	6,705	10,203
Total	28,250	32,310

The movement of the allowance for impairment associated with loans granted to related parties is as follows:

	2015 BGN '000	2014 BGN '000
Balance at 1 January	8	7
Stated impairment	1,955	1
Balance at 31 December	1,963	8

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

Currency	Contracted amount '000	Maturity	Interest %	31.12.2015		31.12.2014	
				BGN '000	BGN '000 including interest	BGN '000	BGN '000 including interest
<i>to companies related through key managing personnel</i>							
EUR	12,577	31.12.2016	4.50%	8,310	26	9,537	18
EUR	7,845	31.12.2016	4.50%	7,982	146	7,632	155
BGN	6,000	31.12.2016	5.50%	4,636	1	1,236	26
BGN	1,300	31.12.2016	5.50%	503	42	477	17
BGN	190	31.12.2016	5.50%	114	-	128	1
BGN	34,020	31.12.2015	5.50%	-	-	3,097	9
<i>to subsidiaries</i>							
EUR	2,770	31.12.2016	6.10%	5,087	-	6,711	1,294
BGN	3,552	31.12.2016	5.50%	1,568	42	2,903	158
BGN	600	31.12.2016	5.50%	50	-	151	-
USD	205	31.12.2015	3.50%	-	-	355	26
USD	25	31.12.2015	3.50%	-	-	46	5
USD	20	31.12.2015	3.50%	-	-	37	5
				28,250	257	32,310	1,714

The short-term loans granted to related parties are intended to support the financing of these companies' activities under common strategic objectives. They are secured by pledges on securities (shares).

25. TRADE RECEIVABLES

Trade receivables include:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Receivables from clients	21,185	23,378
Impairment of doubtful and uncollectable receivables	(631)	(1,003)
	<u>20,554</u>	<u>22,375</u>
Advances granted	912	1,022
Total	<u>21,466</u>	<u>23,397</u>

The *receivables from clients* are interest-free and BGN 498 thousand of them are denominated in BGN (31 December 2014: BGN 337 thousand), in EUR – BGN 18,551 thousand (31 December 2014: BGN 19,705 thousand), and in USD – BGN 1,505 thousand (31 December 2014: BGN 950 thousand), in PLN – none (31 December 2014: BGN 1,383 thousand)

One main counterpart of the Company is accountable for about 81.67% of the receivables from clients (2014: three main counterparts accountable for 83.41%).

The Company usually agrees with its clients payment terms from 60 to 180 days for receivables under sales except for the cases when new markets and products are being developed and new trade counterparts are being attracted.

The Company has set a common period of 180 days for which no interest is charged to clients. Any delay after this period is regarded by the Company as an indicator for impairment. The management assesses collectability by analysing the individual exposure of the client as well as its repayment capacity and takes a decision as to whether to charge impairment.

Special pledges on trade receivables at the amount of BGN 20,554 thousand were established at 31 December 2015 as collateral to bank loans received (31 December 2014: BGN 22,246 thousand).

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

	31.12.2015	31.12.2014
	BGN '000	BGN '000
up to 30 days	10,963	1,330
from 31 to 90 days	8,371	13,093
from 91 to 180 days	<u>168</u>	<u>799</u>
Total	<u>19,502</u>	<u>15,222</u>

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

	31.12.2015	31.12.2014
	BGN '000	BGN '000
from 31 to 90 days	480	6,838
from 91 to 180 days	224	240
from 181 to 365 days	348	47
over 1 year	-	28
Total	1,052	7,153

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

	31.12.2015	31.12.2014
	BGN '000	BGN '000
up to 30 days	-	262
from 91 to 180 days	54	112
over 1 year	577	629
Allowance for impairment	(631)	(1,003)
	-	-

The *movement of the allowance for impairment* is as follows:

	2015	2014
	BGN '000	BGN '000
Balance at 1 January	1,003	582
Stated impairment	105	637
Amounts written-off as uncollectable	(3)	(198)
Reversed impairment	(474)	(18)
Balance at 31 December	631	1,003

The *advances granted to suppliers* as at 31 December are for the purchase of:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Inventories	608	693
Services	304	329
Total	912	1,022

The *advances granted* are regular. They include: in BGN – BGN 550 thousand (31 December 2014: BGN 864 thousand), in EUR – BGN 100 thousand (31 December 2014: BGN 95 thousand), and in USD – BGN 262 thousand (31 December 2014: BGN 63 thousand).

26. OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Taxes refundable	3,104	6,515
Loans granted to third parties	2,481	1,119
Impairment of uncollectable receivables	-	(37)
	<u>2,481</u>	<u>1,082</u>
Prepayments	849	2,989
Receivables on deposits placed as guarantees	236	250
Amounts granted to an investment intermediary	199	125
Court and awarded receivables	2,151	2,099
Impairment of court receivables	<u>(2,151)</u>	<u>(2,099)</u>
	-	-
Litigation securities granted	-	863
Other	12	77
Total	<u>6,881</u>	<u>11,901</u>

Taxes refundable include:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Excise duties	2,616	3,990
Corporate tax	430	1,923
Value added tax	58	602
Total	<u>3,104</u>	<u>6,515</u>

The terms and conditions of the loans granted to third parties are as follows:

Currency	Contracted amount	Maturity	Interest %	31.12.2015		31.12.2014	
	'000			BGN '000	BGN '000	BGN '000	BGN '000
					including interest		including interest
BGN	1,476	31.12.2016	7.00%	1,570	94	751	38
BGN	949	23.06.2016	5.50%	911	6	281	1
BGN	50	14.10.2015	5.50%	-	-	50	-
				<u>2,481</u>	<u>100</u>	<u>1,082</u>	<u>39</u>

The short-term loans granted to third parties are intended to support the financing of these entities' activities under common strategic objectives. They are secured by pledges on securities (shares).

Prepayments include:

	<i>31.12.2015</i>	<i>31.12.2014</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Insurance	396	416
Subscriptions	353	301
Licence and patent fees	35	36
Rentals	12	1,660
Vouchers	4	1
Advertisements	-	435
Medical services	-	23
Other	49	117
Total	849	2,989

Deposits placed as guarantees include:

	<i>31.12.2015</i>	<i>31.12.2014</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Guarantees under construction contracts	88	110
Guarantees under contracts for fuel supply	86	88
Guarantees under communication service contracts	34	34
Other	28	18
Total	236	250

27. CASH AND CASH EQUIVALENTS

Cash includes:

	<i>31.12.2015</i>	<i>31.12.2014</i>
	<i>BGN '000</i>	<i>BGN '000</i>
<i>Cash at current bank accounts</i>	<i>3,845</i>	<i>3,301</i>
<i>Impairment of cash at current bank accounts (Note 12)</i>	<i>(165)</i>	<i>-</i>
Net change in cash at current bank accounts	3,680	3,301
Cash in hand	56	156
Blocked cash under issued bank guarantees	9	21
Cash and cash equivalents for cash flows	3,745	3,478
Blocked cash under litigation	-	598
Total	3,745	4,076

Cash structure at current bank accounts is as follows: in BGN – BGN 2,124 thousand (31 December 2014: BGN 1,400 thousand), in EUR – BGN 597 thousand (31 December 2014: BGN 997 thousand), in USD – BGN 799 thousand (31 December 2014: BGN 781 thousand) and in other currency – BGN 160 thousand (31 December 2014: BGN 123 thousand).

The achieved average interest rate is from 0.01 % to 0.07 % (31 December 2014: from 0.01 % to 0.06%).

Cash in hand includes: in BGN – BGN 47 thousand (31 December 2014: BGN 144 thousand) and in other currency – BGN 9 thousand (31 December 2014: BGN 11 thousand).

As at 31 December 2014, there was an active distraint on a current account in foreign currency, levied under a lawsuit, at the amount of BGN 598 thousand - USD 372 thousand.

28. EQUITY

Share capital

As at 31 December 2015, the registered share capital of Sopharma AD amounted to BGN 134,798 thousand distributed in 134,797,899 shares of nominal value BGN 1 each.

<i>Ordinary shares issued and fully paid</i>	<i>Shares number</i>	<i>Share capital net of treasury shares BGN '000</i>
Balance at 1 January 2014	126,539,324	113,895
Treasury shares purchased	(304,031)	(1,257)
Treasury shares sold	650,577	2,165
Expense on treasury shares	-	(6)
Balance at 31 December 2014	126,885,870	114,797
Balance at 1 January 2015	126,885,870	114,797
Effects of a subsidiary merger	2,797,899	2,798
Treasury shares	(105,166)	(392)
Expense on treasury shares	-	(2)
Balance at 31 December 2015	129,578,603	117,201

On 1 January 2015, by virtue of a merger agreement, dated 19 June 2014, a restructuring was made through the merger of Bulgarian Rose Sevtopolis AD into Sopharma AD (*Note 2.3 and Note 41*). As a result of the merger, the share capital of Sopharma AD was increased by 2,797,899 new shares with nominal value of BGN 1 each and issue value of BGN 4.14 equal to the fair price of 1 share of Sopharma AD.

The table below presents the paid share capital of the Company at 31 December:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Share capital (registered), nominal	134,798	132,000
Share premium	8,785	-
Total paid capital	143,583	132,000

Company's shares are ordinary, non-cash, with right of dividend and liquidation share and are registered for trade in the Bulgarian Stock Exchange – Sofia AD and Warsaw Stock Exchange.

The *treasury shares* were 5,219,296 at the amount of BGN 17,597 thousand as at 31 December 2015 (31 December 2014: 5,114,130 shares at the amount of BGN 17,203 thousand). The number of shares purchased through an investment intermediary in the current year was 105,166 (2014: 304,031 shares) and no shares were sold (2014: 650,577 shares).

As at 31 December 2015, Company's *shares held by its subsidiaries and associates* were as follows:

- by Unipharm AD – 191,166 shares (31 December 2014: 191,166 shares).
- by Medica AD – 27,573 shares (31 December 2014: associate – 2,390 shares);
- by Sopharma Trading AD – 43,110 shares (31 December 2014: 23,857 shares).

Company's *reserves* are summarised in the table below:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Statutory reserves	45,256	33,555
Property, plant and equipment revaluation reserve	22,286	22,434
Available-for-sale financial assets reserve	1,290	1,097
Additional reserves	215,395	189,157
Total	284,227	246,243

Statutory reserves at the amount of BGN 45,256 thousand (31 December 2014: BGN 33,555 thousand) represent the Reserve Fund, which is set aside under a requirement of the Commercial Act and Company's Articles of Association, and includes two components: (a) amounts from distribution of profit for the Reserve Fund – BGN 36,471 thousand (31 December 2014: BGN 33,555 thousand), and (b) share premium representing the excess of the issue value over the nominal value of the issued shares on the merger of the subsidiary Bulgarian Rose Sevtopolis AD into Sopharma AD – BGN 8,785 thousand (31 December 2014: none).

The movements of statutory reserves were as follows:

	<i>2015</i> <i>BGN '000</i>	<i>2014</i> <i>BGN '000</i>
Balance at 1 January	33,555	30,051
Distribution of profit	2,916	3,504
Share premium on a subsidiary merger	8,785	-
Balance at 31 December	45,256	33,555

The *property, plant and equipment revaluation reserve*, amounting to BGN 22,286 thousand (31 December 2014: BGN 22,434 thousand), is set aside from the surplus between the carrying amount of property, plant and equipment and their fair value at the date of the respective revaluation. The deferred tax effect on the revaluation reserve was directly carried to this reserve.

The movements of property, plant and equipment revaluation reserve were as follows:

	<i>2015</i> <i>BGN '000</i>	<i>2014</i> <i>BGN '000</i>
Balance at 1 January	22,434	23,392
Effects of a subsidiary merger	344	-
Transfer to retained earnings	(492)	(953)
Impairment of property, plant and equipment	-	(6)
Deferred tax relating to revaluations	-	1
Balance at 31 December	22,286	22,434

The *available-for-sale financial assets reserve*, amounting to BGN 1,290 thousand (31 December 2014: BGN 1,097 thousand) was set aside from the effects of subsequent revaluation of available-for-sale investments to fair value.

The movements of available-for-sale financial assets reserve were as follows:

	<i>2015</i> <i>BGN '000</i>	<i>2014</i> <i>BGN '000</i>
Balance at 1 January	1,097	984
Net gain arising on revaluation of available-for-sale financial assets	485	250
Cumulative (gains)/losses reclassified to current profit or loss upon sale/realisation of available-for-sale financial assets	(292)	(137)
Balance at 31 December	1,290	1,097

Additional reserves at the amount of BGN 215,395 thousand (31 December 2014: BGN 189,157 thousand) are set aside from distribution of profits under a decision of shareholders and can be used for payment of dividend, share capital increase as well as to cover losses.

The movements of additional reserves are as follows:

	<i>2015</i> <i>BGN '000</i>	<i>2014</i> <i>BGN '000</i>
Balance at 1 January	189,157	166,508
Distributed profit in the year	26,238	22,649
Balance at 31 December	215,395	189,157

Retained earnings, amounting to BGN 30,198 thousand as at 31 December 2015 (31 December 2014: BGN 45,484 thousand).

The movements of *retained earnings* were as follows:

	<i>2015</i> <i>BGN '000</i>	<i>2014</i> <i>BGN '000</i>
Balance at 1 January	45,484	51,974
Net profit for the year	25,354	26,531
Effects of a subsidiary merger	(11,927)	760
Actuarial losses from remeasurements	(51)	(299)
Effects of a subsidiary merger from actuarial gains on remeasurements	-	(11)
Transfer from property, plant and equipment revaluation reserve	492	953
Effect of treasury shares sold	-	619
Distribution of profit for reserves	(29,154)	(26,153)
Payment of dividends	-	(8,890)
Balance at 31 December	30,198	45,484

Basic earnings per share

	<i>31.12.2015</i>	<i>31.12.2014</i>
Weighted average number of shares	129,379,961	126,913,907
Net profit for the year (BGN'000)	25,354	26,531
Basic earnings per share (BGN)	0,20	0,21

The calculation of the basic earnings per share for 2014 is based on the net profit of Sopharma AD for the year prior to the merger of Bulgarian Rose Sevtopolis AD.

29. LONG-TERM BANK LOANS

Currency	Contracted loan amount	Maturity	31.12.2015		Total	31.12.2014		Total
			Non-current portion	Current portion		Non-current portion	Current portion	
	'000		BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Investment-purpose loans								
EUR	32 000	15.04.2021	30,819	7,380	38,199	37,972	7,391	45,363
EUR	1 617	31.01.2015	-	-	-	-	40	40
			30,819	7,380	38,199	37,972	7,431	45,403

The investment-purpose loan received in Euro was agreed at interest rate based on three-month EURIBOR plus a mark-up of up to 2.8 points but not less than 2.8 points (2014: three-month EURIBOR plus a mark-up of up to 2.8 points and monthly EURIBOR plus a mark-up of 5 points).

The following collateral was established under the loans in favour of the creditor bank:

- Mortgages of real estate – BGN 44,285 thousand (31 December 2014: BGN 51,918 thousand) (*Note 15*);
- Special pledges on machinery and equipment – BGN 20,027 thousand (31 December 2014: BGN 21,503 thousand) (*Note 15*).

Part of the long-term bank loan *contracts* include clauses with covenants for maintaining certain financial ratios. Company's management currently controls the observance of these financial ratios in communication with the respective creditor bank.

30. DEFERRED TAX LIABILITIES

Deferred income taxes as at 31 December are related to the following items of the statement of financial position:

Deferred tax (liabilities)/ assets	temporary difference	tax	temporary difference	tax
	31.12.2015	31.12.2015	31.12.2014	31.12.2014
	BGN '000	BGN '000	BGN '000	BGN '000
Property, plant and equipment	59,808	5,981	54,540	5,454
including revaluation reserve	20,926	2,093	21,472	2,147
Investment property	4,585	459	3,787	379
including revaluation reserve	187	19	187	19
Total deferred tax liabilities	64,393	6,440	58,327	5,833
Receivables	(6,254)	(625)	(5,548)	(555)
Payables to personnel	(5,000)	(500)	(4,487)	(449)
Inventories	(3,796)	(380)	(3,549)	(355)
Intangible assets	(1,794)	(179)	(2,751)	(275)
Accrued liabilities	(424)	(42)	(740)	(74)
Cash	(165)	(17)	-	-
Biological assets	10	1	(3)	-
Total deferred tax assets	(17,423)	(1,743)	(17,078)	(1,708)
Deferred income tax liabilities, net	46,970	4,697	41,249	4,124

On recognising deferred tax assets, the probability of a reversal of the individual differences and the abilities of the Company to generate sufficient taxable profit in the future, had been taken into account.

There are unrecognised deferred tax assets at the amount of BGN 2,541 thousand (31 December 2014: BGN 1,510 thousand), related to impairment of investments in subsidiaries because the management is not planning to dispose of these investments and has concluded that it is unlikely the temporary difference to be manifested in a foreseeable future. The temporary difference on which no tax asset is recognised amounts to BGN 25,409 thousand (31 December 2014: BGN 15,098 thousand).

