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 entered in the Commercial Registry on 11 April 2008 with UIC 831902088.

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 2017, the structure of Company's joint-stock capital was as follows:

	%
Donev Investments Holding AD	25.20
Telecomplect Invest AD	20.41
Rompharm Company OOD	7.52
ZPAD Allianz Bulgaria	5.17
Sopharma AD (treasury shares)	6.70
Other legal persons	27.76
Natural persons	7.24

Sopharma AD has a one-tier management system with a five-member Board of Directors. Company's management in the form of Board of Directors is composed as at 31 December 2017 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.

The Audit Committee supports the work of the Board of Directors and plays the role of those charged with general governance that exercise monitoring and control over the internal control system, risk management and Company's system of financial reporting.

The composition of the Audit Committee is as follows:

Vasil Naidenov	Chairman
Tsvetanka Zlateva	Member
Kristina Atanasova	Member

The average number of Company's personnel for 2017 is 1,953 employees (2016: 2,076).

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 as well as engineering and implementation activities in the field of medicinal products.

The Company holds manufacturing / import authorisation for medicinal products № P-I-10-14/B-I-21-002 dated 28 October 2015, issued by the Bulgarian Drug Agency (BDA).

1.3. Main indicators of the business environment

The main indicators of the business environment that affect the company's activities for the period 2014-2017 are presented in the table below:

Indicator	**2014**	**2015**	**2016**	**2017**
GDP in million BGN	83,634	88,571	94,130	99,708 *
Real GDP growth	1.3%	3.6 %	3.9%	4.0%*
End-of-Year Inflation (HICP)	-2.0%	-0.9%	-0.5%	1.8%
Average US dollar exchange rate for the year	1.47	1.76	1.77	1.73
Exchange rate of the US dollar at the end of the year	1.61	1.80	1.86	1.63
Base interest rate at the end of the year	0.02	0.01	0.00	0.00
Unemployment (end of year)	10.7%	10.0%	8.0%	7.1%

- ** BNB forecast for 2017, source: BNB;*

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 on 1 January 2017 and have been accepted by the Commission of the European Union. IFRSs as adopted by the EU is the commonly accepted name of the general purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act "International Accounting Standards" (IASs).

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 2017, has not caused changes in the accounting policies, except for some new disclosures and the expansion of those already adopted, however, not resulting in other changes in the classification or valuation of individual reporting items and transactions.

These standarts and/or interpretations include:

- *IAS 7 (Amended) Cash Flow Statement - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017 - adopted by the EC).* This change is an important explanation of the standard itself, with a view to the information provided to users of the financial statements that can improve the understanding of the liquidity and financial operations of the company. The amendment requires additional disclosures and clarifications to be made regarding changes in the Company's liabilities in respect of: (a) changes in the financing activity resulting from operations that result in changes in cash flows; or (b) changes resulting from non-cash transactions such as acquisitions and disposals, interest accruals, exchange rate effects, changes in fair values, and the like.. Changes in financial assets should be included in this disclosure if the resulting cash flows are presented to the financing activity (for example, in certain hedge transactions). It is also acceptable to include changes to other objects as part of the disclosure, as they are stated separately. The management has conducted a research and has determined that no further expanded disclosures realting to net debt capital are required, and its management, insofar as the company is fully funded by its net cash inflows and does not use debt financial instrument, incl. loans to finance its business;
- *IAS 12 (amended) Income taxes (effective for annual periods beginning on or after 01/01/2017 – not adopted by the EC) – Recognition of deferred tax assets for unrealized losses.* This change in related to the recognition of deferred tax assets for unrealized losses and specifies the following: 1) unrealized losses of debt instruments measured at fair vavue and for tax purposes – at acquisition price, rise to deductible temporary differences; 2) assumptions about future taxable profits should not include discount effects as a result of declining temporary differences; 3) if under tax law there are restrictions on the utilization of tax losses, the review and assessment of deferred tax assets must be made in combination with other deferred tax assets of the same type;
- *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 (no date of entry into force is set but implementation of this revision wil be deemed to be in accordance with IFRS).* 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.

As of the date of approval for the issuance of these financial statements, new standards, revised standards and interpretations have been issued but are not yet in force (and/or not adopted by the EC) for annual financial periods beginning on 1 January 2017 which have not been accepted for earlier application by the company. The management has judged that the following would have a potential effect in the future for changes in the Company's accounting policies and financial statements for future periors:

- *IFRS 9 "Financial Instruments" (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC).* This is a new standard for financial instruments. It is ultimately intended to replace IAS 39 in its entirety. IFRS 9 introduces a requirement that financial assets are to be classified based on entity's business model for their management and on the contractual cash flow characteristics of the respective assets. It establishes two primary measurement categories for financial assets: amortised cost and fair value. The new rules will lead to changes mainly in the accounting for financial assets as debt instruments and financial liabilities designated at fair value through current profit or loss (for credit risk). A specific feature of the classification and measurement model for financial assets at fair value is the addition of a new category – fair value through other comprehensive income (for certain debt and capital instruments). <u>Phase 2</u>: Hedge accounting – a new chapter to IFRS 9 has been added for this purpose whereby a new hedge accounting model is introduced that permits consistent and complete reflection of all financial and non-financial risk exposures, subject to hedge transactions, and also, better presentation of risk management activities in the financial statements and especially, their relation to hedge transactions, and the scope and type of documentation to be used.. In addition, the requirements to the structure, contents and presentation approach for hedge disclosures have been improved. Furthermore, an option is introduced fair value changes of own debts, measured at fair value through profit or loss, in the part thereof due to changes in the Group's own credit quality, to be presented in other comprehensive income rather than in profit or loss. <u>Phase 3</u>: Impairment methodology – the amendment introduces the application of the 'expected loss' model. Under this model all expected credit losses of an amortisable financial instrument (asset) shall be recognised in three stages, depending on its credit quality change, and not only if a trigger event has occurred as per the current model under IAS 39. The three stages are: upon the initial recognition of the financial asset – impairment for the 12-month period or for the full lifetime of the asset; and respectively – upon the occurrence of the actual impairment. They also set out how to measure impairment losses and respectively the application of the effective interest rate. Impairement of debt instruments measured at fair value through other comprehensive income is defined and measured using the same methodology as fot financial assets at amortized cost. Management has made a research and has determined that changes under the new standart affect the Company's accounting policy but are not expected to have a material effect on the values and classification of the Company's assts, operations and results in respect of its financial assets and liabilities. The effects of his analyzes are disclosed in Annex 27;
- *IFRS 9 (revised) - Financial Instruments – on Early Repayment Indemnities (effective for annual periods beginning on or after 1 January 2019) - not accepted by the EC.* This change covers two issues: a) amends the current IFRS 9 requirements by allowing the classification of certain financial assets at amortized cost and their passing on the SSGI test, regardless of the condition for early repayment with negative compensation. Negative compensation is available when the terms of the contract allow the debtor to pay the instrument prematurely before maturity, and the prepaid amount may be different from the remaining unpaid principal and interest, but this negative compensation must be reasonable and relevant for the early termination of the contract. Pre-payment in itself is not a sufficient indicator of judgment, ie. it is important to assess against the prevailing interest rate, and against it the amount of prepayment may also be in favor of a party that initiated it. It is important that the calculation of the compensation be consistent as an approach for a penalty for early payment and for the benefit of an earlier payment. Also (a) the asset should be in the "held for cash flow" category according to the business model of the entity; (b) confirms that when a financial liability measured at amortized cost has been modified without being derecognised,

the effect of that modification should be recognized in profit or loss. The effect is measured as the difference between the original agreed cash flows and those after the modification discounted at the original effective interest rate;