The change in the balance of deferred taxes for 2015 is as follows:

<i>Deferred tax (liabilities)/ assets</i>	<i>Balance at 1 January 2015</i>	<i>Recognised in the statement of comprehensive income</i>	<i>Recognised in the statement of changes in equity and the current tax return</i>	<i>Balance at 31 December 2015</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Property, plant and equipment	(5,454)	(588)	61	(5,981)
Investment property	(379)	(80)	-	(459)
Receivables	555	70	-	625
Payables to personnel	449	51	-	500
Inventories	355	24	-	380
Intangible assets	275	(96)	-	179
Accrued liabilities	74	(32)	-	42
Cash	-	17	-	17
Biological assets	-	1	-	1
Total	(4,124)	(633)	61	(4,697)

The change in the balance of deferred taxes for 2014 was as follows:

<i>Deferred tax (liabilities)/ assets</i>	<i>Balance at 1 January 2014</i>	<i>Recognised in the statement of comprehensive income</i>	<i>Recognised in the statement of changes in equity and the current tax return</i>	<i>Balance at 31 December 2014</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Property, plant and equipment	(4,896)	(585)	27	(5,454)
Investment property	(309)	(70)	-	(379)
Receivables	286	269	-	555
Payables to personnel	417	32	-	449
Intangible assets	305	(30)	-	275
Inventories	20	335	-	355
Accrued liabilities	63	11	-	74
Biological assets	1	(1)	-	-
Total	(4,113)	(39)	27	(4,124)

31. GOVERNMENT GRANTS

The long-term government grants are under concluded contracts with the Bulgarian Small and Medium Enterprises Promotion Agency for gratuitous financial aid under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007-2013 in relation with:

- acquisition of machinery and equipment for a new tablet production at the amount of BGN 3,181 thousand (31 December 2014: BGN 3,358 thousand);
- implementation of innovative products in the ampoule production at the amount of BGN 2,700 thousand (31 December 2014: none);
- acquisition of machinery and equipment for technological renovation and modernisation of tablet production at the amount of BGN 490 thousand (31 December 2014: BGN 610 thousand).

The current portion of the grants, amounting to BGN 497 thousand (31 December 2014: BGN 297 thousand) will be recognised as current income over the following 12 months from the date of the separate statement of financial position and is presented as 'other current liabilities' (*Note 39*).

32. RETIREMENT BENEFIT OBLIGATIONS

Long-term payables to personnel include:

	<i>31.12.2015</i> <i>BGN '000</i>	<i>31.12.2014</i> <i>BGN '000</i>
Long-term retirement benefit obligations	2,277	2,195
Long-term benefit obligations for tantieme	149	192
Total	2,426	2,387

Long-term retirement benefit obligations

The long-term retirement benefit obligations to personnel include the present value of Company's liability at the date of the statement of financial position to pay indemnities to individuals of its employees upon coming of age for retirement.

In accordance with the Labour Code in Bulgaria, every employee is entitled to an 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. This is a defined benefits plan (*Note 2.22*).

For the purpose of establishing the amount of these obligations to personnel, the Company has assigned an actuarial valuation as at 31 December 2015 by using the services of a certified actuary.

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

	2015 BGN '000	2014 BGN '000
Present value of the obligation at 1 January	2,195	1,854
Current service cost	256	211
Interest expense	87	79
Net actuarial loss recognised for the period	2	11
Payments made in the year	(314)	(270)
Remeasurement gains or losses on the retirement benefit obligations including from:	51	310
<i>Actuarial losses arising from changes in demographic assumptions</i>	152	2
<i>Actuarial losses arising from changes in financial assumptions</i>	143	27
<i>Actuarial losses arising from experience adjustments</i>	(244)	281
Present value of the obligation at 31 December	2,277	2,195

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

	2015 BGN '000	2014 BGN '000
Current service cost	256	211
Interest cost	87	79
Net actuarial loss recognised for the period	2	11
Components of defined benefit plan costs recognised in profit or loss at 31 December (Note 7)	345	301
Remeasurement gains or losses on the retirement benefit obligations, including:		
<i>Actuarial losses arising from changes in demographic assumptions</i>	152	2
<i>Actuarial losses arising from changes in financial assumptions</i>	143	27
<i>Actuarial losses arising from experience adjustments</i>	(244)	281
Components of defined benefit plans cost recognised in other comprehensive income (Note 14)	51	310
Total	396	611

The following actuarial assumptions were used in calculating the present value of the liabilities as at 31 December 2015:

- The discount factor is calculated by using as basis 2.8% annual interest rate (2014: 3.8%). The assumption is based on yield data for long-term government securities with 10-year maturity;
- The assumption for the future level of the salaries is based on the information provided by the Company's management and amounts to 5 % annual growth compared to the prior reporting period (2014: 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 2012 - 2014 (2014: 2011 - 2013);

- Staff turnover rate – from 0 % to 16 % for the five age groups formed (2014: from 0% to 17 %).

This defined benefit plan exposes the Company to the following risks: investment risk, interest risk, longevity risk and salary growth related risk: The Company's management defines them as follows:

- investment risk – as far as this is unfunded plan, the Company 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*
- staff turnover rate*

on the present value of the obligation for payment of defined retirement benefits, are assessed as follows:

	2015		2014	
	<i>Increase</i>	<i>Decrease</i>	<i>Increase</i>	<i>Decrease</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Change in salary growth	179	(157)	169	(149)
Change in discount rate	(158)	185	(149)	172
Change in staff turnover rate	(170)	197	(160)	153

The weighted average duration of the defined benefit obligation to personnel is 7.5 years (31 December 2014: 7.4 years).

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

<i>Forecasted payments</i>	<i>Old age and length of service retirement BGN '000</i>	<i>Poor health retirement BGN '000</i>	<i>Total BGN '000</i>
<i>Payments in 2016</i>	409	9	418
<i>Payments in 2017</i>	242	9	251
<i>Payments in 2018</i>	228	9	237
<i>Payments in 2019</i>	290	9	299
<i>Payments in 2020</i>	340	9	349
	1,509	45	1,554

Long-term benefit obligations for tantieme

As at 31 December 2015, the long-term benefit obligations to personnel include also the amount of BGN 149 thousand (31 December 2014: BGN 192 thousand), representing a payable to personnel related to tantieme payment for a period of more than 12 months (from 2017 to 2018).

33. FINANCE LEASE LIABILITIES

The finance lease liabilities, included in the statement of financial position, are under agreements for acquisition of motor vehicles. They are presented net of the future interest due and are as follows:

<i>Term</i>	<i>31.12.2015 BGN '000</i>	<i>31.12.2014 BGN '000</i>
Up to one year	19	60
Over one year	3	34
Total	22	94

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

<i>Term</i>	<i>31.12.2015 BGN '000</i>	<i>31.12.2014 BGN '000</i>
Up to one year	22	70
Over one year	3	38
	25	108
Future finance costs under finance leases	(3)	(14)
Present value of finance lease liabilities	22	94

The lease payments due within the next 12 months are presented in the statement of financial position as 'other current liabilities' (Note 39).

34. SHORT-TERM BANK LOANS

<i>Currency</i>	<i>Contracted amount '000</i>	<i>Maturity</i>	<i>31.12.2015 BGN '000</i>	<i>31.12.2014 BGN '000</i>
<i>Bank loans (overdrafts)</i>				
EUR	20,000	31.08.2016	30,491	38,847
BGN	10,000	30.09.2016	10,001	9,990
EUR	5,000	15.08.2016	9,787	9,786
EUR	10,000	20.03.2016	2,193	13,477
EUR	5,000	15.08.2016	4	1,083
			52,476	73,183
<i>Extended credit lines</i>				
BGN	18,000	30.10.2016	10,006	9,965
EUR	5,000	31.08.2016	6,479	3,119
BGN	8,000	28.02.2016	-	4,494
			16,485	17,578
Total			68,961	90,761

The bank loans received in Euro have been agreed at interest rate based on 3-month EURIBOR plus a mark-up of up to 2.45 points and monthly EURIBOR plus a mark-up of up to 2.1 points, but not less than 2.1 points, while the loans received in BGN are based on a monthly SOFIBOR plus 2 points, 1-week SOFIBOR plus 2.2 points and 2-week SOFIBOR plus 2.85 points (2014: for bank loans in Euro – 3-month EURIBOR plus a mark-up of up to 2.45 points and monthly EURIBOR plus a mark-up of up to 3 points and for loans in BGN – 3-month SOFIBOR plus 2.1 points, monthly SOFIBOR plus 2 points, weekly SOFIBOR plus 3 points and 2-week SOFIBOR plus 3.25 points). Loans are intended for providing working capital.

Part of the loans drawn at 31 December are in the form of bank guarantees in favour of the National health Insurance Fund (NHIF) for covering obligations as follows:

- of Sopharma AD at the amount of BGN 523 thousand. (31 December 2014: none);
- of a subsidiary at the amount of BGN 16 thousand. (31 December 2014: none).

The following have been established in favour of creditor banks as collateral for the above loans as well as for loans of related parties to the Company:

- Mortgages of real estate – BGN 36,612 thousand (31 December 2014: BGN 38,264 thousand) (*Notes 15 and 17*);
- Special pledges on:
 - machinery and equipment – BGN 12,561 thousand (31 December 2014: BGN 10,871 thousand) (*Notes 15 and 17*);
 - inventories – BGN 35,525 thousand (31 December 2014: BGN 35,525 thousand) (*Note 23*);
 - receivables from related parties – BGN 18,229 thousand (31 December 2014: BGN 16,229 thousand) (*Note 24*);

- trade receivables – BGN 14,935 thousand (31 December 2014: BGN 22,763 thousand) (*Note 25*);
- trade receivables from third parties of a subsidiary – BGN 12,623 thousand (31 December 2014: BGN 12,773 thousand).

The short-term bank loan contracts include clauses with covenants for maintaining certain financial ratios. Company's management currently controls the observance of these financial ratios in communication with the respective creditor bank.

35. TRADE PAYABLES

Trade payables include:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Payables to suppliers	7,723	7,720
Advances received	291	189
Total	8,014	7,909

Trade payables are as follows:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Payables to foreign suppliers	5,507	6,372
Payables to local suppliers	2,216	1,348
Total	7,723	7,720

The payables to suppliers are regular, interest-free and refer to supplies of materials and services. The payables in foreign currency amount to BGN 5,507 thousand (31 December 2014: BGN 6,478 thousand). They include: in EUR – BGN 2,592 thousand (31 December 2014: BGN 3,028 thousand), in USD – BGN 2,876 thousand (31 December 2014: BGN 3,193 thousand), in PLN – BGN 4 thousand (31 December 2014: BGN 244 thousand) and in other currencies – BGN 35 thousand (31 December 2014: BGN 13 thousand).

The common credit period, for which no interest is charged on trade payables, is 180 days. The Company has no past due trade payables.

The Company has placed deposits as security(*Notes 21 and 26*) for payables to suppliers under commercial transactions at the amount of BGN 528 thousand (31 December 2014: BGN 543 thousand).

36. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Payables to companies related through key managing personnel	1,702	171
Payables to subsidiaries	868	3,219
Payables to companies related through a main shareholder	411	761
Payables to main shareholding companies	89	1
Payables to associates	-	2
Total	3,070	4,154

The *payables to related parties by type* are as follows:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Supply of non-current assets	1,392	103
Supply of services	1,121	1,723
Supply of inventories	557	1,924
Unpaid share capital in newly established subsidiary	-	404
Total	3,070	4,154

The trade payables to related parties are regular and are not additionally secured by the Company. The payables in Bulgarian Levs amount to BGN 3,051 thousand (31 December 2014: BGN 2,045 thousand), in EUR – BGN 10 thousand (31 December 2014: BGN 1,153 thousand), in PLN – BGN 9 thousand (31 December 2014: BGN 552 thousand), and in KZT – none (31 December 2014: BGN 404 thousand).

The common credit period, for which no interest is charged on trade payables to related parties, is 90 days. The Company has no overdue trade payables to related parties.

37. TAX PAYABLES

Tax payables include:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Withholding taxes	467	572
Value added tax	329	154
Taxes on the income of physical persons	169	212
Total	965	938

The following inspections and audits were performed by the date of issue of these financial statements:

Sopharma AD (as a receiving company):

- under VAT Act – until 31 December 2011;
- full-scope tax audit – until 31 December 2011;
- National Social Security Institute – until 30 September 2013.

Bulgarian Rose Sevtopolis (as a transforming company)

- under VAT Act – until 31 December 2014;
- full-scope tax audit – until 31 December 2013;
- National Social Security Institute – until 31 December 2013.

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

38. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security are as follows:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Payables to personnel, including:	4,021	3,715
<i> tantieme</i>	2,486	1,810
<i> current liabilities</i>	877	1,112
<i> accruals on unused compensated leaves</i>	658	793
Payables for social security/health insurance, including:	748	849
<i> current liabilities</i>	642	723
<i> accruals on unused compensated leaves</i>	106	126
Total	4,769	4,564

39. OTHER CURRENT LIABILITIES

Other current liabilities include:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Government grants (<i>Note 31</i>)	497	297
Awarded amounts under litigations	332	299
Dividend liabilities	294	250
Fines and penalties	188	-
Deductions from work salaries	171	175
Finance lease liabilities (<i>Note 33</i>)	19	60
Other	7	70
Total	1,508	1,151

40. CONTINGENT LIABILITIES AND COMMITMENTS***Litigations***

In relation to the amount of EUR 1,034 thousand (BGN 2,022 thousand) awarded by the Court of Arbitration in Paris, Sopharma AD initiated cases in Poland against former members of the Management Board of the convicted company for caused damages and non-performance of the obligations regarding the bankruptcy of the said company. As at 31 December 2015, the cases are pending in the District Court and the Regional Court of Warsaw.

Significant irrevocable agreements and commitments

The Company received three government grants under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 (Note 31 and Note 39), related to technological renovation and modernisation of tablet production facilities and implementation of innovative products in the ampoule production section (Note 15). The Company undertook a commitment that for a period of 5 years after the completion of the respective projects they shall not be subject to significant modifications affecting the essence and the terms and conditions for their 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 to the grants. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the financial statements, all contractual requirements were being fulfilled.

Issued and granted guarantees

The Company is a co-debtor under received bank loans, issued bank guarantees and concluded lease agreements as well as a guarantor before banks and suppliers of the following companies:

Company	Maturity	Currency	Contracted amount		Guarantee amount as at 31.12.2015 BGN '000
			Original currency	BGN '000	
Sopharma Trading AD	2016-2020	EUR	64,739	124,663	108,004
Sopharma Properties REIT	2024	EUR	22,619	44,240	35,168
Sopharma Trading AD	2016	BGN	14,732	14,732	13,349
OAo Vitamini	2016	EUR	7,000	13,691	11,184
Telecomplect AD	2016	BGN	5,009	5,009	5,009
Biopharm Engineering AD	2023	BGN	4,250	4,250	1,517
Veta Pharma AD	2016	BGN	1,000	1,000	533
Mineralcommerce AD	2017	EUR	150	294	255
Mineralcommerce AD	2016	BGN	250	250	242
Pharmaplant AD	2019	BGN	1,083	1,083	236
Momina Krepost AD	2016	BGN	500	500	70
Energoinvestment AD	2016	BGN	2,018	2,018	-
					175,567

The Company has provided the following collateral in favour of banks under loans received by related parties:

(a) under loans of subsidiaries:

- Mortgages of real estate – BGN 10,572 thousand (31 December 2014: BGN 10,776 thousand) (*Note 15*);
- Special pledges on:
 - machinery and equipment – BGN 11,640 thousand (31 December 2014: none) (*Note 15*);
 - inventories – BGN 17,000 thousand (31 December 2014: BGN 15,000 thousand) (*Note 23*);
 - trade receivables – BGN 11,735 thousand (31 December 2014: BGN 12,000 thousand) (*Note 25*).

(b) under loans of companies related through key managing personnel:

- Mortgages of real estate – BGN 1,119 thousand (31/12/2014: none) (*Note 17*);

(c) under loans of third parties:

- Special pledge on inventories – BGN 2,623 thousand (31 December 2014: BGN 2,623 thousand) (*Note 23*).

Other

The Company has met its obligations under the Waste Management Act (WMA) and therefore, has not included a product charge liability in the statement of financial position 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.

41. RESTATEMENTS MADE AS A RESULT OF THE MERGER

In its financial statements for 2015, Sopharma AD presents comparative information for 2014 based on the combined separate financial statements of the transforming company (Bulgarian Rose Sevtopolis AD) and the receiving company (Sopharma AD) (*Note 2.3*) as follows:

41.1. Opening statement of financial position at the merger date – 1 January 2015

The opening statement of financial position of Sopharma AD as a result of the performed merger on 1 January 2015 has been prepared based on the carrying amounts of the assets and liabilities of both companies from their separate statements of financial position as at 31 December 2014.

As far as the date of accounting for the merger is 1 January 2015, the data in the statement of financial position at this date corresponds to the data at the comparable period as at 31 December 2014.

The assets and liabilities of both companies, combined at the accounting date of merger (1 January 2015) in terms of structure and amount, are as follows:

STATEMENT OF FINANCIAL POSITION	Sopharma AD	Bulgarian Rose Sevtopolis AD	Transformatio n (merger) adjustments	Combined statement of financial position
	1 January 2015 BGN'000	1 January 2015 BGN'000		1 January 2015 BGN'000
ASSETS				
Non-current assets				
Property, plant and equipment	192,728	18,205	123	211,056
Intangible assets	2,442	-	768	3,210
Investment property	22,368	-	-	22,368
Investments in subsidiaries	103,068	95	(8,729)	94,434
Investments in associates	7,015	-	-	7,015
Available-for-sale investments	4,439	-	-	4,439
Long-term receivables from related parties	33,150	-	-	33,150
Other long-term receivables	6	-	-	6
	365,216	18,300	(7,838)	375,678
Current assets				
Inventories	54,047	3,740	(427)	57,360
Receivables from related parties	99,505	3,868	(3,868)	99,505
Trade receivables	23,268	36	93	23,397
Other receivables and prepayments	11,024	877	-	11,901
Cash and cash equivalents	2,935	1,141	-	4,076
	190,779	9,662	(4,202)	196,239
TOTAL ASSETS	555,995	27,962	(12,040)	571,917
EQUITY AND LIABILITIES				
EQUITY				
Share capital	132,000	12,066	(12,066)	132,000
Treasury shares	(17,203)	-	-	(17,203)
Reserves	246,243	3,795	(3,795)	246,243
Retained earnings	28,666	9,219	7,599	45,484
	389,706	25,080	(8,262)	406,524
LIABILITIES				
Non-current liabilities				
Long-term bank loans	37,972	-	-	37,972
Deferred tax liabilities	3,988	141	(5)	4,124
Government grants	3,358	610	-	3,968
Retirement benefit obligations	2,219	168	-	2,387
Finance lease liabilities	34	-	-	34
	47,571	919	(5)	48,485
Current liabilities				
Short-term bank loans	90,761	-	-	90,761
Current portion of long-term bank loans	7,391	40	-	7,431
Trade payables	6,553	1,356	-	7,909
Payables to related parties	7,929	-	(3,775)	4,154
Tax payables	902	36	-	938
Payables to personnel and for social security	4,213	351	-	4,564
Other current liabilities	969	180	2	1,151
	118,718	1,963	(3,773)	116,908
TOTAL LIABILITIES	166,289	2,882	(3,778)	165,393
TOTAL EQUITY AND LIABILITIES	555,995	27,962	(12,040)	571,917

The adjustments made to the statements of financial position of both companies, for the purpose of their combining, are mainly result of: (a) unification of the accounting policies; and (b) eliminations referring to the investment in a subsidiary and to internal accounts and balances between both companies, including the related thereto effects on deferred taxes. The net effect on the accumulated profits as at 1 January 2015 amounts to BGN 16,818 thousand.