- *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 – 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 as of the date of the standard application by the Company and whether it chooses the option to restate prior periods. The management has chosen to apply a modified retrospective application for the first time to IFRS 9 and not to recalculate comparative figures;

- *IFRS 15 "Revenue from Contracts with Customers" (in force for annual periods beginning on or after 1 January 2018 – 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 counterparts. The standard will supersede the effective to date 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. Annotations have been made (a) to identify performance obligations on the basis of specific promises for the supply of goods or services; (b) to identify whether the company is a principal or an agent in the supply of goods or services; and (c) for the transfer of licenses. The introduction of this standard may lead to the following changes: (a) in complex contracts with bundled sales of goods and services a clear distinction will be required between the goods and services of each component and provision of the contract; (b) probability for a change in the time of sale recognition; (c) expanding of disclosures; and (d) introduction of additional rules for recognising the revenue from a particular type of contracts – licences; consignment; one-time collection of preliminary fees; guarantees and other similar. 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. The management has conducted a study and has determined that changes in the new standard would not affect the values and classification of assets and liabilities, operations and operating results in respect of its operating income and / or receivables as long as no change is expected in the business model, nor a change in the time horizon of transferring control to the client from the services provided by the company or the reporting of sales of goods;

- *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 a lease by introducing a new model with the objective to ensure a more faithful and adequate representation of such transactions both for lessee and lessor. The standard will supersede the effective so far standard related to leases – IAS 17. (a) The main principle of the new standard is the introduction of a single lessee accounting model – an asset will be recognised for all contracts with duration of more than 12 months in the form of a 'right-of-use', which will be subsequently depreciated over the duration of the contract, and respectively, a financial liability will be stated for the lease liability under the contracts. This is the significant change in the current accounting practice. The standard allows an exception and retaining the old practice for leases of low-value assets and short-term leases; (b) There would not be any significant changes with the lessors and they would continue to account for leases as per the old standard IAS 17 – operating and finance. As far as the new standard introduces a more thorough concept, a more detailed analysis of contractual terms should be carried out on their part as well and it is possible that grounds for reclassification of particular lease transactions may occur for them (lessors), too. The new standard requires more extensive disclosures. The management of the Company is considering the impact that this Standard may have on the financial statements of the Company and in particular on the entities disclosed in *Note 26*. The management has chosen to apply a modified retrospective application for the first time to IFRS 16 and not to restate the comparative data.

Additionally, for the following new standards, revised standards and accepted interpretations issued but not yet in force on January 1, 2017, management has investigated their possible effect and has determined that they would not have an effect on accounting policy, respectively. assets, liabilities, operations and results of the Company because it does not have / operates with such objects and / or does not realize similar transactions and transactions.

These standards, revised standards and interpretations include:

- *IFRS 2 (amended) "Share-based Payment" – Classification and measurement of transactions based on share payments (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* These amendments clarify three main issues: (a) the treatment of vesting conditions and effects in the measurement and accounting for cash-settled share-based payment transactions; (b) approach for the classification of share-based payment transactions with net settlement features for the purposes of withholding personal tax for entity's employees (in the form of equity instruments) – by introducing an exception from the common rule in order to achieve a facilitation in the practice, these transactions shall be classified in a way as if in the absence of the net share settlement feature; and (c) a new rule of accounting whereby a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled;
- *IFRS 4 (amended) Insurance Contracts (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC).* This change is related to the need to synchronize reporting in companies that issue insurance contracts that also fall under IFRS 9 but before the introduction of the forthcoming IFRS 17. It establishes two options for a cover approach and a temporary deferral approach (certain terms and conditions) of IFRS 9. Both options are valid until the entry into force of the new IFRS 17. It is not

applicable to the Company's operations;

- *IFRS 17 Insurance Contracts (in force for annual periods beginning on or after 1 January 2021 – not endorsed by EC).* This Standard is an entirely new accounting standard that will replace the current standard for insurance contracts - IFRS 4. It is not applicable to the Company's operations;

- *Improvements to IFRSs 2014-2016 Cycle (December 2016) – improvements to IFRS 12 (in force for annual periods beginning on or after 1 January 2017 – not endorsed by EC).* These improvements make partial amendments and revisions to the relevant standards, mainly with a view to eliminating existing inconsistencies or ambiguities in the implementing rules and the requirements of the individual standards, as well as to introduce more precise terminology of concepts. Changes are principally for the following items or operations: (a) the scope and disclosure requirements of IFRS 12 are also applicable to IFRSs classified as held for sale, distributive or discontinued operations, except for the summary financial information; (b) the abrogation of certain exceptions to the application of IFRS 1 with respect to IFRS7, IAS 19 and IFRS 10; and (c) the selection of venture capital funds or other similar undertakings for the valuation of their holdings in associates or joint ventures at fair value through profit or loss that a choice may be made on a stand alone basis in an associate or joint venture upon initial recognition (IAS 28);

- *Improvements to IFRS Cycle 2015-2017 (December 2017) - Improvements to IAS 23, IAS 12 and IFRS 3 in relation to IFRS 11 (effective for annual periods beginning on or after 1 January 2019 – not endorsed by EC).* These improvements introduce partial changes and revisions in the standards, mainly in order to remove existing inconsistencies or ambiguities in the application of the rules and requirements of individual standards and to introduce more precise terminology. Major changes are aimed at the following sites or operations: a) clarify that where an undertaking acquires control over the business, which is a joint activity, it must recalculate (revalued) previously held shares in the business when applying MSFO3. It is also specified that when an entity acquires joint control in a business that is a joint venture, it should not restate previously the units held in it under IFRS 11; b) clarify that all tax consequences of taxes on income from dividends (ie profit-sharing) should be indicated in profit or loss howsoever arising - in the application of IAS 12; and c) make it clear that if the loans with specific purposes for financing certain qualified assets remain outstanding after the asset is ready for intended use or sale, these loans are part of the financing means general when calculating the rate of capitalization under IAS 23;

- *IFRIC 22 (Revised) - Foreign currency transactions and prepayments (effective for annual periods beginning on or after 1 January 2018) - not endorsed by the EC).* This interpretation relates to the reporting of transactions or parts of foreign currency transactions upon receipt of advance payments prior to the recognition of the asset, expense or income. In these cases, enterprises report a non-monetary asset on prepaid amounts (prepayments of assets or services) or a non-monetary obligation on deferred income (sales receivables received from customers). When receiving such foreign currency prepayments, the transaction date is used to determine the exchange rate, and if there are multiple payments, the transaction date is determined for each individual payment. The Interpretation then clarifies that when the asset is initially recognized as an expense or income as a result of a prepayment / receipt transaction or a series of transactions in payments / receipts in a foreign currency, the transaction date is the date of the initial recognition of the non-monetary asset or liability (for a single payment / receipt) or the date of each payment / receipt. This interpretation may be applied with full retrospective or prospective, in two versions: (a) from the beginning of the reporting period to which it applies for the first time; or (b) since the beginning of the preceding period prior to the period for which it was first applied;

- *IFRIC 23 (revised) - Uncertainties in the treatment of income taxes (effective for annual periods beginning on or after 1 January 2019) - not endorsed by the EC).* This Interpretation provides guidance on accounting for tax on income in IAS 12 when a certain amount of tax treatment uncertainty is present. It does not affect taxes and other government receivables and charges other than IAS 12, nor does it include special requirements for interest and other sanctions associated with tax havens. The clarification covers: (a) whether the pre-emption is to assess separately tax uncertainties separately; (b) assumptions made by an entity for the purpose of verifying and assessing tax treatment by the tax authorities; (c) how the entity has determined taxable profit or loss, tax bases, unused tax losses, tax rates and unused tax credits; (d) how the entity has judged and treated the changes in the facts and circumstances; and (e) the entity determines whether it will assess the individual uncertainties of tax treatment individually or in combination with other;
- *IAS 28 (revised) - Investments in associates and joint ventures - for long-term interests in associates and joint ventures (effective for annual periods beginning on or after 1 January 2019 - not adopted by the EC).* This amendment specifies that an entity should apply IFRS 9, including impairment requirements for participating interests in associates or joint ventures that form the net investment with those companies and which do not qualify for equity method. Changes in management's intentions or plans are not considered evidence of change;
- *IAS 40 (revised) - Investment property - for transfers of investment properties (effective for annual periods beginning on or after 1 July 2018 - not adopted by the EC).* This change is related to providing further clarification on the conditions and criteria that allow the transfer of property, those under construction and / or reconstruction and redevelopment to and from the "investment property" category. Such transfers are only admissible if they are fulfilled or resp. where the criteria and the definition of investment property are no longer met and when there is evidence of a change in their use. Changes in management's intentions or plans are not considered evidence of change. The change may be applied prospectively or retrospectively, subject to the rules set out in the change.

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 as 2017 in accordance with IFRS for year 2017 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 prepared for issue not later than 01 March 2018 from the company’s Board of Directors and after this date the financial statements will be publicly made available to third parties.

2.3. Merger of Medica AD into Sopharma AD

a) legal form of the merger

The merger of Medica AD (transforming company) into Sopharma AD (receiving company) was realized through the legal form of transformation, regulated by the Commercial Law. The merger was registered in the Commercial Register at the Registry Agency on 08.08.2017. As a result of the transaction, all assets of Medica AD are transferred to Sopharma AD and Medica AD is terminated without liquidation.

On 31.01.2017 a contract for the transformation by merger between Sopharma AD (receiving company) and Medika AD (transforming company) was signed which regulates the way in which the transformation will take place. The fair value of the shares of the companies involved in the transformation is determined on the basis of the generally accepted valuation methods, on the basis of which a replacement ratio of 0.9486 is formed. Against each of its shares by Medica AD each shareholder of the company on the grounds of Art. 261b, app. 1 of the Commerce Act will acquire 0.8831 shares of the capital of Sopharma AD.

The transformation contract and the report of the examiner were approved by the general meeting of the receiving company on 31.01.2017.

The purpose of the transformation transaction of the two companies was:

- restructuring of Sopharma Group companies in order to eliminate duplicate activities;
- focusing efforts on production and trade, respectively optimizing administrative costs;
- increasing efficiency and achieving a synergy effect both on management and performance of production and trade, and on optimizing costs.

б) an accounting method of accounting for the merger

For accounting purposes, the date of the merger was adopted as of 01.01.2017. Until now Medica AD was a subsidiary of Sopharma AD. The deal was treated as a restructuring of the two companies' operations. The merger is accounted for using the "pooling" method. According to the requirements and rules of this method, the Company's operations and assets are presented in these financial statements as if they had always been consolidated since the beginning of the earliest period presented in the financial statements (01.01.2016), irrespective of legal events and procedures and their effects on the legal status and life of the receiving and transforming company. Effects of all business operations between the receiving and the transforming company, including the estimates between them, regardless of whether they occurred before or after the restructuring date, have been eliminated. All differences from the merger operation are reported in equity - the "retained earnings" component (*Note 40).*

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.

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 – 4-18 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 resulting from 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 subsidiaries (Bulgarian Rose Sevtopolis AD and Medica AD) at the date of its acquisition (the business combination).This goodwill on the merger of the subsidiaries 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 a straight-line depreciation method for intangible assets.

The useful life per group of assets is as follows:

- software products – 2 - 8 years;
- patents and licenses – 2 - 6 years;
- trademarks – 5 – 13 years;
- other – 5 – 7 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. Gain/(loss) on disposal is 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. Lease

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 year, 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.

The bought back treasury shares are presented in the statement of financial position at cost (cost), with their value being reduced to the equity of the company. Gains or losses on the sale of redeemed own shares are at the expense of retained earnings and are presented directly in the equity of the company to the retained earnings component.

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 retained earnings and are 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 2.54, 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 2017 is 10 % (2016: 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 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 probable that they will reverse and sufficient taxable profit will be generated or taxable temporary differences will occur in the same period, whereby they could 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 30 September 2017 were assessed at a rate, valid for 2017, at the amount of 10% (31 December 2016: 10%)

2.26. Government grants

Government grants represent various forms of providing gratuitous resources by a government (local and central bodies and institutions) and/or intergovernmental agreements and organisations.

Governmant grants (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. Net earnings or loss per share

The net earnings or loss 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.

The diluted net earnings or loss 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 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 (annual) 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 (periodical) 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.

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 its has sufficient available inputs while trying to use at a maximum the publicly observable information, and respectively, to minimize the use of unobservable information. It uses the three acceptable approaches – *the market approach, the income approach and the cost approach* – whereas the most frequently applied valuation techniques include 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 tests and analysis as at 2017 the depreciation of inventories amounted to BGN 3,490 thousand. (2016: BGN 2,903 thousand) (*Note 5 and Note 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.