41.2. Comparative information

Restatements were also made of the comparative data for 2014 and the earliest comparable period – 1 January 2014 in the financial statements of Sopharma AD for 2015 (receiving company) solely and only for comparability purposes. These restatements were made for combining the data in (a) *the statement of financial position as at 31 December 2014*; (b) *the statement of comprehensive income for the year ended 31 December 2014*; (c) *the statement of cash flows for the year ended 31 December 2014*; and (d) *the statement of financial position as at 1 January 2014* of both companies in a way as if the transforming and the receiving company have always been combined.

The effects of the merger in the respective statements are presented as follows:

(a) statement of financial position as at 31 December 2014:

The data from the opening statement of financial position at 1 January 2015 are presented as comparatives as at 31 December 2014 in the present financial statements (*Note 41.1*).

(b) statement of comprehensive income for the year ended 31 December 2014:

STATEMENT OF COMPREHENSIVE INCOME	Sopharma AD	Bulgarian Rose Sevtopolis AD	Transformation (merger) adjustments	Combined statement of comprehensive income
	2014 BGN'000	2014 BGN'000	2014 BGN'000	2014 BGN'000
Revenue	201,456	19,052	(19,047)	201,461
Other operating income/(losses), net	4,013	196	(236)	3,973
Changes in inventories of finished goods and work in progress	10,296	1,063	2,680	14,039
Raw materials and consumables used	(60,600)	(13,944)	624	(73,920)
Hired services expense	(71,347)	(761)	15,712	(56,396)
Employee benefits expense	(34,403)	(3,202)	-	(37,605)
Depreciation and amortisation expense	(15,866)	(1,119)	(4)	(16,989)
Other operating expenses	(9,717)	(202)	17	(9,902)
Profit from operations	23,832	1,083	(254)	24,661
Impairment of non-current assets	(3,252)	-	-	(3,252)
Finance income	12,997	4	-	13,001
Finance costs	(4,672)	(18)	-	(4,690)
Finance income/(costs), net	8,325	(14)	-	8,311
Profit before income tax	28,905	1,069	(254)	29,720
Income tax expense	(2,374)	(108)	53	(2,429)
Net profit for the year	26,531	961	(201)	27,291

STATEMENT OF COMPREHENSIVE INCOME (continued)	Sopharma AD	Bulgarian Rose Sevtopolis AD	Transformation (merger) adjustments	Combined statement of comprehensive income
	2014 BGN '000	2014 BGN '000	2014 BGN '000	2014 BGN '000
Other comprehensive income:				
<i>Items that will not be reclassified to profit or loss:</i>				
Loss on revaluation of property, plant and equipment	(6)	-	-	(6)
Remeasurements of defined benefit pension plans	(299)	(11)	-	(310)
Income tax relating to items of other comprehensive income that will not be reclassified	1	-	-	1
	<u>(304)</u>	<u>(11)</u>	<u>-</u>	<u>(315)</u>
<i>Items that may be reclassified to profit or loss</i>				
Net change in fair value of available-for-sale financial assets	113	-	-	113
	<u>113</u>	<u>-</u>	<u>-</u>	<u>113</u>
Other comprehensive income for the year, net of taxes	<u>(191)</u>	<u>(11)</u>	<u>-</u>	<u>(202)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>26,340</u></u>	<u><u>950</u></u>	<u><u>(201)</u></u>	<u><u>27,089</u></u>

The effect of the subsidiary merger on the total comprehensive income for 2014 amounts to BGN 749 thousand and is result of:

- (a) the total comprehensive income for the year of Bulgarian Rose Sevtopolis AD is profit at the amount of BGN 950 thousand;
- (b) the effects of elimination of intragroup transactions between both companies is a loss at the amount of BGN 201 thousand).

(c) statement of cash flows for the year ended 31 December 2014:

STATEMENT OF CASH FLOWS	Sopharma AD	Bulgarian Rose Sevtopolis AD	Transformation (merger) adjustments	Combined statement of cash flows
	2014 BGN'000	2014 BGN'000	2014 BGN'000	2014 BGN'000
Cash flows from operating activities				
Cash receipts from customers	217,314	9,101	(8,865)	217,550
Cash paid to suppliers	(143,724)	(3,806)	8,865	(138,665)
Cash paid to employees and for social security	(32,695)	(2,888)	-	(35,583)
Taxes paid (except income taxes)	(5,227)	(1,083)	-	(6,310)
Taxes refunded (except income taxes)	3,412	203	-	3,615
Income taxes paid	(4,842)	(96)	-	(4,938)
Interest and bank charges paid on working capital loans	(3,011)	(4)	-	(3,015)
Foreign currency exchange gains/(losses), net	(145)	13	-	(132)
Other proceeds/(payments), net	(931)	(58)	-	(989)
Net cash flows from operating activities	30,151	1,382	-	31,533
Cash flows from investing activities				
Purchases of property, plant and equipment	(7,996)	(770)	-	(8,766)
Proceeds from sales of property, plant and equipment	335	-	-	335
Purchases of intangible assets	(50)	-	-	(50)
Purchases of investment property	(1,005)	-	-	(1,005)
Purchases of shares in associates	(3,136)	-	-	(3,136)
Purchases of available-for-sale investments	(1,425)	-	-	(1,425)
Proceeds from sales of available-for-sale investments	133	-	-	133
Purchases of shares in subsidiaries	(5,988)	-	-	(5,988)
Proceeds from sales of shares in subsidiaries	5,046	-	-	5,046
Dividends received from investments in subsidiaries and available-for-sale investments	6,332	-	-	6,332
Loans granted to related parties	(19,480)	-	-	(19,480)
Loan repayments by related parties	12,555	-	-	12,555
Loans granted to other companies	(518)	-	-	(518)
Loan repayments by other companies	362	-	-	362
Interest received on granted loans and deposits	3,583	4	-	3,587
Net cash flows used in investing activities	(11,252)	(766)	-	(12,018)

STATEMENT OF CASH FLOWS (continued)	Sopharma AD	Bulgarian Rose Sevtopolis AD	Transformation (merger) adjustments	Combined statement of cash flows
	2014 BGN'000	2014 BGN'000	2014 BGN'000	2014 BGN'000
Cash flows from financing activities				
Repayment of long-term bank loans	(7,186)	(497)	-	(7,683)
Proceeds from short-term bank loans (overdraft), net	5,327	-	-	5,327
Repayment of short-term bank loans (overdraft), net	(13,328)	-	-	(13,328)
Interest and charges paid under investment purpose loans	(1,661)	-	-	(1,661)
Proceeds from sale of treasury shares	2,784	-	-	2,784
Treasury shares	(1,263)	-	-	(1,263)
Dividends paid	(8,811)	-	-	(8,811)
Payments of finance lease liabilities	(95)			(95)
Net cash flows used in financing activities	(24,233)	(497)	-	(24,730)
Net (decrease)/increase in cash and cash equivalents	(5,334)	119	-	(5,215)
Cash and cash equivalents at 1 January	7,671	1,022		8,693
Cash and cash equivalents at 31 December	2,337	1,141	-	3,478

The adjustments made to the statement of cash flows are mainly result of eliminations of cash flows related to intragroup transactions between both companies.

(d) statement of financial position as at 1 January 2014:

The assets and liabilities of both companies, combined as at 1 January 2014 in terms of structure and amount, are as follows:

STATEMENT OF FINANCIAL POSITION	Sopharma AD	Bulgarian Rose Sevtopolis AD	Transformation (merger) adjustments	Combined statement of financial position
	1 January 2014 BGN'000	1 January 2014 BGN'000	1 January 2014 BGN'000	1 January 2014 BGN'000
ASSETS				
Non-current assets				
Property, plant and equipment	198,158	18,620	127	216,905
Intangible assets	3,661	-	768	4,429
Investment property	22,555	-	-	22,555
Investments in subsidiaries	101,207	95	(8,729)	92,573
Available-for-sale investments	6,862	-	-	6,862
Long-term receivables from related parties	25,649	-	-	25,649
Other long-term receivables	17	-	-	17
	358,109	18,715	(7,834)	368,990
Current assets				
Inventories	51,249	2,582	(118)	53,713
Receivables from related parties	103,350	4,305	(4,305)	103,350
Trade receivables	22,155	2	64	22,221
Other receivables and prepayments	7,241	1,016	(59)	8,198
Cash and cash equivalents	8,198	1,022	-	9,220
	192,193	8,927	(4,418)	196,702
TOTAL ASSETS	550,302	27,642	(12,252)	565,692
EQUITY AND LIABILITIES				
EQUITY				
Share capital	132,000	12,066	(12,066)	132,000
Treasury shares	(18,105)	-	-	(18,105)
Reserves	220,935	3,682	(3,682)	220,935
Retained earnings	35,905	8,382	7,687	51,974
	370,735	24,130	(8,061)	386,804
LIABILITIES				
Non-current liabilities				
Long-term bank loans	48,723	40	-	48,763
Deferred tax liabilities	3,943	121	48	4,112
Government grants	3,534	730	-	4,264
Retirement benefit obligations	1,855	144	-	1,999
Finance lease liabilities	49	-	-	49
	58,104	1,035	48	59,187
Current liabilities				
Short-term bank loans	98,878	-	-	98,878
Current portion of long-term bank loans	3,822	479	-	4,301
Trade payables	4,973	1,323	-	6,296
Payables to related parties	7,836	-	(4,241)	3,595
Tax payables	1,243	182	-	1,425
Payables to personnel and for social security	3,736	313	-	4,049
Other current liabilities	975	180	2	1,157
	121,463	2,477	(4,239)	119,701
TOTAL LIABILITIES	179,567	3,512	(4,191)	178,888
TOTAL EQUITY AND LIABILITIES	550,302	27,642	(12,252)	565,692

The adjustments made to the statements of financial position of both companies, for the purpose of their combining, are mainly result of: (a) unification of the accounting policies; and (b) eliminations referring to the investment in a subsidiary and to internal accounts and balances between both companies, including the related thereto effects on deferred taxes. The net effect on the accumulated profits as at 1 January 2014 amounts to BGN 16,069 thousand.

42. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Company 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 Company. The financial risks are currently identified, measured and monitored through various control mechanisms in order to establish adequate prices for the Company's finished products and services 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 Company's management following the policy adopted by the Board of Directors. The latter has approved the basic principles of general financial risk management, on the basis of which specific procedures have been established for management of the different types of specific risk such as currency, price, interest, credit and liquidity risk and the risk in using non-derivative instruments.

Categories of financial instruments:

<i>Financial assets</i>	<i>31.12.2015</i> <i>BGN '000</i>	<i>31.12.2014</i> <i>BGN '000</i>
<i>Available-for-sale financial assets</i>	<i>5,510</i>	<i>4,439</i>
<i>Available-for-sale investments (in shares)</i>	<i>5,510</i>	<i>4,439</i>
<i>Loans and receivables</i>	<i>125,068</i>	<i>156,650</i>
<i>Long-term receivables from related parties</i>	<i>20,505</i>	<i>33,150</i>
<i>Other long-term receivables</i>	<i>3,257</i>	<i>6</i>
<i>Short-term receivables from related parties</i>	<i>78,035</i>	<i>99,505</i>
<i>Trade receivables</i>	<i>20,554</i>	<i>22,375</i>
<i>Other receivables</i>	<i>2,717</i>	<i>1,614</i>
<i>Cash and cash equivalents</i>	<i>3,745</i>	<i>4,076</i>
Total financial assets	<u><u>134,323</u></u>	<u><u>165,165</u></u>

<i>Financial liabilities</i>	<i>31.12.2015</i> <i>BGN '000</i>	<i>31.12.2014</i> <i>BGN '000</i>
Bank loans	107,160	136,164
Long-term bank loans	30,819	37,972
Short-term bank loans	68,961	90,761
Current portion of long-term bank loans	7,380	7,431
Other liabilities	11,629	12,577
Trade payables to related parties	3,070	4,154
Trade payables	7,723	7,720
Finance lease liabilities	22	94
Other liabilities	814	609
Total financial liabilities at amortised cost	118,789	148,741

Foreign currency risk

The Company performs its activities with an active exchange with foreign suppliers and clients. Therefore, it is exposed to currency risk mainly in respect of USD. The Company supplies part of its basic raw and other materials in USD. The currency risk is related with the adverse floating of the exchange rate of USD 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 remaining part of Company's operations is usually denominated in BGN and/or EUR. The Company sells part of its finished products in Russia in Euro and thus eliminates the currency risk related to the devaluation of the Russian Rouble. The accounts and balances with the subsidiaries in Ukraine are also denominated in Euro. Nevertheless, in relation with the instability in the country and the devaluation of the Ukrainian Hryvnia, for the purpose of mitigating the currency risk the Company, through its subsidiaries, exercises currency policy that includes the immediate translation in EUR of proceeds in a local currency as well as using higher trade margins to compensate eventual future devaluation of the Hryvnia.

To control foreign currency risk, the Company has introduced a system for planning import supplies, sales in foreign currency as well as procedures for daily monitoring of US dollar exchange rate movements and control on pending payments.

The assets and liabilities denominated in BGN and foreign currency are presented as follows:

<i>31 December 2015</i>	<i>in USD</i> <i>BGN '000</i>	<i>in EUR</i> <i>BGN '000</i>	<i>in BGN</i> <i>BGN '000</i>	<i>in other</i> <i>currency</i> <i>BGN '000</i>	<i>Total</i> <i>BGN '000</i>
Available-for-sale financial assets	-	1,553	3,957	-	5,510
Receivables and loans granted	4,762	81,856	38,438	12	125,068
Cash and cash equivalents	799	606	2,171	169	3,745
Total financial assets	5,561	84,015	44,566	181	134,323
Bank loans	-	87,153	20,007	-	107,160
Other liabilities	3,208	2,602	5,749	70	11,629
Total financial liabilities	3,208	89,755	25,756	70	118,789

<i>31 December 2014</i>	in USD	in EUR	in BGN	in other currency	Total
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Available-for-sale financial assets	-	1,256	3,183	-	4,439
Receivables and loans granted	1,674	117,154	36,427	1,395	156,650
Cash and cash equivalents	1,380	1,021	1,543	132	4,076
Total financial assets	3,054	119,431	41,153	1,527	165,165
Bank loans	-	111,715	24,449	-	136,164
Other liabilities	3,478	4,181	3,611	1,307	12,577
Total financial liabilities	3,478	115,896	28,060	1,307	148,741

Foreign currency sensitivity analysis

The effect of Company's sensitivity to 10 % increase/decrease in current exchange rates of BGN to USD and to other 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 financial result and on the equity.

		USD	
		31.12.2015	31.12.2014
		BGN '000	BGN '000
Financial result	+	212	(38)
Accumulated profits	+	212	(38)
Financial result	-	(212)	38
Accumulated profits	-	(212)	38

In case of 10% increase in the exchange rate of USD to BGN, the final effect on post-tax profit of the Company for 2015 would be an increase by BGN 212 thousand (0.84 %) (2014: decrease at the amount of BGN 38 thousand) (-15%). The effect in terms of value on Company's equity – through the component 'retained earnings' – would be the same.

On 10 % decrease in the exchange rate of USD to BGN, the ultimate impact on the (post-tax) profit of the Company would be equal and reciprocal of the stated above.

The impact of the remaining currencies (other than USD) on 10 % increase in their exchange rates to BGN on Company's (post-tax) profit is insignificant. The ultimate effect thereon for 2015 is an increase by BGN 12 thousand (0.05%) (2014: increase at the amount of BGN 96 thousand (35%)). The effect on equity is of the same amount and in a direction of increase / decrease and reflects in the component 'retained earnings'.

The 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 currency sensitivity of the Company for the year.

Price risk

On the one hand, the Company is exposed to price risk due to two main factors:

- (a) contingent increase of supplier prices of raw and starting materials, since more than 80% of the raw and starting materials are imported and they represent 50% on the average of all production costs; and
- (b) growing competition on the Bulgarian pharmaceutical market is also reflected in drug prices.

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

On the other hand, the Company is exposed to a price risk related to the held thereby shares, classified as available-for-sale investments. For this purpose, the management monitors and analyses all changes in security markets and also uses consulting services of one of the most authoritative in the country investments intermediaries. In addition, at this stage, because of the economic and financial crisis, the management has taken a decision for a significant 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 Company'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 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 Company 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 Company works on its main markets with counterparts with history of their relations on main markets, which include over 70 licensed Bulgarian and foreign traders of pharmaceuticals.

The cooperation with the National Health Insurance Fund and with distributors working with the state hospitals also require the implementation of deferred payments policy. In this sense, regardless of credit risk concentration, it is controlled through the choice of trade counterparts, current monitoring of their liquidity and financial stability as well as direct communication with them and search of prompt measures on first indications for existing problems.

The Company has concentration of receivables from related parties (trade receivables and loans) as follows:

	31.12.2015	31.12.2014
	BGN '000	BGN '000
Client 1	28%	19%
Client 2	21%	25%
Client 3	15%	10%
Client 4	2%	21%

The Company currently manages the concentration of receivables from related parties by applying credit limits and additional collateral such as pledge on securities and other assets and use of promissory notes.