Long-term retirement benefit obligations to personnel at the amount of BGN 3,624 thousand (31 December 2016: BGN 2,930 thousand) have been stated as a result of these calculations *(Note 32).*

Revaluation of property, plant and equipment

As at 31.12.2016, an overall review was performed in regard of the price changes in the fair value of Company's tangible fixed assets as well as of their physical and technical state, mode of operation and residual useful life. Respectively, revaluation was made because the adopted five-year period for their remeasurement, as per the policy adopted, endedd at that date. The review and remeasurement were performed with the professional assistance of certified appraisers.

The certified appraisers developed also a sensitivity test of the proposed thereby fair values, determined by using various valuation methods in line with the reasonably possible changes in the main assumptions and comments on the resulting deviations.

The management made detailed analysis of the reports of the certified appraisers, including the sensitivity tests. As a result thereof, the revaluation was accounted for, a new revaluation reserve was recognised at the amount of BGN 2,629 thousand, net of impairment *(Note 15)* and an impairment of BGN 342 thousand for 2016 is bein accounted as a current expense *(Note 10).*

The Company has decided to not revalue the following groups of assets: (a) fully depreciated assets, acquired before 31 December 2001, as far as the possible additional depreciation expenses for them are already being compensated by the increased maintenance costs; (b) computers and standard computer hardware, office equipment and furniture and fixtures – as far as these show a common trend of significant decrease in their current market prices within short terms juxtaposed to the expected term for their internal use by the Company; (c) assets, acquired in 2016, as far as the cost of these assets is close to their fair value; and (d) assets of all groups (exlusing properties), for which the analyses of the valuation effects show that they are not resultant from the price and market changes in the value of these asses, occurred during the period, but ensue from the differences in the assumptions for the useful life.

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 year, 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 tests and analysis as at 2017 it is established the need for recognition of impairment of certain investments in subsidiaries amounting to 4,466 thousand (2016: BGN 5,224 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.

As at 2017 the acknowledged impairment, related to as at the commercial receivables are BGN (41 thousand) - (accrued) / reversed impairment, net (2016: BGN (70) 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.

For the year 2017 the recognized impairment losses (net of recovered) related to commercial loans granted amounted to BGN 1,425 thousand - (accrued) / reversed impairment, net (2016: BGN 688 thousand) (accrued) / reversed impairment, net) (Note 11).

Deferred tax assets

There are unrecognised deferred tax assets at the amount of BGN 2,545 thousand (31 December 2016: BGN 3,063 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 25,451 thousand (31 December 2016: BGN 30,629 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 2017 (*Note 39*).

3. REVENUES

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

	2017	***2016***
	BGN '000	***BGN '000***
Export	127,066	106,135
Domestic market	78,193	76,261
Total	**205,259**	**182,396**

Sales by product – export

	2016	***2015***
	BGN '000	***BGN '000***
Tablet dosage forms	97,216	81,852
Ampoule dosage forms	12,968	10,778
Ointments	7,022	3,952
Syrup dosage forms	6,127	6,325
Lyophilic products	1,405	593
Medicinal cosmetics	691	717
Suppositories	555	434
Plasters	421	293
Drops	234	189
Bandages	217	861
Sanitary-hygene products	142	98
Saches	-	39
Other	68	4
Total	**127,066**	**106,135**

- -

Sales by product – domestic market

	2017	*2016*
	BGN '000	*BGN '000*
Tablet dosage forms	40,293	37,369
Ampoule dosage forms	17,376	16,682
Bandages	4,979	5,366
Lyophilic products	4,186	4,993
Plasters	2,672	2,680
Inhalation products	2,161	2,572
Ointments	1,903	1,842
Syrup dosage forms	1,887	1,736
Sanitary-hygene products	1,465	1,530
Drops	683	605
Suppositories	424	429
Medicinal cosmetics	95	432
Saches	29	-
Other	40	25
Total	**78,193**	**76,261**

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

	2017 BGN '000	*Relative share*	*2016 BGN '000*	*Relative share*
Europe	103,922	51%	87,061	48%
Bulgaria	78,193	38%	76,261	42%
Other countries	23,144	11%	19,074	10%
Total	**205,259**	**100%**	**182,396**	**100%**

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

	2017 BGN '000	*% of revenue*	*2016 BGN '000*	*% of revenue*
Client 1	70,956	35%	65,200	36%
Client 2	65,841	32%	56,829	31%
Client 3	20,301	10%	16,337	9%

4. OTHER OPERATING INCOME AND LOSSES

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

	2017	***2016***
	BGN '000	***BGN '000***
Services rendered	3,599	3,429
Income from government grants under under European projects	508	506
Sales of materials	*5,583*	*4,554*
Cost of materials sold	*(5,418)*	*(4,427)*
Gain on sales of materials	165	127
Sales of LTA	*161*	*677*
Balance sheet value of LTA	*(50)*	*(555)*
Gain from sale of LTA	111	122
Sales of goods	*1,380*	*1,236*
Cost of goods sold	*(1,312)*	*(1,159)*
Gain on sale of goods	68	77
Gain from revaluation of biological assets to fair value (Note *15*)	13	3
Gain from revaluation of financial assets to fair value	2	2
Losses from revaluation of investment property to fair value (Note *17*)	(34)	(233)
Net loss on exchange differences under trade receivables and payables and current accounts	(276)	(255)
Other income	343	287
Total	**4,499**	**4,065**

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

Services rendered include:

	2017	***2016***
	BGN '000	***BGN '000***
Rentals	1,865	1,751
Social activities	730	688
Manufacturing services	432	505
Gamma irradiation	145	79
Regulatory services	111	97
Laboratory analyses	107	108
Transport organisation	24	58

Other	185	143
Total	**3,599**	**3,429**

Sales of goods include:

	2017	***2016***
	BGN '000	***BGN '000***
Foodstuffs	1,037	954
Cosmetics	274	158
Goods with technical designation	48	5
Food supplements	21	119
Total	**1,380**	**1,236**

The *cost of goods sold* is as follows:

	2017	***2016***
	BGN '000	***BGN '000***
Foodstuffs	962	883
Cosmetics	286	181
Goods with technical designation	47	49
Food supplements	17	46
Total	**1,312**	**1,159**

5. RAW MATERIALS AND CONSUMABLES USED

The *raw materials and consumables used* include:

	2017	***2016***
	BGN '000	***BGN '000***
Basic materials	50,765	45,846
Electric energy	4,868	4,444
Heat power	3,137	2,511
Laboratory materials	2,428	2,145
Auxiliary materials	2,174	2,106
Technical materials	1,417	748
Spare parts	1,407	1,019
Working clothes and personal protective equipment for labour	699	647
Fuels and lubricating materials	638	642
Water	631	523
Impairment of materials *(Note 9)*	1,093	1,060

Scrapped materials	231	227
Total	**69,488**	**61,918**

Expenses on basic materials include:

	2017	*2016*
	BGN '000	*BGN '000*
APIs	20,686	22,163
Packaging materials	9,763	7,125
Liquid and solid chemicals	8,018	6,403
Herbs	3,837	2,157
Ampoules	2,175	1,881
Sanitary-hygene materials	1,580	2,066
Tubes	1,508	1,351
Aluminium and PVC foil	1,357	1,081
Plasters	1,030	1,177
Vials	811	442
Total	**50,765**	**45,846**

6. HIRED SERVICES EXPENSE

Hired services expense includes:

	2017	*2016*
	BGN '000	*BGN '000*
Manufacturing of medicinal products	9,996	8,887
Advertising and marketing	4,875	5,141
Transportation	3,557	3,106
Buildings and equipment maintenance	2,885	2,508
Consulting services	2,163	2,000
Rentals	2,029	1,946
Logistic services (domestic market)	1,706	1,520
Local taxes and charges	1,349	1,305
Security	1,276	1,141
State and regulatory charges	1,196	1,135
Subscription fees	921	906
Services under civil contracts	802	683
Medical services	792	802

Services on medicinal products registration	664	462
Vehicles repair and maintenance	501	488
Insurance	492	710
Logistic services (export)	461	347
Licence fees and charges	420	370
Taxes on expenses	419	448
Announcements and communications	382	396
Destruction of pharmaceuticals	337	349
Documentation translation	245	275
Fees and charges on current bank accounts	191	165
Courier services	122	93
Commission fees	106	265
Clinical trials	11	354
Other	989	684
Total	**38,887**	**36,486**

7. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense includes:

	2017	***2016***
	BGN '000	***BGN '000***
Current wages and salaries	31,946	28,590
Social security/health insurance contributions	5,889	5,241
Social benefits and payments	3,386	2,459
Accruals for unused paid leaves	1,198	667
Tantiems	775	790
Social security/health insurance contributions on leaves	197	111
Accruals for long-term retirement benefit obligations *(Note 32)*	420	405
Total	**43,811**	**38,263**

8. OTHER OPERATING EXPENSES

Other expenses include:

	2017	***2016***
	BGN '000	***BGN '000***
Entertainment allowances	2,161	2,184
Accrued impairment of finiched and unfinished production (*Note 9*)	2,331	1,808
Business trip costs	835	621
Scrapped finished products and work in progress	465	172
Donations	372	340
Training courses	218	197
Unrecognised input tax under VATA	113	160
Scrapped LTA	81	77
Accrued impairment of goods (*Note 9*)	66	35
Other taxes and payments to the state budget	56	20
Written-off receivables	45	-
Accured/(recovered) impairment on receivables, net (Note 9)	41	(70)
Scrapped goods	11	37
Other	118	81
Total	**6,913**	**5,662**

9. IMPARIMENT OF CURRENT ASSETS

Impairment costs of *current assets* include:

	2017	***2016***
	BGN '000	***BGN '000***
Impairment of finished goods (*Note 8)*	2,331	1,808
Impairment of materials (*Note 5)*	1,093	1,060
Impairment of goods *(Note 8)*	66	35
Impairment of trade receivables	*1,230*	*508*
Recovered impairment of trade receivables	*(1,189)*	*(578)*
Net change in impairment of receivables *(Note 8)*	41	(70)
Total	**3,531**	**2,833**

10. IMPARIMENT OF NON-CURRENT ASSETS

Impairment costs of *non-current assets* include:

	2017	***2016***
	BGN '000	***BGN '000***
Impairment of investments in subsidiaries *(Note 18)*		5,224
Impairment of tangible long-term assets *(Note 15)*	-	342
Impairment of intangible long-term assets *(Note 16)*	-	67
	0	**5,633**

11. FINANCE INCOME

Finance income includes:

	2017	***2016***
	BGN'000	***BGN'000***
Income from shareholding	7,539	7,923
Income from interest on loans granted	1,699	2,126
Impairment on receivables on commercial loans granted	*(504)*	*(688)*
Recovered impairment on receivables on commercial loans granted	*1,929*	-
Net change of the impairment on commercial loans granted	1,425	(688)
Net gain on securities and equity investments	1,256	12,741
including profit from the sale of subsidiaries	*1*	*12,714*
Income from liquidation of subsidiaries	7	-
Net gain on exchange differences on receivables from sale of subsidiary	-	131
Total	**11,926**	**22,233**

12. FINANCE COSTS

Finance costs include:

	2017	***2016***
	BGN'000	***BGN'000***
Interest expense on loans received	1,370	2,091
Net loss from exchange rate differences on a receivable for sale of a subsidiary	443	-
Bank fees and charges on loans and guarantees	218	303
Effects from derivatives	74	109

Impairment of available-for-sale investments	4	4
Impairment of cash *(Note 27)*	-	8
Interest expense on finance leases	-	3
Total	**2,109**	**2,518**

13. TAX PAYMENT EXPENSES

Reconciliation of profit tax expense based on the accounting result

Accounting profit for the year	*46,422*	*42,445*
Profit tax - 10% (2016: 10%)	4,642	4,244
From unrecognized tax returns related to:		
increases - BGN 9,013 thousand (2016: BGN 6,511 thousand)	901	651
decreases - BGN 12,724 thousand (2016: BGN 8,316 thousand)	(1,272)	(832)
Recognized deferred taxes incurred in prior periods	11	35
Total tax expense recognized in the statement of comprehensive income (in profit or loss for the year)	**4,282**	**4,098**

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

	2017			**2016**		
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
	Value before tax	**Tax effects recognized in equity**	**Net tax value**	**Value before tax**	**Tax effects recognized in equity**	**Net tax value**
Components that will not be reclassified to profit or loss						
Profit (losses) on revaluation of property, plant and equipment	(43)	4	(39)	2,629	(263)	2,366
Subsequent evaluations of defined benefit pension plans	(465)	-	(465)	(134)	-	(134)
Components that can be reclassified to profit or loss						

Net change in the fair value of available-for-sale financial assets	1,284	-	1,284	1,515	-	1,515
Total other comprehensive income for the year	**776**	**4**	**780**	**4,010**	**(263)**	**3,747**

14. OTHER COMPREHENSIVE INCOME

Other comprehensive income includes:

	2017 BGN '000	***2016 BGN '000***
Profit from revaluation of property, plant and equipment	(43)	2,629
Net change in fair value of available-for-sale financial assets:		
Gains arising during the year	*1,296*	*1,522*
Less: Reclassification adjustments for (gains)/losses included in profit or loss for the current year	*(12)*	*(7)*
Subsequent evaluations of defined benefit pension plans	(465)	(134)
	776	**4,010**
Following evaluations of plans with defined pension income	4	(263)
Total comprehensive income for the year	**780**	**3,747**