The Company has concentration of trade receivable from a single client, other than related parties, which is accountable for 81.67% of all trade receivables (31 December 2014: 70.93%).

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

Collectability of receivables is controlled directly by the Executive Director, Finance Director and Commercial Director. Their responsibility is to control the receivables on a regular basis depending on the objective situation on the market, the position and the potential of the respective counterpart and respectively, the market objectives and needs of the Company

The Company has developed policy and procedures to assess the creditworthiness of its counterparts, including related parties, and to assign credit rating and credit limits by groups of clients. Where necessary, additional collateral is required, such as pledges and mortgages, avals, and other.

The financial resources of the Company as well as the settlement operations are concentrated in different first-class banks. To distribute cash flows among them, Company management takes into consideration a great number of factors, as the amount of capital, reliability, liquidity, the credit potential of the bank etc.

Liquidity risk

Liquidity risk is the adverse situation when the Company encounters difficulty in meeting unconditionally all of its obligations within their maturity.

The Company generates and maintains a sufficient volume of liquid funds. An internal source of liquid funds for the Company is its main economic activity generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. To isolate any possible liquidity risk, the Company 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 complemented by the monitoring of due dates and maturity of assets and liabilities as well as control of cash outflows.

Maturity analysis

The table below presents the financial non-derivative liabilities of the Company, grouped by remaining term to maturity, determined against the contractual maturity at the reporting 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.

<i>31 December 2015</i>	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
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Bank loans	1,045	3,810	2,402	71,040	7,966	22,691	2,409	111,363
Other loans and liabilities	7,456	3,345	5	822	4	-	-	11,632
Total liabilities	8,501	7,155	2,407	71,862	7,970	22,691	2,409	122,995
<i>31 December 2014</i>	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
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Bank loans	19,058	1,711	13,415	66,367	8,245	23,496	9,847	142,139
Other loans and liabilities	8,878	3,067	29	580	32	5	-	12,591
Total liabilities	27,936	4,778	13,444	66,947	8,277	23,501	9,847	154,730

Risk of interest-bearing cash flows

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

- optimisation of the sources of credit resources for achieving relatively lower price of attracted funds; and
- combined structure of interest rates on loans comprising two components – a permanent one and a variable one, the correlation between them, as well as their absolute value, can be achieved and maintained in a proportion favourable for the Company. 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 Company's management currently monitors and analyses its exposure to changes in interest rates. 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.

<i>31 December 2015</i>	interest-free	with floating	with fixed	Total
	<i>BGN '000</i>	<i>interest %</i> <i>BGN '000</i>	<i>interest %</i> <i>BGN '000</i>	<i>BGN '000</i>
Available-for-sale financial assets	5,510	-	-	5,510
Loans and receivables	75,238	-	49,830	125,068
		3,689		
Cash and cash equivalents	56	-	-	3,745
Total financial assets	80,804	3,689	49,830	134,323
Bank loans	8	107,152	-	107,160
Other loans and liabilities	11,607	22	-	11,629
Total financial liabilities	11,615	107,174	-	118,789
<i>31 December 2014</i>	interest-free	with floating	with fixed	Total
	<i>BGN '000</i>	<i>interest %</i> <i>BGN '000</i>	<i>interest %</i> <i>BGN '000</i>	<i>BGN '000</i>
Available-for-sale financial assets	4,439	-	-	4,439
Loans and receivables	92,834	-	63,816	156,650
Cash and cash equivalents	156	3,920	-	4,076
Total financial assets	97,429	3,920	63,816	165,165
Bank loans	83	136,081	-	136,164
Other loans and liabilities	12,483	94	-	12,577
Total financial liabilities	12,566	136,175	-	148,741

The table below demonstrates the Company's sensitivity to possible changes in interest rates by 0.50 points 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 on equity.

2015

	<i>Increase/decrease</i> <i>in interest rate</i>	<i>Impact on post-tax</i> <i>financial result</i> <i>profit/(loss)</i>	<i>Impact</i> <i>on equity</i> <i>increase/(decrease)</i>
EUR	Increase	(392)	(392)
BGN	Increase	(90)	(90)
EUR	Decrease	392	392
BGN	Decrease	90	90

2014

	<i>Increase/decrease in interest rate</i>	<i>Impact on post-tax financial result profit/(loss)</i>	<i>Impact on equity increase/(decrease)</i>
EUR	Increase	(503)	(503)
BGN	Increase	(110)	(110)
EUR	Decrease	503	503
BGN	Decrease	110	110

Capital risk management

The capital management objectives of the Company 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.

The Company 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 as presented in the statement of financial position and cash and cash equivalents. Total employed capital is calculated as the sum of equity and net debt.

In 2015, the strategy of the Company management was to maintain the ratio within 15% – 20% (2014: 20% – 25%).

The table below shows the gearing ratios based on capital structure:

	<i>2015 BGN '000</i>	<i>2014 BGN '000</i>
Total borrowings, including:	107,182	136,258
bank loans	107,160	136,164
finance lease liabilities	22	94
Less: Cash and cash equivalents	(3,745)	(4,076)
Net debt	103,437	132,182
Total equity	431,626	406,524
Total capital	535,095	538,706
Gearing ratio	0.19	0.25

The liabilities shown in the table are disclosed in *Notes 27, 29, 33, 34 and 39*.

Fair value measurement

The fair value concept presumes realisation of financial assets through a sale based on the position, assumptions and judgments of independent market participants in a principal or most advantageous market for a particular asset or liability. The Company acknowledges as a principal market for its financial assets and liabilities the financial market in Bulgaria – the Bulgarian Stock Exchange, the large commercial banks – dealers, and for some specific instruments – direct transactions between the parties. However, in most cases especially in regard of trade receivables and payables as well as loans and deposits, the Company 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 statement of financial position at market value determined by applying a particular valuation method (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 the Bulgarian market of various financial instruments is still not sufficiently active – with stability, satisfactory volumes and liquidity for purchases and sales of certain financial assets and liabilities – there are no sufficient and reliable market price quotations for them, and for this reason, the Company uses other alternative valuation methods and techniques.

Company's management 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.

43. SEGMENT REPORTING

Company's segment reporting is organised on the basis of the production of main groups of finished products:

- Tablet dosage forms
- Ampoule dosage forms
- Other dosage forms.

The other dosage forms include mainly: lyophilic products, ointments, syrups, drops, suppositories, etc.

Segment revenue, expenses and results include:

	Tablet dosage forms		Ampoule dosage forms		Other dosage forms		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Segment revenue	115,033	136,700	32,579	34,405	26,191	30,356	173,803	201,461
Segment cost	(54,866)	(59,628)	(15,406)	(17,545)	(21,334)	(22,709)	(91,606)	(99,882)
Segment result	60,167	77,072	17,173	16,860	4,857	7,647	82,197	101,579
Non-allocated operating income							3,651	3,560
Non-allocated operating expenses							(60,711)	(80,441)
Profit from operations							25,137	24,698
Impairment of non-current assets							(8,567)	(3,252)
Finance income/(costs), net							11,610	8,274
Profit before income tax							28,180	29,720
Income tax expense							(2,826)	(2,429)
Net profit for the year							25,354	27,291

Segment assets and liabilities include:

Segment assets	Tablet dosage forms		Ampoule dosage forms		Other dosage forms		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Property, plant and equipment	82,689	88,587	24,928	17,326	16,580	18,093	124,197	124,006
Inventories	36,641	29,277	9,985	13,163	11,596	12,342	58,222	54,782
Segment assets	119,330	117,864	34,913	30,489	28,176	30,435	182,419	178,788
Non-allocated assets							388,190	393,129
Total assets							570,609	571,917
Segment liabilities	Tablet dosage forms		Ampoule dosage forms		Other dosage forms		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Payables to personnel	164	265	133	145	192	251	489	661
Social security payables	95	87	69	52	116	91	280	230
Segment liabilities	259	352	202	197	308	342	769	891
Non-allocated liabilities							138,214	164,502
Total liabilities							138,983	165,393

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

	Tablet dosage forms		Ampoule dosage forms		Other dosage forms		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Capital expenditures	157	1,029	6,525	3,773	52	197	6,734	4,999
Depreciation and amortisation	4,874	5,264	1,820	1,866	1,542	2,019	8,236	9,149
Non-monetary expenses, other than depreciation and amortisation	876	2,137	703	463	1,200	685	2,779	3,285

44. RELATED PARTY TRANSACTIONS

<i>Related parties</i>	<i>Relation type</i>	<i>Relation period</i>
Telecompect Invest AD	Main shareholding company	2014 and 2015
Donev Investments Holding AD	Main shareholding company	2014 and 2015
Sopharma Trading AD	Subsidiary company	2014 and 2015
Pharmalogistica AD	Subsidiary company	2014 and 2015
Sopharma Poland OOD – in liquidation	Subsidiary company	2014 and 2015
Sopharma USA	Subsidiary company	2014
Electroncommerce EOOD	Subsidiary company	2014 and 2015
Biopharm Engineering AD	Subsidiary company	2014 and 2015
Vitamina AD	Subsidiary company	2014 and 2015
Ivančić and Sinovi d.o.o.	Subsidiary company	2014 and 2015
Sopharma Buildings REIT	Subsidiary company	2014 and 2015
Momina Krepost AD	Subsidiary company	2014 and 2015
Extab Corporation	Subsidiary company	2014 and until 14/05/2015
Extab Pharma Limited	Subsidiary company through Extab Corporation	2014 and until 14/05/2015
Briz SIA	Subsidiary company	2014 and 2015
Unipharm AD	Subsidiary company	2014 and 2015
Sopharma Warsaw EOOD	Subsidiary company	2014 and 2015
Sopharma Ukraine EOOD	Subsidiary company	2014 and 2015
Sopharma Kazakhstan EOOD	Subsidiary company	as from 30/09/2014 and 2015
Phyto Palauzovo AD	Subsidiary company	2014 and 2015
Sopharmacy EOOD	Subsidiary company through Sopharma Trading AD	as from 19/01/2015
Sopharmacy 2 EOOD	Subsidiary company through Sopharma Trading AD	as from 17/06/2015
Sopharmacy 3 EOOD	Subsidiary company through Sopharma Trading AD	as from 02/12/2015
Pharma Online EOOD	Subsidiary company through Sopharma Trading AD	as from 03/12/2015
Sopharma Trading OOD - Belgrade	Subsidiary company through Sopharma Trading AD	as from 04/06/2015
Medica AD	Associate	from 04/11/2014 to 25/10/2015
Medica AD	Subsidiary company	as from 26/10/2015
Medica Zdrave EOOD	Subsidiary company through Medica AD	as from 26/10/2015
Medica Balkans EOOD – in liquidation	Subsidiary company through Medica AD	as from 26/10/2015
SOOO Brititrade	Subsidiary company through Briz OOD	2014 and 2015
OOO Tabina	Subsidiary company through Briz OOD	2014 and 2015
ZAO Interpharm	Joint venture through Briz OOD	2014 and 2015
SOOO Brizpharm	Subsidiary company through Briz OOD	2014 and 2015
OOO Vivaton Plus	Joint venture through Briz OOD	2014 and 2015
OOO Farmacevt Plus	Subsidiary company through Briz OOD	2014 and 2015
ZAO UAB TBS Pharma	Subsidiary company through Briz OOD	2014 and 2015
ODO Vestpharm	Subsidiary company through Briz OOD	2014 and 2015
ODO Alean	Subsidiary company through Briz OOD	2014 and 2015
OOO NPK Biotest	Subsidiary company through Briz OOD	2014 and 2015
ODO BelAgroMed	Subsidiary company through Briz OOD	2014 and 2015
BOOO SpetzApharmacia	Joint venture through Briz OOD	as from 20/01/2014 and 2015
BOOO SpetzApharmacia	Associate company through Briz OOD	from 01/01/2014 to 19/01/2014
OOO Med-dent	Joint venture through Briz OOD	2014 and 2015
OOO Bellerophon	Joint venture through Briz OOD	as from 27/11/2014 and 2015
OOO Bellerophon	Associate company through Briz OOD	from 28/08/2014 to 26/11/2014

<i>Related parties</i>	<i>Relation type</i>	<i>Relation period</i>
ODO Alenpharm Plus	Subsidiary company through Briz OOD	as from 09/07/2015
ODO Alenpharm Plus	Associate company through Briz OOD	from 18/02/2015 to 08/07/2015
ODO Salyus Line	Associate company through Briz OOD	as from 19/02/2015
OOO Mobil Line	Associate company through Briz OOD	as from 20/02/2015
ODO Medjel	Subsidiary company through Briz OOD	as from 18/02/2015
OOO GalenaPharm	Subsidiary company through Briz OOD	as from 20/02/2015
OOO Danapharm	Subsidiary company through Briz OOD	as from 20/02/2015
Pharma Online EOOD	Subsidiary company through Briz OOD	as from 03/12/2015
OOO NPFK Ariens	Joint venture through Briz OOD	as from 01/12/2015
OOO Ivem & K	Joint venture through Briz OOD	as from 01/12/2015
OOO Zdorovei	Associate company through Briz OOD	as from 09/12/2015
OOO Farmatea	Subsidiary company through Briz OOD	as from 30/11/2015
Sopharma Properties REIT	Company related through a main shareholder	2014 and 2015
Sofprint Group AD	Company related through a main shareholder	2014 and 2015
Elpharma AD	Company related through key managing personnel	2014 and 2015
Telso AD	Company related through key managing personnel	2014 and 2015
Telecomplect AD	Company related through key managing personnel	2014 and 2015
DOH Group	Company related through key managing personnel	2014 and 2015

The transactions, performed between Sopharma AD and the related thereto companies at 31 December, are as follows:

<i>Sales to related parties</i>	<i>2015</i> <i>BGN '000</i>	<i>2014</i> <i>BGN '000</i>
<i>Sales of finished products to:</i>		
Subsidiaries	91,381	104,010
	91,381	104,010
<i>Sales of goods and materials to:</i>		
Subsidiaries	5,916	5,581
Companies related through a main shareholder	783	1,003
Companies related through key managing personnel	41	51
Associates	1	-
	6,741	6,635
<i>Sales of services to:</i>		
Subsidiaries	1,577	1,589
Companies related through key managing personnel	82	114
Companies related through a main shareholder	42	26
Associates	21	-
	1,722	1,729
<i>Interest on loans granted to:</i>		
Companies related through key managing personnel	2,603	2,575
Subsidiaries	413	491
	3,016	3,066
<i>Dividend income from:</i>		
Subsidiaries	7,874	6,302
Companies related through a main shareholder	-	3
	7,874	6,305
Total	110,734	121,745

Supplies from related parties:

	2015	2014
	BGN '000	BGN '000
<i>Supply of inventories from:</i>		
Companies related through a main shareholder	8,573	9,749
Associates	554	-
Subsidiaries	261	128
Companies related through key managing personnel	87	290
	9,475	10,167
<i>Supply of services from:</i>		
Subsidiaries	12,147	22,419
Companies related through key managing personnel	3,023	4,042
Companies related through a main shareholder	1,782	2,091
Main shareholding companies	215	250
	17,167	28,802
<i>Supply of property, plant and equipment from:</i>		
Subsidiaries	344	-
Companies related through key managing personnel	20	390
	364	390
<i>Supplies for acquisition of non-current assets:</i>		
Companies related through key managing personnel	7,000	3,099
Subsidiaries	-	38
	7,000	3,137
<i>Prepayments</i>		
Companies related through a main shareholder	-	1,613
Subsidiaries	-	301
	-	1,914
<i>Accrued dividends to:</i>		
Main shareholding companies	-	4,222
Companies related through key managing personnel	-	464
Subsidiaries	-	15
	-	4,701
Total	34,006	49,111

The terms and conditions of these transactions do not deviate from the market ones for similar transactions.

The accounts and balances with related parties are presented in *Notes 21, 24 and 36*.

The members of the key personnel are disclosed in *Note 1*.

Salaries and other short-term benefits of key managing personnel are regular and amount to BGN 1,154 thousand (31 December 2014: BGN 1,009 thousand), including:

- current wages and salaries – BGN 889 thousand (31 December 2014: BGN 874 thousand);
- tantieme – BGN 265 thousand (31 December 2014: BGN 135 thousand).

45. EVENTS AFTER THE REPORTING PERIOD

On 18 January 2016, by virtue of Art. 149, para 6 of the Public Offering of Securities Act, Sopharma AD filed a commercial proposal for the purchase of all shares of Medica AD from the other shareholders.

On 18 February 2016, the Company acquired 3,099,701 shares of Medica AD and as a result of that the interest of Sopharma AD increased by 30.78%.

On 21 January 2016, Sopharma AD deposited in the Financial Supervision Commission an agreement for termination by common consent of the contract for transformation through a merger, signed between Sopharma AD and Momina Kreport AD. The decision for termination of the procedure was taken in the interest of both parties and for the purpose of keeping their good market positions.

MANAGEMENT REPORT

2015



SOPHARMA AD

30 March 2016

General information about Sopharma AD

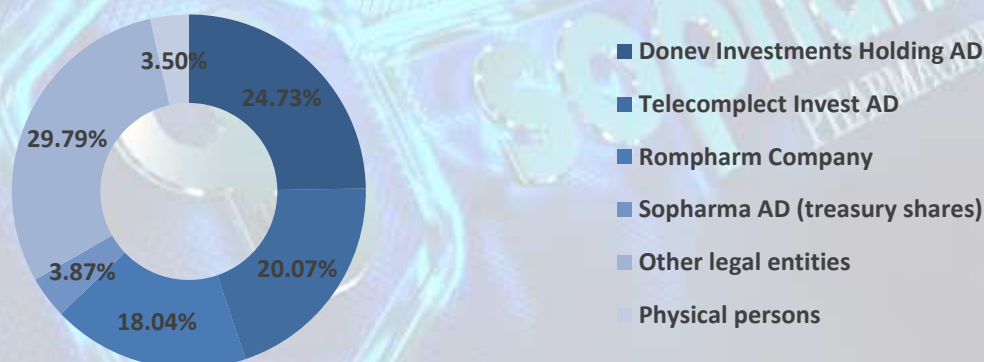
Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, 16 Iliensko shose str.

Sopharma AD was established in 1933. The court registration of the Company is from 15.11.1991, decision №1 / 1991 of Sofia City Court. Sopharma AD is a public company under the Public Offering of Securities Act.

The Company conducts the production and marketing of medicinal substances and dosage forms; research, engineering and implementation activities in the field of phytochemistry, chemistry and pharmacy. Sopharma AD provides services related to production, as well as to ancillary and supporting activities.

The Company has marketing authorizations under the Law on Medicines and Pharmacies in Human Medicine for all products of its manufacturing portfolio.

Shareholder structure as at 31 December 2015



Management Board

Sopharma AD has a one tier management system with a Board of Directors of five members as follows: Ognian Donev, PhD - Chairman and members Vessela Stoeva, Ognian Palaveev, Alexander Chaushev, Andrey Breshkov. The Company is represented and managed by the Executive Director Ognian Donev, PhD.

The total remuneration of the Board of Directors for 2015 amounts to BNG 1 154 thousand.

Company shares, owned by members of the Board of Directors of the Company as at 31 December 2015 are as follows:

Ognian Palaveev – 102 585 shares;

Alexandar Chaushev - 97 976 shares.

The Articles of association of Sopharma AD do not provision any restrictions on the right of the members of the Board of Directors to acquire shares or bonds of the Company.

Share in the capital of other companies amounting to more than 25% owned by the members of the Board of Directors:

Ognian Ivanov Donev controls or owns directly a significant share (more than 25%) of the capital of the following companies:

1. "Donev Investments Holding" AD, UIC 831915121, with headquarters in Sofia, 12 "Pozitano" Str.;
2. "Telecomplect" AD, UIC 831643753, with headquarters in Sofia, 5 "Lachezar Stanchev" Str., Building;
3. "Sopharma Buildings" REIT, UIC 175346309, with headquarters in Sofia, 5 "Lachezar Stanchev" Str.;
4. "Sopharma Properties" REIT, UIC 175059266, with headquarters in Sofia, 5 "Lachezar Stanchev" Str., Building A;
5. "Sofprint Group" AD, UIC 175413277 with seat and headquarters: Sofia, 12 "Pozitano" Str.;
6. "Sofconsult Group" AD, UIC 175413245, with seat and headquarters: Sofia, 12 "Pozitano" Str.;
7. "Sofia Inform" AD, UIC 121303553, with headquarters in Sofia, 12 "Pozitano" Str.;
8. "Elpharma" AD, UIC 130299513, with seat and headquarters: Sofia, 16 „Iliensko shose“ Str.;
9. "Sopharma Trading" AD, UIC 103267194, with seat and headquarters: Sofia, 5 "Lachezar Stanchev" Str. ;
10. "Sopharma" AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str;

Vessela Liubenova Stoeva controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

1. "VES elektroinvest systems" EOOD, UIC 201712700, with seat and headquarters: Sofia, 9 "P. R. Slaveykov" Square;
2. "Eco Solar Invest" OOD, UIC 201634905, with seat and headquarters: Sofia, 48 "Alabin" Str.;
3. "Aquatex" OOD, UIC 203934379, with seat and headquarters: Sofia, 9 "P. R. Slaveykov" Square.

Alexandar Victorov Chaushev controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

1. "Sofservice" OOD, UIC 131407109, with headquarters in Sofia, 339, "Tsar Boris III" Blvd;
2. "Alpha In" EOOD, UIC 131156322, with headquarters in Sofia, 1B "Dimcho Debelianov" Str.

Andrey Liudmilov Breshkov controls or owns directly/indirectly a significant share (more than

25%) of the capital of the following companies:

1. "Breshkov and Sons" OOD, UIC 115114555, with headquarters in Plovdiv, 36 "Gladstone" Str.
2. "CFM" OOD, UIC 131304899, with headquarters in Sofia, 2 "Nikolay Haitov" Str.

Ognian Kirilov Palaveev controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

1. "Mill Stefanovo Village" EOOD, UIC 201045146, with headquarters in Stefanovo Village, Lovech District.
2. "Sirius" OOD, UIC 110543305, with headquarters in Stefanovo Village, Lovech District, 7 "Apriltsi" Str.

Ognian Ivanov Donev participates in the managing/controlling body in the following companies:

1. "Elpharma" AD, UIC 130299513, with seat and headquarters: Sofia, 16 „Iliensko shose“ Str. – member of the Board of Directors and Executive Director.
2. "Sopharma Trading" AD, UIC 103267194, with headquarters in Sofia, 5 "Lachezar Stanchev" Str. – Chairman of the Board of Directors.
3. "Donev Investments Holding" AD, UIC 831915121, with headquarters in Sofia, 12 "Pozitano" Str. – Chairman of the Supervisory Board.
4. "Unipharm" AD, UIC 831537465, with headquarters in Sofia, 3 "Trajko Stanoev" Str. – Chairman of the Supervisory Board.
5. "Kaliman - RT" AD, UIC 121120513, with headquarters in Sofia, 5 "Lachezar Stanchev" Str. – Chairman of the Board of Directors.
6. "Telecomplect" AD, UIC 831643753, with address management in Sofia, 5 "Lachezar Stanchev" Str., Building A – Chairman of the Supervisory Board.
7. "Doverie United Holding" AD, UIC 121575489, with headquarters in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Supervisory Board, Vice-President.
8. "Doverie Capital" AD, UIC 130362127, with headquarters in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Supervisory Board.
9. "Medica" AD, UIC 000000993, with headquarters in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Board of Directors.
10. "Riton P" AD, UIC 822106398, with headquarters in Panagyurishte, 30 "Krastio Geshanov" Str. – Member of the Board of Directors.
11. "Momina Krepost" AD, UIC 104055543, with headquarters in Veliko Tarnovo, 23 "Magistralna" Str. – Member of the Board of Directors.
12. "Sopharma" AD, UIC 831902088, with seat and headquarters: Sofia, 16 Iliensko Shousse Str. – member of the Board of Directors and Executive Director.

Vessela Liubenova Stoeva participates in the management/supervisory body for the following companies:

1. "Elpharma" AD, UIC 130299513, with seat and headquarters: Sofia, 16 „Iliensko shose“ Str. - member of the Board of Directors;
2. "VLS" AD, UIC 175082980, with headquarters in Sofia, Slaveikov Square 9 - member of the Board of Directors;

3. "VES elektroinvest systems" EOOD, UIC 201712700, with seat and headquarters: Sofia, 9 "P. R. Slaveykov" Square - Manager.
4. Sopharma AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – Deputy Chairperson of the Board of Directors.

Alexandar Victorov Chaushev participates in the management/supervisory body of the following companies:

1. "Monbat" AD, UIC 111028849, with registered office in Sofia, Lozenets area, 4 "Golo Bardo" Str. – member of the Board of Directors;
2. "DK-Domostroene" AD, UIC 102148397, with registered office in Burgas, PO Box 8000, Pobeda area – member of the Board of Directors;
3. "Agency management and advertising in sport 'EAD, UIC 130969084, with registered office in Sofia, Vazrazhdane," Todor Alexandrov "№ 42 – Member of the Board of Directors.
4. Sopharma AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors.

Andrey Liudmilov Breshkov participate in the management/supervisory body for the following companies:

1. "Simol" EAD, UIC 101795403, with headquarters in Blagoevgrad, 3 "Georgy Izmirliiev" Square – Chairman of the Board of Directors
2. "Vizaton" OOD, UIC 202235166, with seat and headquarters: Sofia, Sredets, 225A "Tsar Boris III" Blvd – Chairman of the Board;
3. ZAD "Energy", UIC 831040933, with seat and headquarters: Sofia, 33 "Knyaz Dondukov" Blvd - member of the Board of Directors.
4. "Sopharma" AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors.
5. "Expat Beta" REIT, UIC 200059488, with seat and headquarters: Sofia, 96A Rakovski Str. – member of the Board of Directors.

Ognyan Kirilov Palaveev participates in the management/supervisory body of the following companies:

1. "Sirius" OOD, UIC 110543305, with headquarters in Stefanovo Village, Lovech District, 7 "Apriltsi" Str. – member of the Management Board;
2. "Sopharma" AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors.
3. "Unipharm" AD, UIC 831537465, with headquarters in Sofia, Darvenitsa district, 3 Traiko Stanoev Str. – member of the Board of Directors.
4. "Melnitsa Stefanovo Village" EOOD, UIC 201045146, with headquarters: Stefanovo village, Lovech district.

There were no contracts under Art. 240b of CA in 2015.

The Investor Relations Director is Pelagia Viatcheva, tel. 8134 523, Sofia, 5 "Lachezar Stanchev"

Str., Building A, Floor 11.

Industrial activity

Sopharma AD has ten manufacturing facilities, which are compliant with EU regulations and are located in Bulgaria. The Company is the largest Bulgarian producer of sterile forms and suppositories.

The Company carries out and develops production in the following areas:

- + Substances and preparations based on vegetable raw materials (phytochemical production);
- + Finished dosage forms including
 - ✓ Solid tablets, sugar coated tablets, film coated tablets, capsules;
 - ✓ Galenical - suppositories, drops, syrups, unguents;
 - ✓ Parenteral - injectables, lyophilic powders for injections

The Company has more than 210 products in its portfolio: mainly generics and 15 original products, 12 of which are phyto-based. The original products of the Company (and in particular Carsil and Tempalgin) are key contributors to its revenues from export markets, while for the domestic sales the most important products are generics, among which the leading medicine is Analgin.

The product portfolio of Sopharma AD is focused on the following therapeutic areas: cardiology, gastroenterology, pain management, cough and cold, immunology and dermatology, respiratory and asthma, neurology and psychiatry, urology and gynecology.

The most important pharmaceutical products in terms of their contribution to revenues are:

- + Carsil - original product plant-based, used to treat gastroenterological disorders (liver disease);
- + Tempalgin - original analgesic (painkiller);
- + Tabex – original plant-based drug used for smoking secession;
- + Tribestan – original plant-based product, used for stimulation of the reproductive system;
- + Broncholytin - original plant-based product used to suppress cough;
- + Analgin - generic analgesic (painkiller);
- + Nivalin – original phyto-based product, used in the treatment of the peripheral nervous system;
- + Methylprednisolone - generic drug for treatment of severe allergies and certain life-threatening conditions;

Intellectual property

Although oriented towards generic pharmaceuticals, Sopharma AD is known for many years with its traditional production of several unique products based on plant extracts obtained by in-house-developed extraction technologies. In addition to trademark these products are protected with patent or corporate know-how.

For the distinguishing of the manufactured generic products Sopharma AD relies on brand names, all of which are registered trademarks of the Company.

In all the years of its existence, Sopharma AD generates and protects its intellectual property. As a result, the Company owns a large number of intellectual property assets, the majority being registered rights (trademarks, patents, designs) and few of which are unregistered items - mainly technologies.

These assets are the result of the policy of the Company towards product and technological improvement, and innovation in particular.

Research and development

Sopharma AD focuses its R&D mainly on generics. The R&D projects are focused on finding and developing new formulas and compositions or physical properties (such as formulation or tablets) of the products in order to adapt them to current market needs. Strategic goal of Sopharma AD in the future is to achieve a stable result in developing eight to ten new products annually.

The Company mainly submits applications for marketing authorizations of new products, including new forms of products in Bulgaria and / or export markets and for existing products in new markets.

Employees

As at 31 December 2015 the average number of employees of Sopharma AD is 2 010 (2014: 2 093). The table below shows the detailed information on the staff of the Company.

	31.12.2015	Share %
Number of employees 31.12.2015	1889	100%
Higher education	820	43%
Special education	44	2%
High school education	994	53%
Primary school education	31	2%
Up to 30 years of age	209	11%
Between 31 - 40 years of age	421	23%
Between 41 - 50 years of age	621	33%
Between 51 - 60 years of age	541	28%
Over 60 years of age	97	5%
Women	1182	63%
Men	707	37%

Training programs offered to employees of the Company, aim at increasing their competence levels. The training policy is specifically designed to provide high levels of professional knowledge and improving awareness related to health and safety issues.

Employees are entitled to higher remuneration, required by applicable law for overtime, night shifts and working weekends and during holidays. Employees who work in specific, harmful or dangerous conditions receive personal protective equipment and allowances.

Major trading counterparts

The main clients of the Company with relative share in sales revenue exceeding 10% for 2015 are Sopharma Trading AD with a relative share of 37%, Delta Sales Limited – 19%, and Delta Sales Corporation – 18%.

- ✚ Sopharma Trading AD with a seat in Sofia, Nadezhda Region, 16 “Rozhen” Str., with principal activities: wholesale and retail trading of medicines and sanitary and hygiene products. Sopharma Trading AD is a subsidiary of Sopharma AD performing the functions of a "pre-wholesaler" in the process of its finished products realization.
- ✚ Delta Sales Limited with a seat in Sofia, 20-22 “Zlaten Rog” Str. and principal activities: foreign trade of medicines. The relations are regulated through a contract for sale.
- ✚ Delta Sales Corporation with a seat in Sofia, 20-22 “Zlaten Rog” Str. and principal activities: foreign trade of medicines. The relations are regulated through a contract for sale.

In 2015 there are no suppliers with a relative share exceeding 10% of the supplied services and materials.

Information regarding the execution of the Program for the Implementation of the Internationally Recognized Good Corporate Governance Standards for 2015

The Board of Directors of Sopharma AD adheres to the Good Corporate Governance Program, which is in line with the effective regulation, the internationally recognized good corporate governance standards and the Bulgarian National Corporate Governance Code. The program is updated timely when a change in circumstances or in corporate strategy occurs.

The actions of the Management of Sopharma AD are directed towards affirming the principles for good corporate governance, increasing the trust of shareholders, investors and persons interested in the management and business of the Company.

The Board of Directors of Sopharma AD complies with and implements the Code of Corporate Governance. The Company periodically discloses information about corporate governance in accordance with the "comply or explain" principle. In the event of non-compliance with the recommendations of the Code the Company provides an explanation.

Disclosure of information

The Board of Directors approves disclosure policies in accordance with the legal requirements and organizational acts. The system for information disclosure guarantees equality of the addressees (shareholders, stakeholders, investors) and prevents misuse of inside information and manipulation of the market of financial instruments. Sopharma AD guarantees that the system for information disclosure provides complete, timely, accurate and understandable information that allows objective and informed decisions and evaluations. The Company maintains an English version of the corporate website with identical content.

In 2015 the corporate management of Sopharma disclosed regulated information to the Financial Supervision Commission and the public. Regulated information was disclosed to the public in a way that ensures that it reaches the widest possible range of people simultaneously, and in a way that does not discriminate them.

Sopharma uses the information system X3NEWS based on a contract with "Financial Markets Servicec" OOD, which ensured effective dissemination of regulated information to the public in all member states.

The Board of Directors of Sopharma prepared a Report on the implementation of the remuneration policy of the Board of Directors for 2015. The report reveals the way the Remuneration policy is applied, paying particular attention to the prevention of incentives for taking excessive risk, conflict of interest or other behavior, resulting in adverse effects. The size and structure of the remuneration are determined by the General Meeting of Shareholders.

General Meeting of Shareholders

The corporate management takes actions to promote participation of the shareholders in the Annual General Meeting of Shareholders, incl. by providing options for remote access to the AGM through technical means (incl. Internet) in the cases, when this is possible and necessary and does not increase the cost of voting.

The processes and procedures for conducting the General Meetings of Shareholders guarantee equal treatment of all shareholders – including minority and foreign ones, and protect their interests.

The materials related to the General Meeting of Shareholders are at the disposal of the shareholders from the day the invitation is filed with the Financial Supervision Commission, on the website of the Company: www.sopharma.bg at least 30 days prior to the GMS, and are provided at no cost to the shareholders upon request,.

Shareholders can exercise their voting right at the General Meeting personally or through a representative, as well as through correspondence or electronically. The procedure for participation of shareholders at the General Meeting is announced in the Invitation.

Sopharma AD presents Minutes of the General Meeting within 3 days after the Meeting to the Financial Supervision Commission, Bulgarian Stock Exchange-Sofia AD, the public and on the company's website: www.sopharma.bg.

In 2015 Sopharma AD conducted one Annual General Meeting and one Extraordinary General Meeting of Shareholders.

The Board of Directors believes that prerequisites have been established for sufficient transparency in the relations with investors, financial media and capital market analysts.

Significant events in 2015

On 9 January 2015 the Company held an Extraordinary General Meeting of Shareholders, which approved a decision for transformation of Sopharma AD through the merger of Bulgarian Rose – Sevtopolis AD into Sopharma AD, as well as for the capital increase of Sopharma AD from 132 000 000 BGN to 134 798 527 BGN through the issuance of 2 798 527 new shares with a nominal value of 1 BGN and an issuance value of 4.14 BGN, equal to the fair value of one share of Sopharma AD in relation to the merger of Bulgarian Rose – Sevtopolis AD. The entry in the Commercial Register was conducted on 26 February 2015. As at 6 March 2015 the new capital of 134 797 899 BGN was registered in the Central Depository AD. By Decision №216-E/25.3.2015 of the Financial Supervision Commission the emission is listed in the register of public companies of the FSC. From 9 April 2015 the emission of shares is admitted to trading on the BSE-Sofia AD and the WSE respectively.