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		***Plant and equipment***		***Other***		***Assets in progress***		***Total***	
	2017	***2016***	***2017***	***2016***	***2017***	***2016***	***2017***	***2016***	***2017***	***2016***
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN '000***	***BGN'000***
Book value										
Balance at 1 January	**153,937**	**143,784**	**171,073**	**162,399**	**22,584**	**23,141**	**2,269**	**13,402**	**349,863**	**342,726**
Additions	66	63	1,372	1,198	205	97	11,414	8,528	13,057	9,886
Transfer to property, plant and equipment	4,643	9,880	2,376	8,307	209	1,474	(7,228)	(19,661)	-	-
Effect from remeasurement	-	280	-	763	13	(111)	-	-	13	932
Disposals	(79)	(70)	(647)	(1,594)	(918)	(2,017)	(15)	-	(1,659)	(3,681)
Balance at 31 December	**158,567**	**153,937**	**174,174**	**171,073**	**22,093**	**22,584**	**6,440**	**2,269**	**361,274**	**349,863**
Accumulated depreciation										
Balance at 1 January	**23,114**	**18,724**	**84,696**	**78,291**	**16,583**	**16,906**	**-**	**-**	**124,393**	**113,921**
Depreciation charge for the year	4,602	4,307	9,540	9,015	1,575	1,602	-	-	15,717	14,924
Impairment	-	-	42	-	-	-	-	-	42	-

Depreciation written-off	(27)	-	(802)	(1,483)	(866)	(1,611)	-	-	(1,695)	(3,094)
Effect from remeasurement		83	-	(1,127)		(314)	-	-	-	(1,358)
Balance at 31 December	**27,689**	**23,114**	**93,476**	**84,696**	**17,292**	**16,583**	**-**	**-**	**138,457**	**124,393**
Carrying amount at 31 December	**130,878**	**130,823**	**80,698**	**86,377**	**4,801**	**6,001**	**6,440**	**2,269**	**222,817**	**225,470**
Carrying amount at 1 January	**130,823**	**125,060**	**86,377**	**84,108**	**6,001**	**6,235**	**2,269**	**13,402**	**225,470**	**228,805**

As at 31.12.2017 Company's tangible fixed assets include: land amounting to BGN 41,345 thousand (31 December 2016: BGN 37,821 thousand) and buildings of carrying amount BGN 89,533 thousand (31.12.2016: BGN 93,002 thousand).

Tangible fixed assets in progress as at 30 December include:

- advances for the purchase of machinery and equipment – BGN 4,694 thousand (31.12.2016: BGN 600 thousand);
- expenses on new buildings construction **-** BGN 1,012 thousand (31.12.2016: BGN 271 thousand);
- buildings reconstruction – BGN 212 thousand (31.12.2016: BGN 1,316 thousand);
- other **–** BGN 522 thousand (31.12.2016: BGN 82 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 and Operational Program "Energy Efficiency" *(Note 29)*, as follows:

- for a new tablet production facility at the amount of BGN 6,960 thousand (31.12.2016: BGN 7,429 thousand);
- for ampoule production at the amount of BGN 5,154 thousand (31.12.2016: BGN 5,457 thousand);
- exchange installations for ventilation and climatization BGN 518 thousand (31.12.2016: BGN 836 thousand).

The amount of other assets as at 31 December 2017 includes also biological assets **-** Golden Chain (Laburnum anagyroides) plantation at the amount of BGN 139 thousand (31 December 2016: BGN 134 thousand).

Operating lease

The Company has leased tangible fixed assets with carrying amount of BGN 6,176 thousand as at 31 December 2017 to related parties (31 December 2016: BGN 5,669 thousand). In addition, tangible fixed assets at carrying amount of BGN 235 thousand are leased to third parties as at 31 December 2017 (31 December 2016: BGN 246 thousand).

Finance lease

As at 31 December 2017, there are assets at the carrying amount of BGN 0 acquired under finance lease contracts (31 December 2016: BGN 29 thousand).

Other data

The book value of fully depreciated tangible fixed assets, used in the Company's activities by group, is as follows:

- Buildings – BGN 379 thousand (31.12.2016: BGN 410 thousand);
- Plant and equipment – BGN 36,306 thousand (31.12.2016: BGN 35,382 thousand);
- Other – BGN 11,580 thousand (31.12.2016: BGN 11,218 thousand).

The following encumbrances were constituted on Company's tangible fixed assets as at 31 December 2017 in relation to received loans:

- Land and buildings with a carrying amount of BGN 22,316 thousand and BGN 54,363 thousand (31.12.2016: respectively BGN 22,415 thousand and BGN 59,745 thousand) (Note *29, Note 33 and Note 39);*
- Pledges on equipment – BGN 39,234 thouand (31.12.2016: BGN 42,600 thousand) (*Note29, Note 33 and Note 39).*

Periodical fair value remeasurement

Revaluation of Company's property, plant and equipment was performed as at 31 December 2016 with the assistance of independent certified appraisers for the purpose of determining the fair value of the assets in accordance with the requirements of IFRS 13 and IAS 16.

In this revaluation, the following two main approaches and valuation methods are used to measure the fair value of the individual types of tangible fixed assets:

• "Market Approach" through the "Market Analogue Method" - for the lands in regulation and the agricultural land for which there is a real market, analogous properties are monitored and transactions with them, and there is a basis for comparability - for market value Their price determined by the comparative method;

• "Cost Approach" through "Depreciated Recovery Method" and "Cost Based Asset Creation or Replacement Method" - for specialized buildings, machinery, equipment, equipment and other assets for which there is no real market and comparable sales of analogue Assets - the fair value of the depreciated replacement cost is based on an indexed historical cost of the asset and on the basis of the current costs of creating or replacing the asset.

The valuation is recognized as a revaluation reserve amounting to BGN 2,629 thousand net of impairment.

As at 31 December 2017, the management of the company re-analyzed the price changes for its key assets and determined that there are no conditions and grounds for carrying out a revaluation of the assets before the expiry of the normal five-year period (Appendix No. 2.8).

16. INTANGIBLE ASSETS

	Goodwill		*Intellectual property rights*		*Software*		*Assets in progress*		*Total*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Book value										
Balance at 1 January	**1,445**	**1,445**	**5,074**	**5,235**	**3,904**	**3,817**	**72**	**113**	**10,495**	**10,610**
Additions	-	-	236	95	33	65	751	32	1,020	192
Transfer	-	-	-	13	-	22	-	(35)	-	-
Allowance for impairment	-	-		(61)	-	-	-	(6)	-	(67)
Disposals	-	-	(76)	(208)	(11)	-	(59)	(32)	(146)	(240)
Balance at 31 December/31 December	**1,445**	**1,445**	**5,234**	**5,074**	**3,926**	**3,904**	**764**	**72**	**11,369**	**10,495**
Accumulated amortisation										
Balance at 1 January	**-**	**-**	**1,650**	**1,252**	**2,565**	**2,342**	**-**	**-**	**4,215**	**3,594**
Amortisation charge for the year	-	-	514	547	221	223	-	-	735	770
Amortisation written-off	-	-	(76)	(149)	(11)	-	-	-	(87)	(149)
Balance at 31 December/31 December	**-**	**-**	**2,088**	**1,650**	**2,775**	**2,565**	**-**	**-**	**4,863**	**4,215**
Carrying amount at 31 December/31 December	**1,445**	**1,445**	**3,146**	**3,424**	**1,151**	**1,339**	**764**	**72**	**6,506**	**6,280**
Carrying amount at 1 January	**1,445**	**1,445**	**3,424**	**3,983**	**1,339**	**1,475**	**72**	**113**	**6,280**	**7,016**