The merger of Bulgarian Rose - Sevtopolis AD (acquiree) in Sopharma AD (the acquiring company) is conducted through the legal form of transformation, regulated in the Commercial Act. It was entered in the Commercial Register to the Registry Agency on 26 February 2015. As a result of the transaction all assets of Bulgarian Rose - Sevtopolis AD were transferred into Sopharma AD, and Bulgarian Rose - Sevtopolis AD was terminated without liquidation. For accounting purposes as the date of the merger was accepted 1 January 2015. Until that date Bulgarian Rose - Sevtopolis AD was a subsidiary of Sopharma AD. The conducted transaction was treated as a restructuring of the activities of both companies. The merger is accounted for by applying the method of “pooling of participations”. According to the requirements and rules of this method the business and assets of the companies are presented in this management report as if they have always been a single entity, regardless of the legal events and procedures and their effects on the legal status and life of the acquiring company and the acquiree (see Main Financial Indicators). The effects of all business transactions between the acquiring company and the acquiree have been eliminated, including estimates between them, regardless whether they occurred before or after the restructuring. Any differences arising from the merger are recognized in equity – in the component “retained earnings”.

The installments on the share capital of the newly founded in 2014 subsidiary Sopharma Kazakhstan at the amount of BGN 258 thousand (EUR 132 thousand) were partially paid in the period 26 January – 19 March 2015. On 14 May 2015 the capital of the subsidiary Sopharma Kazakhstani has been paid in full (EUR 257 thousand).

On 28 January 2015 a hearing took place in Poland as part of the lawsuit, filed by Sopharma AD, for recognition and enforcement of a decision of the Arbitration Court in Paris against Service Pharma. The defendant in the case has submitted a refusal to recognize and comply with the decision. By decision from 25 February 2015 the court in Poland has ruled that the arbitration decision is subject to enforcement. This court ruling has not entered into force because of an appeal procedure.

On 17 March 2015 was concluded an extrajudicial agreement between Sopharma AD (as guarantor under a supply contract and universal successor of Bulgarian Rose – Sevtopolis AD, terminated due to its merger into Sopharma AD) and a company supplier of the merged subsidiary. The agreement settles all disputes between the parties, including the related collateral court cases. On the same date (17 March 2015), according to the agreements between the parties, Sopharma AD has paid the company supplier of Bulgarian Rose – Sevtopolis AD the amount of BGN 1,246 thousand (USD 673 thousand and EUR 4 thousand), representing the residue after a netting made between the parties. On 19 March 2015, each of the parties withdrew their appeals against court decisions on the cases and requested revocation of the collaterals imposed on them as well as repayment of guarantees given in connection with the collaterals.

On 19 March 2015, a contract was concluded between Sopharma AD and PAO Vitamini based on which the trade receivables of Sopharma AD, amounting to EUR 12,774 million, were

transformed to their equivalent in Hryvnia - UAH 316,532 million. This right of receivable, in accordance with a Decision of the Board of Directors of Sopharma AD, dated 20 March 2015, was used as an additional contribution to the increase in the share capital of Sopharma Ukraine OOD, which at the end of March after the registration of the capital increase amounts to UAH 317 531 502.

On 23 March 2015 the Board of Directors of Sopharma AD took a decision for the conducting of the procedure, required by POSA, for a tender offer under Art. 149, para. 6 of POSA for the purchasing all shares of the other shareholders Momina Krepost AD, Veliko Tarnovo, UIC 104055543 by the majority shareholder Sopharma AD. The application for the tender offer was submitted to the Financial Supervision Commission on 24 March 2015. On 28 May 2015 the Financial Supervision Commission approved the application. The period of the tender offer started on 2 June 2015 and continues for 28 days.

On 19 May 2015 Sopharma AD finalized the sale of 75% of the capital of the subsidiary Extab Corporation. After the completion of the transaction Sopharma AD retains a 5% share in the capital of the company.

In May, in order to achieve synergy in the Sopharma Group, optimization of the management of products in the domestic market and higher efficiency of resources, the team responsible for the products produced by Sopharma AD and for the free market (OTC products) was transferred to Sopharma Trading AD. The management of both companies believes that this is a logical step in improving the performance and quality of work of the Group.

On the Annual General Meeting of Shareholder of Sopharma AD, conducted on 19 June 2015 in Sofia, 5 Lachezar Stanchev Str., were taken the following decisions:

- ✚ AGM approves the proposal by the Board of Directors for the distribution of the profit generated in 2014 and the undistributed profit from past periods as follows: net profit for 2014 amounts to 26 532 491.96 BGN /twenty-six million, five hundred and thirty-two thousand, four hundred and ninety-one leva and ninety-six stotinki/. The undistributed profit from past periods amounts to 2 620 712.71 /two million, six hundred and twenty thousand, seven hundred and twelve leva and seventy-one stotinki/. The total amount of the profit, subject to distribution, is 29 153 204.67 /twenty-nine million, one hundred and fifty-three thousand, two hundred and four leva and sixty-seven stotinki/. After the allocation of 10% to the statutory reserve, amounting to 2 915 320.46 BGN /two million, nine hundred and fifteen thousand, three hundred and twenty leva and forty-six stotinki/, from the remaining sum, amounting to 26 237 884.21 BGN /twenty-six million, two hundred and thirty-seven thousand, eight hundred and eighty-four leva and twenty-one stotinki/ shall be allocated to the additional reserves of the Company. No dividend shall be paid to the shareholders.

- ✚ AGM elects the audit company AFA OOD, with headquarters Sofia, 38 Oborishte Str. for the audit and certification of the annual financial statements of the Company in 2015 in compliance with the proposal by the Audit Committee.
- ✚ Pursuant to art. 24, par. 3, letter B of the Articles of Association an additional fee of 1% /one percent/ of the net profit for 2014 according to the approved annual financial statements, shall be paid to the Executive Director of the Company.
- ✚ AGM approves the decision for the distribution of 2% /two percent/ of the net profit for 2014 among the members of the senior management of the Company in compliance with the requirements of art. 26a, item 12 of the Articles of Association of the Company.

In compliance with the requirements of art. 37, par. 1 of Ordinance №13 for tender offers for the purchase and exchange of shares, Sopharma AD as a tender offeror, who has made a tender offer under art. 149, par. 6 of POSA to purchase all the shares of the other shareholders of Momina Krepost AD, informs on the following results of the tender offer:

- ✚ shareholders who have accepted the tender offer: 38 shareholders with a total number of shares: 211 991.
- ✚ as a result of the conducted tender offer and after completion of the transactions with shareholders who have accepted it, Sopharma AD holds directly 92.62% of the shares with voting right in the General Meeting of Momina Krepost AD.

On 16 July 2015 Sopharma AD bought 240 000 shares of the capital of Medica AD. After the transaction the share of Sopharma AD in the capital of Medica AD reached 36.10%.

On 28 July 2015 Sopharma AD bought 937,000 shares of the capital of Doverie United Holding AD. After the transaction the share of Sopharma AD in the capital of Doverie United Holding AD reached 14.898%.

On 3 August 2015 Sopharma AD received a notice of disclosure of shareholdings under art. 145 of the POSA from Telecomplex Invest AD for the purchase of 108 700 shares. After the transaction the share of Telecomplex Invest AD in the capital of Sopharma AD reached 20.07%. The date of registration of the transaction in the Central Depository AD is 31 July 2015.

On 3 August 2015 Sopharma AD received a notice of disclosure of shareholdings under art. 145 of the POSA from Telso AD for the sale of 397 057 shares. After the transaction the share of Telso AD in the capital of Sopharma AD fell below 5%. The date of registration of the transaction in the Central Depository AD is 31 July 2015.

On a meeting on 18 September 2015 The Board of Directors took a decision to start a procedure of transformation of Sopharma AD under the conditions of Chapter XVI of the Commercial Act

und art. 122 and following of the Public Offering of Securities Act, which shall be executed by merging in Sopharma AD of Momina Krepost AD and chose investment intermediary Elana Trading AD as a consultant in relation to the executing of the procedure of transformation. On 30 September 2015 Sopharma AD and Momina Krepost AD signed a Contract for transformation through merger in accordance with the requirements of art. 262d and following of the Commercial Act (CA), as a result of which all assets of Momina Krepost AD shall be transferred to Sopharma AD and the latter shall become its legal successor. Momina Krepost AD shall be terminated without liquidation.

The Board of Directors decided to appoint Ivan Badinski, MPharm, director of Cooperation and Licenses, Sopharma AD as procurator of the company. Mr. Badinski has been working in Sopharma AD since 1997. This fact was registered with the Commercial Register on 25 September 2015.

On 22 October 2015 Sopharma AD bought 3 080 000 shares of the capital of Medica AD. After the transaction the share of Sopharma AD in the capital of Medica AD reached 66.72%.

For the reporting period no large or significant transactions were concluded.

A list of transactions between the Company and related parties during the reporting period is provided in the Notes to the annual financial statements "Related Party Transactions". The Company has no transactions outside the usual activity and such that deviate from the market conditions.

During the reporting period, there are no events and indicators of unusual nature for the Company.

Information on contingent liabilities and commitments are listed in the annual financial statements in the Notes to the annual financial statements "Contingent liabilities and commitments."

Important events after the date of preparation of the annual financial statements.

At the start of the financial year Sopharma's Commercial Director has left the management of the Company. The Executive Director of the company will temporarily be responsible for the export markets.

On 15 January 2016 Sopharma AD made a tender offering to acquire all shares of the remaining shareholders in Medica AD until 12 February 2016. The period of the offering started on 18 January, after the offering was published in two daily newspapers. The Company currently owns 6 717 544 shares, representing 66.72% of the capital and voting rights in the General Meeting of

Shareholders of Medica AD. Sopharma AD offers a price of 3.50 BGN per share to the shareholders of Medica AD, which is the highest price, paid by the offeror, their related parties or by parties under art. 149, par. 2 of POSA in the last six months. The investment firm that serves the tender offer is ELANA Trading. Shareholders of Medica AD may submit a written statement of acceptance of the tender offer to any investment intermediary until 15 February. The offeror shall pay the price of the shares within 7 working days after the date of acceptance of the tender offer.

On 21 January 2016 Sopharma AD submitted to the Financial Supervision Commission an agreement for termination by mutual agreement of the contract for transformation through merger between Sopharma AD and Momina Krepost AD. The decision to end the procedure was taken in the interest of both companies in order to safeguard their good market positions.

New developments and products

✚ New products with marketing authorizations in the period January – December 2015:

Authorizations were received for the bringing to market of 5 new products for the Company – Paracedol suspension, Tuspan syrup, Desloratidin solution, Phynoten drops, and Videral drops.

✚ Expected in 2016

Three to five new products are expected to be introduced by the end of 2016.

✚ Developments

Around 25 production processes and technologies are in the process of transfer, validation and optimization. Pharmaceutical development is carried out of over 20 new products for the Company.

Planned development

✚ On the local market the Company aims to make treatment more accessible to patients through the faster development and registration of generic products.

✚ With regard to foreign markets, the efforts are focused on retaining and increasing the share of the Company on the main markets (Russia, Ukraine and Poland) as well as establishing and extending presence in other countries (USA, Central and East European countries, and the Caucasian region).

✚ The Company continues the policy of active partnership with recognized international pharmaceutical companies, with new companies as well as broadening the product range of already established collaborations.

Key financial indicators

Indicators	1-12/2015 BGN '000	1-12/2014 BGN '000	change %
Sales revenues	173 803	201 461	-13,7%
EBITDA	39 686	41 687	-4,8%
Operating profit	25 137	24 698	1,8%
Net profit	25 354	27 291	-7,1%
CAPEX	16 143	11 589	39,3%
	31.12.2015 BGN '000	31.12.2014 BGN '000	
Non-current assets	398 781	375 678	6,1%
Current assets	171 828	196 239	-12,4%
Owners' equity	431 626	406 524	6,2%
Non-current liabilities	44 316	48 485	-8,6%
Current liabilities	94 667	116 908	-19,0%
	2015	2014*	
EBITDA / Sales revenues	22,8%	20,7%	
Operating profit/ Sales revenues	14,5%	12,3%	
Net profit/ Sales revenues	14,6%	13,5%	
Borrowed capital/Owners' equity	0,32	0,41	
Net debt/ EBITDA	2,6x	3,2x	

* combined metrics resulting from the merger

Review of risk factors

Risks relating to the Company's business and the industry the Company operates in

- + The Company faces significant competition.
- + Reputation of the Company may be adversely affected by untrue or misleading information available on websites containing the name "Sopharma", including www.sopharma.com, which have not been authorized by the Company.
- + The Company is dependent on regulatory approvals.
- + Government regulations affecting the Company's business may change, thus possibly increasing compliance costs or otherwise affecting its operations.
- + Part of the Company's revenues, in particular in Bulgaria, depend on the inclusion of the Company's medicines on reimbursement lists.
- + The Company's production facilities and processes are subject to strict requirements and regulatory approvals that may delay or disrupt the Company's operations.
- + The Company's ability to pay dividends depends on a number of factors and there can be no assurance that the Company will be able to pay dividends in accordance with its dividend policy or at all in any given year.
- + The Company is subject to operational risk, which is inherent to its business activities.
- + The Company is subject to numerous environmental and health and safety laws and regulations and is exposed to potential environmental liabilities.
- + Litigation or other out-of-court proceedings or actions may adversely affect the Company's business, financial condition and results of operations.

Risks relating to Bulgaria and other markets in which the Group operates

- + The macroeconomic environment, particularly in Bulgaria, Russia and Ukraine, has a significant effect on the Group's operations and position.
- + The political environment in Bulgaria has a significant effect on the Group's operations and financial condition.
- + The political environment in the Group's export markets, especially in Russia and Ukraine, has a significant effect on the Group's operations and financial condition.
- + Risks related to the Bulgarian legal system.
- + Developing legal frameworks in some countries in which the Group sells its products, in particular Russia and Ukraine, may negatively impact the Group's operations in such countries.
- + Risks relating to exchange rates and the Bulgarian Currency Board.
- + Interpretations of tax regulations may be unclear and tax laws and regulations applicable to the Group may change.

Currency risk

The Company performs its activities with an active exchange with foreign suppliers and clients. Therefore, it is exposed to currency risk mainly in respect of USD. The Company supplies part of its raw and other materials in USD. The currency risk is related with the adverse floating of the exchange rate of USD against BGN in future business transactions as to the recognized assets and liabilities denominated in foreign currency and as to the net investments in foreign companies. The remaining part of Company operations are usually denominated in BGN and/or EUR. The Company sells some of its finished products in Russia in euro and thus eliminates the currency risk associated with the depreciation of the Russian ruble in the recent months. The accounts with subsidiaries in Ukraine are also denominated in euro. However, in connection with the instability in the country and the continued depreciation of the Ukrainian hryvnia, in order to minimize currency risk, the company conducts through its subsidiaries a currency policy, which includes the implementation of advance payments and shortening of the periods of delayed payments and immediate exchange of revenues in local currency in euros, as well as raising of the price mark-ups on products in order to compensate for possible future devaluation of the hryvnia. To control foreign currency risk, the Company has introduced a system for planning import supplies, sales in foreign currency as well as procedures for daily monitoring of US dollar exchange rate movements and control on pending payments.

Credit risk

Credit risk is the risk that any of the Company's clients will fail to discharge in full and within the normally envisaged terms the amounts due under commercial receivables. The latter are presented in the 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 Company 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 Company works on its main markets with counterparts with history of their relations on main markets, which include over 70 licensed Bulgarian and foreign traders of pharmaceuticals.

The cooperation with the National Health Insurance Fund and the state hospitals also require the implementation of deferred payments policy. In this sense, regardless of credit risk concentration, it is controlled through the choice of trade counterparts, current monitoring of their liquidity and financial stability as well as direct communication with them and search of prompt measures on first indications for existing problems.

Liquidity risk

Liquidity risk is the adverse situation when the Company encounters difficulty in meeting unconditionally its obligations within their maturity.

The Company generates and maintains a sufficient volume of liquid funds. An internal source of liquid funds for the Company is its main economic activity generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. To isolate any possible liquidity risk, the Company 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 complemented by the monitoring of due dates and maturity of assets and liabilities as well as control of cash outflows.

Risk of interest-bearing cash flows


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

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

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

Information about the main characteristics of the internal control system applied by the Company in the process of financial statements preparation

According to the Bulgarian legislation, the management is required to prepare a report on the activities as well as financial statements for each financial year, which should give a true and fair view of the Company's financial position and performance as at end of the period, and for the cash flows in accordance with the applicable accounting framework. The responsibility of the Management also includes the application of internal control system for preventing, revealing and elimination of errors and misstatement resultant from the operation of the accounting system. In this respect, the Management observes the following main principles in its activities:

-  adherence to a specific management and accounting policy disclosed in the financial statements;

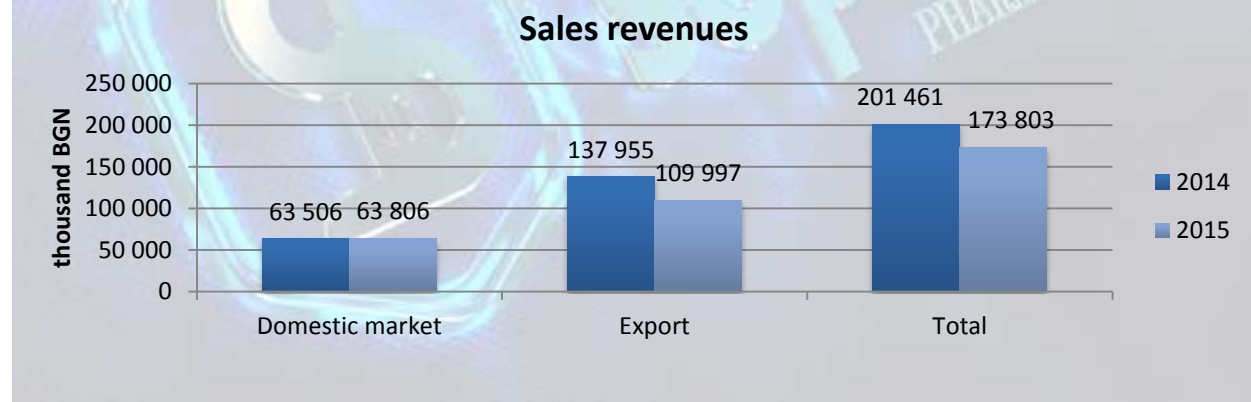
- ✚ execution of all operations in accordance with the legal and regulatory provisions;
- ✚ reflection of all events and operations in a timely manner, at their accurate amount in the appropriate accounts and for the corresponding reporting period so as to allow the preparation of financial statements in line with the relevant accounting framework;
- ✚ adherence to the principle of prudence in the valuation of assets, liabilities, income and expenses;
- ✚ identification and elimination of fraud and errors;
- ✚ completeness and accuracy of accounting information;
- ✚ preparation of reliable financial information; compliance with international financial reporting standards and adherence to the going concern principle.