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

Intangible assets in progress as at 31 December include:

- expenses for acquisition of software products – BGN 599 thousand (31.12.2016: none);
- expenses for licenses BGN 165 thousand and permits for use of medicinal products BGN 165 thousand (31 December 2016: BGN 72 thousand);

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 – BGN 1,045 thousand (31 December 2016: BGN 1,787 thousand);
- software – BGN 1,746 thousand (31 December 2016: BGN 1,816 thousand);

17. INVESTMENT PROPERTY

	31.12.2017	*31.12.2016*
	BGN '000	***BGN '000***
Balance at 1 January	**22,840**	**22,160**
Additions	1,993	913
Net loss on fair value adjustment, included in profit or loss	(34)	(233)
Transfer to property, plant and equipment	-	-
Balance at 31 December	**24,799**	**22,840**

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:

Group of assets	***31.12.2017***	***31.12.2016***
	BGN '000	***BGN '000***
Warehouse premises	19,450	18,671
Offices	2,403	2,342
Production buildings	1,065	1,032
Social objects	410	407
Investment property in progress	1,471	388
Total	**24,799**	**22,840**

There are established encumbrances as at 31 December 2017 on investment property as follows:

- mortgage of warehouse premises – BGN 8,286 thousand (31 December 2016: BGN 8,226 thousand) *(Note 33);*
- pledges on attached equipment – BGN 5,476 thousand (31 December 2016: BGN 5,730 thousand) *(Note 33).*

Fair value evaluations

Hierarchy of fair values

The fair value evaluations of the groups of investment properties are categorized as fair values level 2 based on incoming data used for the evaluation technique.

The revaluation of investment property to fair value is recurring (annual) and is attributable to the application of the fair value model in IAS 40. It is carried out on a regular basis at the date of each annual financial report. The fair value measurement has been realized with the assistance of independent licensed valuers.

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

	Warehouse premises	*Offices*	*Production buildings*	*Social objects*	*Assets in progress*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Balance at 1 January 2016	**18,380**	**2,331**	**1,056**	**393**	**-**	**22,160**
Acquired	525	-	-	-	388	913
Net change in fair value through profit or loss – unrealised	(234)	11	(24)	14	-	(233)
Balance at 31 December 2016	**18,671**	**2,342**	**1,032**	**407**	**388**	**22,840**
Acquired			29		1,964	1,993
Transfer	881				(881)	-
Net change in fair value through profit or loss – unrealised	(102)	61	4	3	-	(34)
Balance at 31 December 2017	**19,088**	**2,342**	**1,032**	**407**	**482**	**23,351**

Evaluation technique and significant non-observable input data

The table below provides a description of the valuation techniques used to determine the fair value of all investment property group 2 as well as the significant unobservable inputs used:

Asset Groups Level 2	**Approaches and evaluation techniques**	**Significant unobservable incoming data**
Warehouses	*a.Revenue approach* Valuation Technique: Method of capitalized rental income as a scheme for the application of discounted cash flows (basic valuation technique)	a. Recommended rate of return b. Time of realization of rental transactions
	b. Spending method Valuation Technique: Cost-based creation or replacement cost method - depreciated recoverable amount (as an auxiliary assessment)	* Adjusted cost of building identical objects and delivery prices of machines and equipment analogues
Offices, production buildings and social facilities	*Revenue approach* Valuation Technique: Method of capitalized rental income as a scheme for the application of discounted cash flows (basic valuation technique)	a. Recommended rate of return b. Time of realization of rental transactions

The key assumptions used in the calculation of the fair value of investment property as at 31.12.2017 are:

• rate of return - from 4.01% to 8.50%;

• term of rental transactions - from 3 to 12 months;

As a result of the calculations made in 2017, there was a need to recognize losses, net of revaluation gains to fair value of BGN 34 thousand. (2016: BGN 233 thousand) (*Annex 4*).

18. INVESTMENTS IN SUBSIDIARIES

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

		31.12.2017 BGN '000	***Interest %***	***31.12.2016 BGN '000***	***Interest %***
Unipharm AD	Bulgaria	32,218	98.77	26,749	77.88
Sopharma Trading AD	Bulgaria	30,112	72.67	29,824	72.56
Briz SIA	Latvia	22,270	66.13	22,270	66.13
Sopharma Ukraine EOOD	Ukraine	11,783	100.00	11,783	100.00
Veta Pharma AD	Bulgaria	9,666	99.98	6,549	68.05
Biopharm Engineering AD	Bulgaria	8,384	97.15	8,384	97.15
Momina Krepost AD	Bulgaria	4,875	93.55	4,874	93.54
Vitamina AD	Ukraine	1,980	99.56	1,980	99.56
Pharmalogistica AD	Bulgaria	1,261	89.39	1,190	84.93
Aromania OOD	Bulgaria	750	76.00	-	-
Sopharma Buildings REIT	Bulgaria	567	40.38	568	40.39
TOO Sopharma Kazakhstan	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
RAP Pharma International OOD	Moldova	293	51.00	-	-
Phyto Palauzovo AD	Bulgaria	57	95.00	57	95.00
Medica Zdrave EOOD – in liquidation	Bulgaria	-	100.00	5	100.00
Total		**120,959**		**115,442**	

As at 31 December 2017, the composition of investments in the subsidiaries includes the investment in Sopharma Poland OOD – in liquidation, Poland, which is fully impaired (31 December 2016: fully impaired investment in Sopharma Poland OOD – in liquidation, Poland).

Sopharma AD exercises a direct 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.
- 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.
- 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.

- Biopharm Engineering AD – Scope of activities: manufacture and trade in solutions for infusion. Date of acquisition – 10 March 2006.
- Sopharma Trading AD – Scope of activities: trade in pharmaceuticals. Date of acquisition – 8 June 2006.
- Momina Krepost AD – Scope of activities: development, implementation and production of medical goods for human and veterinary medicine. Date of acquisition – 1 January 2008.
- Vitamina AD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 18 January 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.
- 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.
- 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 a subsidiary) – 1 January 2014.
- TOO Sopharma Kazakhstan – Scope of activities: trade in pharmaceuticals. Date of acquisition – 31 December 2014.
- Veta Pharma AD – Scope of activities: production of medicinal, non-medicinal and other products. Date of acquisition – 11 November 2016.
- Medica Zdrave EOOD – in liquidation – Scope of activities: trade with medicinal products, sanitary- hygene products. Date of acquisition (from the date of merger of the subsidiary) – 01.01.2016. Deletion of the company in the Commercial register at the Registrar Agency on 22 February 2017.
- RAP Pharma International OOD – Scope of activities: trade with pharmaceutical products. Date of acquisition – 14 April 2017.
- Aromania OOD – Scope of activities: trade with goods, purchase and management of real estate. Date of acquisition – 31 July 2017

The shares of Sopharma Trading AD are traded on the stock exchange as the average monthly price of realized deals for December 2017 is BGN 7.52 per share (December 2016: BGN 6.14).