No changes occurred in the main principles of governance of Sopharma AD and its economic group during the reporting period.

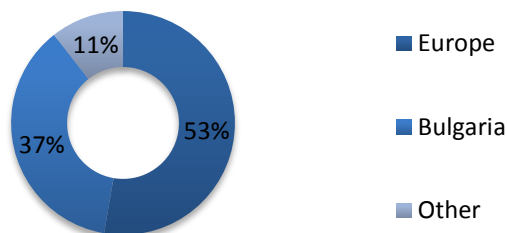
Operating results in 2015

Sales revenues

Sales revenues of production decrease by BGN 27,7 million or 14%, reaching BGN 173,8 million at the end of 2015, compared to BGN 201,5 million at the end of 2014.



Revenues by market	2015 BGN '000	2014 BGN '000	Change %
Europe	91 608	119 464	-23%
Bulgaria	63 806	63 506	0,5%
Other	18 389	18 491	-0,6%
Total	173 803	201 461	-14%



✚ Europe

Revenues from sales to European countries decreased by 23% compared to 2014 due to the decrease of sales in Ukraine by over 60%. The unstable political and economic situation in Ukraine determined the extremely conservative approach to the market. Sopharma AD reduced its sales there to levels that allow retention of market share, but at the same time limit currency

and other risks. The volatility of the ruble disrupted the rhythm of sales in the Russian market because of the frequent need for price updates. Sales to the Romania, Malta, Moldova have increased.

Bulgaria

The sales of Sopharma AD on the domestic market increased by BGN 0,3 million, or 0,5% and reached BGN 63,8 million at the end of 2015 compared to BGN 63,5 million at the end of 2014. The products with largest share of sales in the country are Analgin, Methylprednisolone, Vicetin, Flixotid, and Vitamin C. Sopharma AD has a 4% share of the total Bulgarian pharmaceutical market in value and 14% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis – 7% (4% in units), Roche – 6% (0,3% in units), GlaxoSmithKline – 6% (3% in units), Actavis – 4,8% (12% in units), Sanofi-Aventis – 4,3% (3% in units), Astra Zeneca – 3,3% (0,9% in units), Bayer – 2% (1,9% in units).

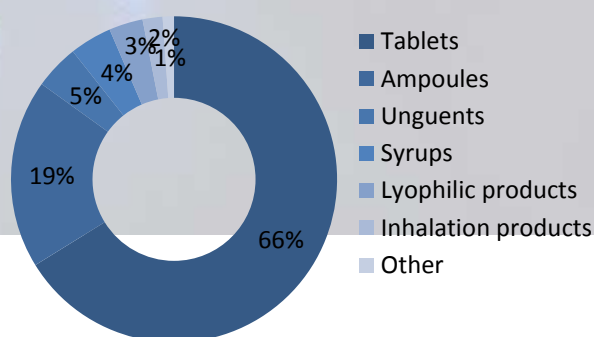
Other markets

Revenues from other markets remain at the same level from 2014. These mainly include revenues from sales in the Caucasus and Central Asia. Sales revenue in Kazakhstan, Uzbekistan, Turkmenistan, and Vietnam.

Sales by type of formulation

The types of formulation with the highest share in the volume of sales are tablet forms, followed by ampoules, unguents, syrups, lyophilic products, and others.

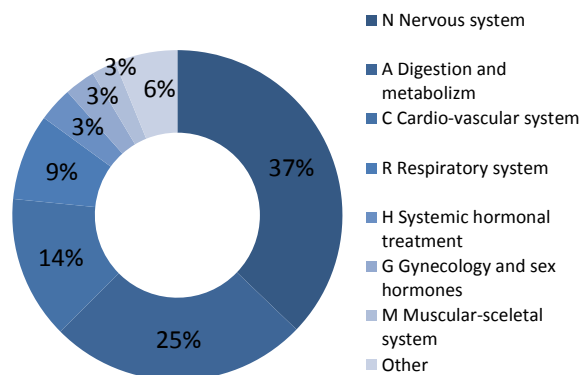
Revenues by type of formulation	2015 BGN '000	2014 BGN '000	Change %
Tablets	115 033	136 700	-16%
Ampoules	32 579	34 405	-5%
Unguents	7 673	9 029	-15%
Syrups	7 282	9 682	-25%
Lyophilic products	5 846	6 700	-13%
Inhalation products	3 433	3 155	9%
Other	1 957	1 790	9%
Total	173 803	201 461	-14%



Sales by therapeutic group

Revenues by therapeutic group	2015 BGN '000	2014 BGN '000	Change %
N Nervous system	64 609	74 538	-13%
A Digestion and metabolism	44 102	56 552	-22%
C Cardio-vascular	24 370	27 014	-10%

system			
R Respiratory system	14 697	15 585	-6%
H Systemic hormonal treatment	5 882	6 366	-8%
G Gynecology and sex hormones	5 257	6 063	-13%
M Muscular-skeletal system	4 189	5 365	-22%
Other	10 698	9 978	7%
Total	173 803	201 461	-14%



Other operating revenues

Other operating revenues	2015 BGN '000	2014 BGN '000	Change %	Share 2015 %
Income from services rendered	3 364	3 567	-6%	92%
Income from sale of products	263	192	37%	7%
Income from financing under European programs	397	297	34%	11%
Income from fines and penalties	204	109	87%	6%
Income from sale of materials	117	118	-1%	3%
Net loss from exchange rate differences	(800)	(431)	86%	-22%
Other	106	(292)	-136%	3%
Total	3 651	3 560	3%	100%

Other operating income increased by BGN 0,1 million or 3% from BGN 3,6 million in 2014 to BGN 3,7 million in 2015. The main contributors are profit from sale of goods, which increased by BGN 0,1 million, an increase in income from financing on European projects by BGN 0,1 million, other income by BGN 0,4 million, profit from sale of long-term assets by BGN 0,1 million. Other operating income is decreased by net loss from exchange rate differences on commercial receivables, commercial liabilities, and current accounts, which increased by BGN 0,4 million, as well as income from services rendered, which decreased by BGN 0,2 million.

Operating expenses

Operating expenses	2015 BGN '000	2014 BGN '000	Change %	Share 2015 %
Changes in the finished goods and work-in-progress inventory	(6 667)	(14 039)	53%	-4%
Materials	61 619	73 507	-16%	40%
External services	41 275	56 396	-27%	27%
Personnel	35 331	37 605	-6%	23%
Amortization	14 549	16 989	-14%	10%
Other operating expenses	6 210	9 865	-37%	4%
Total	152 317	180 323	-16%	100%

The operating expenses decreased by BGN 28 million or 16% from BGN 180,3 million in 2014 to BGN 152,3 million in 2015, which is due to a decrease in material costs, hired services expenses, amortization, personnel and other costs.

Materials expenses	2015 BGN '000	2014 BGN '000	Change %	Share 2015 %
Main materials	47 075	56 076	-16%	76%
Electricity	3 934	3 650	8%	6%
Heat	3 227	4 042	-20%	5%
Laboratory items	1 498	2 113	-29%	2%
Auxiliary items	1 253	1 221	3%	2%
Spare parts	1 211	1 431	-15%	2%
Technical materials	1 028	1 229	-16%	2%
Fuels and lubricants	672	1 137	-41%	1%
Work cloths and personal safety equipment	654	741	-12%	1%
Water	494	752	-34%	1%
Impairment of materials	401	737	-46%	1%
Scraping of materials	172	378	-54%	0%
Total	61 619	73 507	-16%	100%

Cost of materials (40% share) decreased by BGN 11,9 million or 16% from BGN 73,5 million in 2014 to BGN 61,6 million in nine months of 2015. The largest effect has the decrease of cost of basic materials by BGN 9 million, in the segments of substances, packaging materials, ampules, PVC and aluminum foil, liquid and solid chemicals.

	2015	2014	Change	Share 2015
Hired services expenses	BGN '000	BGN '000	%	%
Manufacturing of medicines	8 967	12 041	-26%	22%
Advertising	7 902	9 285	-15%	19%
Maintenance of buildings and equipment	3 030	3 076	-1%	7%
Consultancy fees	2 963	12 206	-76%	7%
Logistics services on export and domestic market	2 662	3 258	-18%	6%
Transportation	2 623	3 101	-15%	6%
Rents	2 233	2 411	-7%	5%
Registration services and clinical trials	2 082	1 581	32%	5%
Local taxes and fees	1 142	1 148	-1%	3%
Security	976	867	13%	2%
Medical services	789	744	6%	2%
Subscription fees	756	848	-11%	2%
Civil contracts	699	806	-13%	2%
State and regulatory taxes and local taxes	646	774	-17%	2%
Insurance	595	654	-9%	1%
Expense taxes	467	559	-16%	1%
Other	2 743	3 037	-10%	7%
Total	41 275	56 396	-27%	92%

Hired services have a 27% share of operating expenses and decreased by BGN 15 million or 27%, to BGN 41,3 million in 2015 compared to BGN 56,4 million in 2014. The most significant impact have the decrease in consultancy services by BGN 9,2 million, as well as manufacturing of medicines and advertising.

	2015	2014	Change	Share 2015
Personnel expenses	BGN '000	BGN '000	%	%
Salaries	26 557	28 312	-6%	75%
Social insurance	4 960	5 291	-6%	14%
Social benefits and payments	2 123	2 254	-6%	6%
Performance-based bonuses	792	801	-1%	2%
Other	899	947	-5%	3%
Total	35 331	37 605	-6%	100%

Personnel costs (with a share of 23% of operating expenses) decreased by BGN 2,3 million, or 6% from BGN 37,6 million in 2014 to BGN 35,3 million in 2015. Current salaries decreased by

BGN 1,8 million mainly due to the transfer of the team, responsible for the products, produced by Sopharma AD and intended for the free market (OTC products), to Sopharma Trading AD.

	2015	2014	Change	Share 2015
Other expenses	BGN '000	BGN '000	%	%
Accrued impairment of finished and unfinished products	2 421	2 266	7%	39%
Entertainment expenses	2 073	2 421	-14%	33%
Business trips	697	831	-16%	11%
Donations	373	191	95%	6%
Scrapping of long-term assets	270	388	-30%	4%
Other taxes and payments to the budget	243	51	376%	4%
Training	205	136	51%	3%
Scrapping of finished and unfinished products	2	183	-99%	0%
Accrued (recovered) impairment of receivables, net	(234)	2 651	-109%	-4%
Other (see FS notes)	160	747	-79%	3%
Total	6 210	9 865	-37%	100%

Other operating expenses (with a relative share of 4% of operating expenses) decreased by 3,7 million from BGN 9,9 million in 2014 to BGN 6,2 million in 2015, which is mostly due to recovered impairment of receivables, net by BGN 2,9 million.

Costs of amortization (with a relative share of 10% of operating expenses) decreased by BGN 2,4 million of 14% from BGN 17 million in 2014 to BGN 14,6 million in 2015.

Impairment charges on non-current assets amounted to BGN 8.6 million and are a result of impairment of investments in subsidiaries.

Financial income and expenses

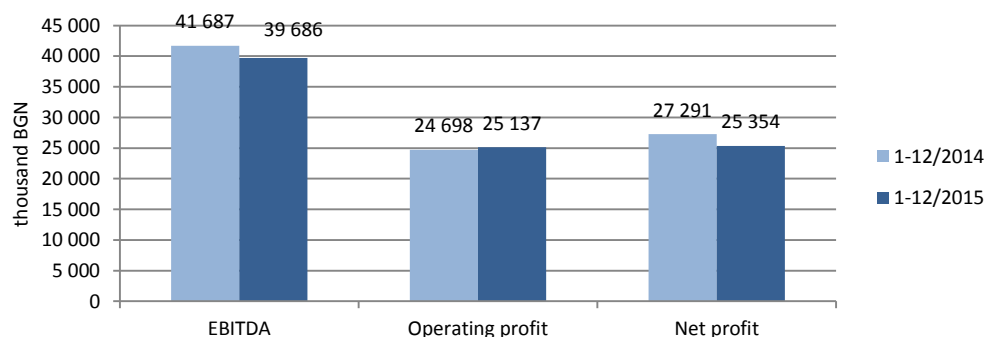
Financial income	2015 BGN '000	2014 BGN '000	Change %	Share 2015 %
Income from share participations	7 881	6 361	23,9%	44%
Net gain from operations with securities and shares (including BGN 6 851 thousand gain from sale of a subsidiary)	6 908	3 509	96,9%	39%
Income from interest on loans granted	3 120	3 131	-0,4%	17%
Net gain from exchange rate differences on loans	13	-		0%
Total	17 922	13 001	38%	100%
Financial expenses				
Expenses for interest on loans received	3 510	4 344	-19%	56%
Impairment of receivables on provided commercial loans	1 955	37	5181%	31%
Impairment of available-for-sale investments	398	88	352%	6%
Bank fees for loans and guarantees	270	240	13%	4%
Impairment of cash	165	-		3%
Financial leasing expenses	14	-		0%
Net loss from exchange rate differences on loans	-	18	-100%	0%
Total	6 312	4 727	34%	100%

Financial income increased by BGN 4,9 million, or 38%, to BGN 17,9 million in 2015 compared to BGN 13 million in 2014. This is a result of an increase in net gain from operations with securities by BGN 3,4 million. Income from share participations increases by BGN 1,5 million.

Financial expenses increased by BGN 1,6 million or 34% to BGN 6,3 million in 2015 compared to BGN 4,7 million in 2014. This increase is mainly due to an increase in impairment of receivables on provided commercial loans by BGN 1,9 million.

Net financial income (expense) increased by BGN 3,3 million reaching BGN 11,6 million in 2015, compared to BGN 8,3 million in 2014.

Financial result



Profit before interest, taxes, depreciation and amortization (EBITDA) decreased by BGN 2 million or 5%, amounting to BGN 39,7 million as at 31 December 2015, compared to BGN 41,7 million as at 31 December 2014.

The operating profit increased by BGN 0,4 million or 2%, reaching BGN 25,1 million as at 31 December 2015, compared to BGN 24,7 million as at 31 December 2014.

Net profit decreased by BGN 1,9 million or 7% to BGN 25,4 million as at 31 December 2015 compared to BGN 27,3 million as at 31 December 2014.

Assets

	31.12.2015	31.12.2014	Change	Share
	BGN '000	BGN '000	%	%
Non-current assets				
Property, plant and equipment	211 943	211 056	0%	53%
Intangible assets	2 507	3 210	-22%	1%
Investment property	22 160	22 368	-1%	6%
Investments in subsidiaries	132 899	94 434	41%	33%
Investments in associated companies		7 015	-100%	0%
Available-for-sale investments	5 510	4 439	24%	1%
Long-term receivables from related parties	20 505	33 150	-38%	5%
Other long-term receivables	3 257	6	54183%	1%
	398 781	375 678	6%	70%
Current assets				
Inventories	61 701	57 360	8%	36%
Receivables from related parties	78 035	99 505	-22%	45%
Commercial receivables	21 466	23 397	-8%	12%
Other receivables and prepaid expenses	6 881	11 901	-42%	4%
Cash and cash equivalents	3 745	4 076	-8%	2%
	171 828	196 239	-12%	30%
TOTAL ASSETS	570 609	571 917	0%	100%

Total assets decreased by BGN 1,3 million or 0,2% to BGN 570,6 million compared to BGN 571,9 million as at 31 December 2014.

Non-current assets increased by BGN 23,1 million, or 6%, mainly due to an increase in investments in subsidiaries by BGN 38,5 million and other long-term receivables by BGN 3,3 million. There is a decrease in intangible assets, investment property, investments in associated companies and long-term receivables from related parties.

Property, plant and equipment	31.12.2015	31.12.2014	Change	Share
	BGN '000	BGN '000	%	2015
Land and buildings	113 865	116 593	-2%	54%
Machines and equipment	78 808	79 372	-1%	37%
Other	5 868	7 903	-26%	3%
In process of acquisition	13 402	7 188	86%	6%
Total	211 943	211 056	0,4%	100%

Property, plant and equipment increased by BGN 0,9 million mainly in the portion of in the process of acquisition by BGN 6,2 million and decreased in land and buildings by 2,7 million, in other by BGN 2 million, and in machines and equipment by BGN 0,6 million.

Intangible assets decreased by BGN 0,7 million mainly in the part of intellectual property rights by BGN 0,4 million and software products by BGN 0,3 million.

Investments in subsidiaries increased by BGN 38,5 million mainly due to an increase in the capital of Sopharma Ukraine and an increase in the share of the capital of Medika AD and Momina Krepost AD. Investments in associated companies decreased by BGN 7 million in relation to the transformation of Medika AD from an associated company to a subsidiary. The available-for-sale investments increased by BGN 1 million reaching BGN 5,5 million. Long-term loans to related parties decreases by BGN 12,6 million. Long-term loans to related parties as at 31 December 2015 are to companies related through key management personnel:

- + Contracted amount EUR 3 272 thousand; interest rate - 5%; maturity – 1 December 2018; balance at 31 December 2015 - BGN 7 139 thousand;
- + Contracted amount EUR 16 177 thousand; interest rate - 5%; maturity – 1 December 2018; balance at 31 December 2015 - BGN 13 074 thousand.

Information about participations and major investments of Sopharma in the country and abroad is presented in the note to the Financial Statements - "Investments in subsidiaries" and "Available-for-sale Investments".

Receivables under securities transactions amounted to BGN 3,2 million.

Current assets decreased by BGN 24,4 million or 12% from BGN 171,8 million as at 31 December 2015 compared to BGN 196,2 million as at 31 December 2014.

Inventories	31.12.2015	31.12.2014	Change	Share 2015
	BGN '000	BGN '000	%	%
Materials	27 868	25 754	8%	45%
Finished products	22 841	22 282	3%	37%
Semi-finished products	5 262	3 809	38%	9%
Work in progress	5 255	5 303	-1%	9%
Goods	475	212	124%	1%
Total	61 701	57 360	8%	100%

Material inventories increased by BGN 4,3 million or 8% compared to 31 December 2014. There is an increase in materials by BGN 2,1 million, finished products by BGN 0,6 million, goods by BGN 0,3 million, semi-finished products by BGN 1,4 million. Work in progress decreased.

Receivables from related parties decreased by BGN 21,5 million as a result of a decrease in receivables from sales of finished products and materials by BGN 17,4 million and a decrease in provided commercial loans by BGN 4,1 million.

Current commercial loans granted to related companies:

To companies related through key management personnel:

- + Contractual amount: 12 577 thousand EUR; interest rate – 4,50%; maturity – 31 December 2016; balance at 31 December 2015 – 8 310 thousand BGN;
- + Contractual amount: 7 845 thousand EUR; interest rate – 4,50%; maturity – 31 December 2016; balance at 31 December 2015 – 7 982 thousand BGN;
- + Contractual amount: 34,020 thousand BGN, interest rate – 5,50%; maturity – 31 December 2015; balance at 31 December 2015 – 0;
- + Contractual amount: 6,000 thousand BGN; interest rate – 5,50%; maturity – 31 December 2016; balance at 31 December 2015 – 4 636 thousand BGN.
- + Contractual amount: 1 300 thousand BGN; interest rate – 5,50%; maturity – 31 December 2016; balance at 31 December 2015 – 503 thousand BGN.
- + Contractual amount: 190 thousand BGN; interest rate – 5,50%; maturity – 31 December 2016; balance at 31 December 2015 – 114 thousand BGN.

To subsidiaries:

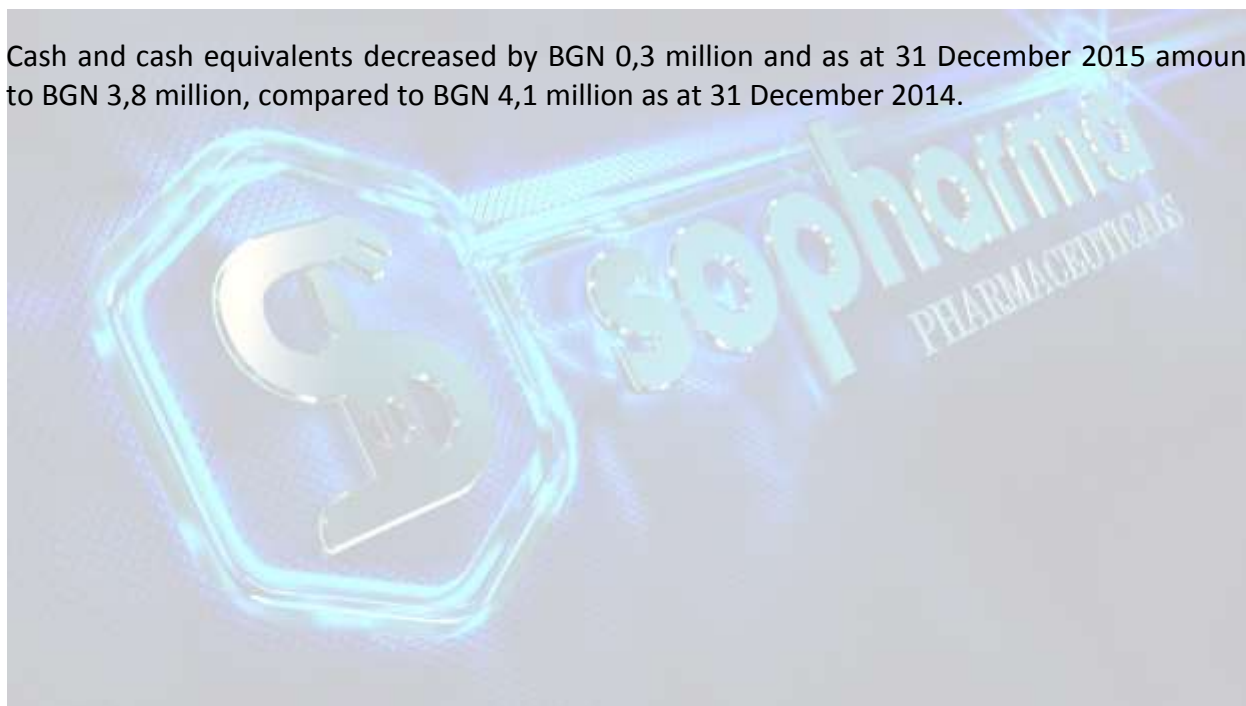
- + Contractual amount: 2 770 thousand EUR; interest rate – 6,10%; maturity – 31 December 2016; balance at 31 December 2015 – 5,087 thousand BGN;
- + Contractual amount: 3 552 thousand BGN; interest rate – 5,50%; maturity – 31 December 2016; balance at 31 December 2015 – 1 568 thousand BGN;
- + Contractual amount: 600 thousand BGN; interest rate – 5,50%; maturity – 31 December 2016; balance at 31 December 2015 – 50 thousand BGN;

- ✚ Contractual amount: 205 thousand USD; interest rate – 3,50%; maturity – 31 December 2015; balance at 31 December 2015 – 0;
- ✚ Contractual amount: 25 thousand USD; interest rate – 3,50%; maturity – 31 December 2015; balance at 31 December 2015 – 0;
- ✚ Contractual amount: 20 thousand USD; interest rate – 3,50%; maturity – 31 December 2015; balance at 31 December 2015 – 0;

Commercial receivables decreased by BGN 1,9 million, in the portion of receivables from customers by BGN 1,8 million.

Other receivables and advance payments decreased by BGN 5 million mainly in the portion of refundable taxes and advance payments.

Cash and cash equivalents decreased by BGN 0,3 million and as at 31 December 2015 amount to BGN 3,8 million, compared to BGN 4,1 million as at 31 December 2014.



Liabilities and owners' equity

	31.12.2015	31.12.2014	Change	Share
	BGN '000	BGN '000	%	2015
OWNERS' EQUITY				
Share capital	134 798	132 000	2%	31%
Treasury stock	(17 597)	(17 203)	2%	-4%
Reserves	284 227	246 243	15%	66%
Retained earnings	30 198	45 484	-34%	7%
TOTAL OWNERS' EQUITY	431 626	406 524	6%	100%
	31.12.2015	31.12.2014	Change	Share
	BGN '000	BGN '000	%	2015
LIABILITIES				
Non-current liabilities				
Long-term bank loans	30 819	37 972	-19%	22%
Liabilities on deferred taxes	4 697	4 124	14%	3%
Government financing	6 371	3 968	61%	5%
Long-term liabilities to the personnel	2 426	2 387	2%	2%
Financial leasing liabilities	3	34	-91%	0%
	44 316	48 485	-9%	32%
Current liabilities				
Short-term bank loans	68 961	90 761	-24%	50%
Short-term part of long-term bank loans	7 380	7 431	-1%	5%
Commercial liabilities	8 014	7 909	1%	6%
Liabilities to related parties	3 070	4 154	-26%	2%
Liabilities for taxes	965	938	3%	1%
Liabilities to the personnel and for social insurance	4 769	4 564	4%	3%
Other current liabilities	1 508	1 151	31%	1%
	94 667	116 908	-19%	68%
TOTAL LIABILITIES	138 983	165 393	-16%	100%
TOTAL OWNERS' EQUITY AND LIABILITIES	570 609	571 917	0%	

Equity increased by BGN 25,1 million or 6%, reaching BGN 431,6 million as at 31 December 2015 compared to BGN 406,5 million as at 31 December 2014 mainly as a result of an increase in reserves by BGN 38 million.

Non-current liabilities decreased by BGN 4,2 million or 9% to BGN 44,3 million at the end of 2015 compared to BGN 48,5 million as at the end of 2014 mainly due to a decrease of long-term bank loans by BGN 7,2 million.

Current liabilities decreased by BGN 22,2 million or 19% to BGN 94,7 million at the end of 2015 compared to BGN 116,9 million as at the end of 2014. This is mainly due to a decrease in short-term bank loans by BGN 21,8 million and liabilities to related parties by BGN 1,1 million. The total exposition to bank loans of the Company as at 31 December 2015 decreased by around BGN 29 million compared to 31 December 2014.

Commercial liabilities increased by BGN 0,1 million. Other current liabilities increased by 0,4 million in the portion of fines and penalties and government financing.

Cash flow

	31.12.2015 BGN '000	31.12.2014 BGN '000
Net cash flow from/(used in) operations	28 398	31 533
Net cash flow used in investment activities	(410)	(12 018)
Net cash flow (used in)/from financial operations	(27 721)	(24 730)
Net increase/(decrease) of cash and cash equivalents	267	(5 215)
Cash and cash equivalents on 1 January	3 478	8 693
Cash and cash equivalents on 31 December	3 745	3 478

Net cash flows as at 31 December 2015 generated from operating activities amounted to BGN 28,4 million, net cash from investing activities BGN (0,4) million and financing activities BGN (27,7) million. As a result of these activities cash and cash equivalents mark a net increase of BGN 0,3 million and as at 31 December 2015 amount to BGN 3,7 million compared to 3,5 million as at 1 January 2015.

Ratios

	31.12.2015	31.12.2014	Change
ROE	6,0%	6,5%	-0,5%
ROA	4,4%	4,5%	-0,1%
Asset turnover	0,30	0,36	-0,06
Current liquidity	1,82	1,68	0,14
Quick ratio	1,16	1,19	-0,03
Cash/current liabilities	0,04	0,03	0,01
Owners' equity/liabilities	3,11	2,46	0,79

Information about the shares of Sopharma AD

The total number of issued shares at 31 December 2015 of Sopharma AD is 134 797 899 with a nominal value of 1 BGN per share. All issued shares are registered, dematerialized, registered and indivisible. All issued shares are of one class. Each share gives equal rights to its owner, proportionate to the nominal share value. Shares of Sopharma AD are listed on the official market of the Bulgarian Stock Exchange - Sofia and the official market of the Warsaw Stock Exchange. Shares participate in the formation of the indices SOFIX, BGBX40 and BGTR30 of the Bulgarian Stock Exchange - Sofia.

The Company's shares are included in the indices Dow Jones STOXX EU Enlarged, Total Market Index 0.11% weight, with a weight of 5% in the Erste Bank Bulgaria Basket, the certificate of Raiffeisenbank - Raiffeisen Osteuropa Fonds and the certificate ABN AMRO SOFIX - Open-end-certificate and the new blue-chip index Dow Jones STOXX Balkan 50 Equal Weighted Index.

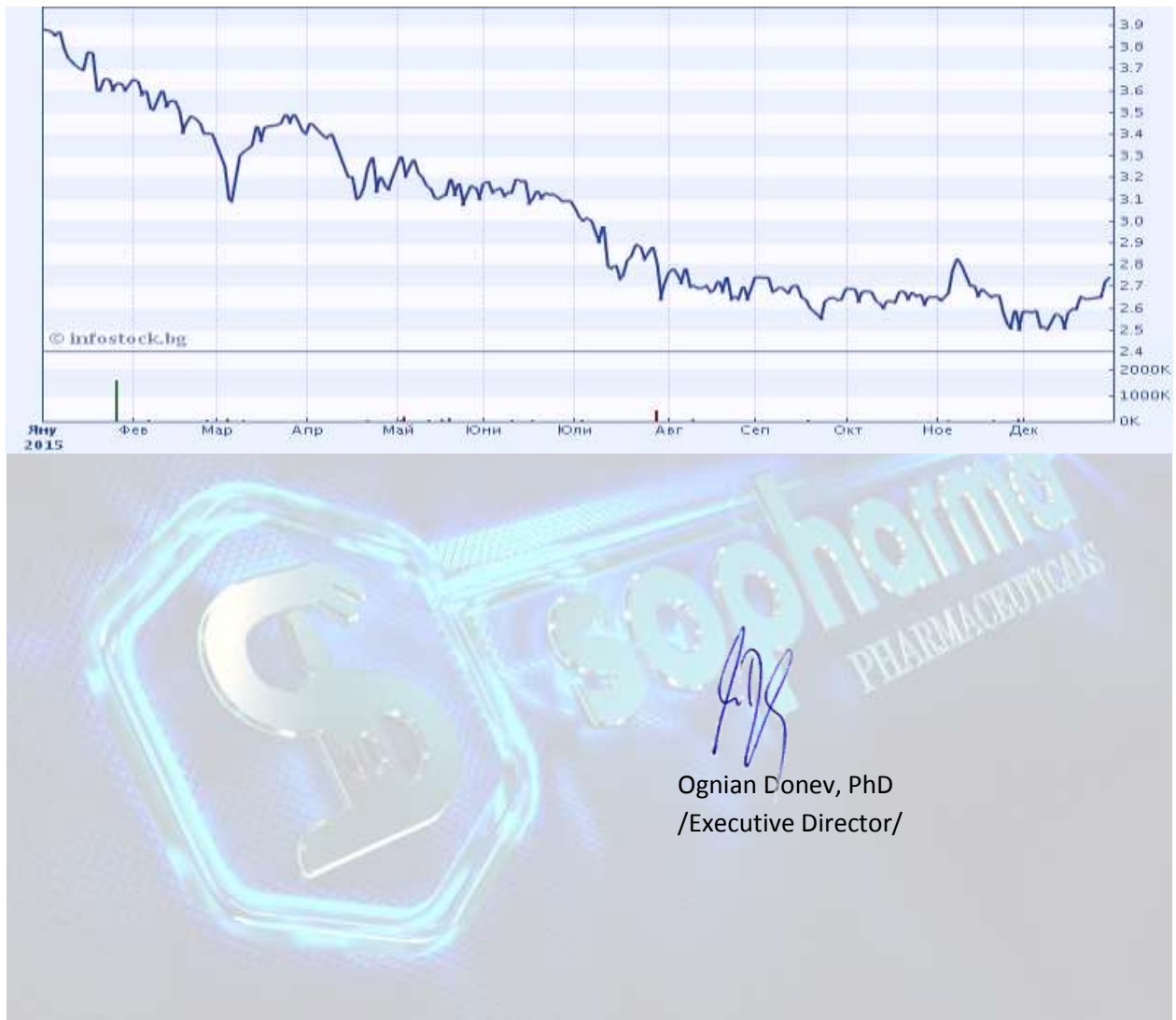
Sopharma AD is one of the three Bulgarian companies included in an index for Central and Eastern Europe (CEE), which the Warsaw Stock Exchange started to calculate on 30 May 2012. The name of the index is WIG-CEE and it is the third one after WIG-Poland and WIG-Ukraine, which is based on the origin of companies by country. WIG-CEE is calculated based on total return and includes income from dividends and subscription rights.

Key indicators of the shares of Sopharma AD

	31.12.2015	31.12.2014
Total number of issued shares	134 797 899	132 000 000
Average-weighted number of outstanding shares for the last four quarters	129 379 961	126 913 907
Number of shares outstanding at the end of the period	129 578 603	126 885 870
Earnings per share in BGN	0,196	0,209
Price per share at the end of the period in BGN	2,72	3,880
Price/Earnings ratio (P/E)	13,88	18,56
Book value per share in BGN	3,331	3,071
Price/Book value ratio (P/B)	0,82	1,26
Sales per share in BGN	1,341	1,588
Price per share / Sales per share(P/S)	2,03	2,44
Market capitalization in BGN	366 650 285	512 160 000

Sopharma AD

Trade with shares of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01 January 2015 – 31 December 2015



INDEPENDENT AUDITOR'S REPORT

**TO
THE SHAREHOLDERS
OF SOPHARMA AD**

Report on the Separate Financial Statements

We have audited the accompanying separate financial statements of Sopharma AD (the Company), which comprise the separate statement of financial position as at 31 December 2015, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes and information.

Management's Responsibility for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards, accepted by the Commission of the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the Independent Financial Audit Law and the professional



requirements of International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the separate financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Sopharma AD as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, accepted by the Commission of the European Union.

Emphasis of Matter

We draw attention to Note 2.2 to these separate financial statements that at the date of their issuance, the consolidated financial statements for the same period have not yet been issued by the Company. The management plans to issue the consolidated financial statements not later than 30 April 2016. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

Annual Report on the activities of Sopharma AD under Article 33 of the Accountancy Act (revoked with the Accountancy Act promulgated in the State Gazette No. 95/ 8 December 2015, effective from 1 January 2016) with reference to §10, par. 1 of the Transitional and Final Provisions of the Accountancy Act




Pursuant to the requirements of Art. 38, para 4 of the revoked Accountancy Act (effective until 31 December 2015), we have read the Annual Report of the management on Sopharma AD activities for the reporting year 2015. This Report is not a part of the separate annual financial statements for the same period. The management of the Company is responsible for the preparation of this Annual Report on the activities dated 25 March 2016. The historical financial information presented in the Annual Report on the activities is consistent, in all material respects, with the information disclosed in the Company's separate financial statements as at 31 December 2015, prepared in accordance with International Financial Reporting Standards, accepted by the Commission of the European Union.


AFA OOD

Registered Specialised Audit Firm


Valia Iordanova Iordanova
General Manager


Renny Georgieva Iordanova
Registered CPA in charge of the audit

25 March 2016

**38, Oborishte Street
1504-Sofia, Bulgaria**

This is a translation from Bulgarian of the Independent Auditor's Report on the Separate Financial Statements of Sopharma AD for the year ended 31 December 2015.