The shares of Momina Krepost AD are traded on the stock exchange as the average monthly price of realized deals for December 2017 is BGN 3.00 per share (December 2016: BGN 3.41).

The shares of Sopharma Buildings REIT are traded on the stock exchange in limited volumes and in December 2017 there are no trades (December 2016: no trades).

The shares of Unipharm AD are traded on the stock exchange and in December 2017 there are no trades (December 2016: BGN 4.35).

The movement of investments in subsidiaries is presented below:

	Investments in subsidiaries	
Acquisition cost	***31.12.2017 BGN '000***	***31.12.2016 BGN '000***
Balance at 1 January	**146,765**	**137,935**
Additional interest acquired	8,946	7,979
New interest acquired	1,043	6,549
Deletion of subsidiaries due to liquidation	(5)	-
Interest sold without loss of control	(1)	(7)
Acquired through capital increase	-	48
Interest sold with loss of control	-	(5,739)
Balance at 31 December	**156,748**	**146,765**
Impairment charged		
Balance at 1 January	**31,323**	**26,099**
Impairment charged	-	5,224
Balance at 31 December	**31,323**	**31,323**
Carrying amount at 31 December	**125,425**	**115,442**
Carrying amount at 1 January	**115,442**	**111,836**

Impairment of investments in subsidiaries

At each reporting date of the statement of financial position, the management analyzes and assesses whether there are indicators of impairment of its investments in subsidiaries. The main indicators for impairment are: significant reduction of the volume (over 25%) and / or cessation of the activity of the company invested; losses on markets, customers or technological issues, reporting of losses over a longer period of time (over three years), accounting for negative net assets or assets below the registered core share capital, deterioration of key financial indicators, market capitalization. The calculations were made by the management with the assistance of independent licensed assessors. As a basis for the pre-tax cash flow projections, the financial budgets developed by the respective companies covering the three to five-year period, as well as other medium- and long-term plans and intentions for their development, forecasts for key economic indicators at national and EU / Balkan level. The key assumptions used in the recoverable amount calculations as at 31.12.2017 are:

- growth rate - from 0% to 13.5%;
- post-forecast growth in terminal value calculation - 1.8% to 2.9%;

- interest rate / debt / - from 2.3% to 17.8%;
- Discount rate (based on WACC) - from 6.1% to 22.3%.

The key assumptions used in the calculations are specifically determined for each company treated as a separate cash-generating unit and according to its specific business, business environment and risks.

Tests and estimates by the management for impairment of investments are made in the light of its projections and intentions regarding the future economic benefits expected from the subsidiaries, including commercial and industrial experience, securing positions in Bulgarian and foreign markets, expectations for future sales, etc. The calculations are made with the assistance of an independent licensed appraiser.

As a result of the calculations made in 2017, there is a need to recognize impairment of certain investments in subsidiaries amounting to BGN 4,466 thousand. (2016: BGN 5,224 thousand) (*Note 10).*

19. INVESTMENTS IN ASSOCIATES

As at 31.12.2017 the book value of the investments in associates amounts to BGN 7,740 thousand. and includes a participation of 32.57% of the capital of Doverie Obedinen Holding AD (31 December 2016: BGN 5,219 thousand and a participation of 30.22%).

Doverie Obedinen Holding AD has as main activity the acquisition, management, evaluation and sale of shares and / or shareholdings in Bulgarian and foreign companies - legal entities.

The shares of Doverie Obedinen Holding AD are traded on the stock exchange as the average monthly price of realized deals for December 2017 is BGN 2.09 per share (December 2016: BGN 1.08).

The movement of investments in associates is presented below:

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
Balance on 1 January	**5,219**	**-**
Acquisition of shares	4,053	3,117
Sales of shares	(1,532)	-
Transfer from available and for sale investnets *(Level 3)*	-	2,102
Balance on 31 December	**7,740**	**5,219**

Impairment of investments in associates

At each date of the statement of financial position, the management assesses whether there are indicators of impairment of its investments in associates.

The estimates of the guidance for impairment of investments are made in the light of its projections and intentions regarding the future economic benefits expected from the associated companies, including commercial and industrial experience, securing positions in Bulgarian and foreign markets, expectations for future sales and so on.

In 2017, there was no need to recognize impairment of investments in associates.

20. AVAILABLE-FOR-SALE INVESTMENTS

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

	31.12.2017 *BGN '000*	*Interest* *%*	*31.12.2016* *BGN '000*	*Interest* *%*
Lavena AD	3,519	11.30	2,883	11.29
Olainfarm AD - Latvia	1,826	0.77	1,796	0.77
Achieve Life Science Inc. – USA	770	3.28	-	-
Hydroizomat AD	489	13.81	131	10.67
Sopharma properties REIT	317	0.24	-	-
Todorov AD	155	10.56	37	4.98
BTF Expat Bulgaria	78	0.28	82	0.32
Chimimport AD	26	0.01	-	-
Elana Agrocredit AD	13	0.05	-	-
Ecobulpack AD	7	1.48	7	1.48
UniCredit Bulbank AD	3	0.001	3	0.001
Sirma Group Holding AD	2	0.003	-	-
Expo Group AD	1	0.05	-	0.01
Achieve Lifescience Inc.	-	-	290	4.70
Total	**7,206**		**5,229**	

All above companies except for Olainfarm AD, Latvia, and Achieve Life Science Inc., USA, and Achieve Lifescience Inc., USA, have their seat and operations in Bulgaria.

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

		31.12.2017			***31.12.2016***	
Available-for-sale investments	***Number of shares***	***Fair value per share*** ***BGN***	***Fair value as per the statement of financial position*** ***BGN '000***	***Number of shares***	***Fair value per share*** ***BGN***	***Fair value as per the statement of financial position*** ***BGN '000***
Lavena AD	36,170	97.29	3,519	30,100	95.78	2,883
Olainfarm AD - Latvia	108,500	16.83	1,826	108,500	16.55	1,796
Achieve Life Science Inc. – USA	359,305	2.14	770	-	-	-
Hydroizomat AD	412,936	1.18	489	318,889	0.41	131
Sopharma properties REIT	48,391	6.55	317	-	-	-
Todorov AD	359,001	0.43	155	169,468	0.22	37
BTF Expat Bulgaria	64,316	1.21	78	74,550	1.10	82

Chimimport AD	15,093	1.72	26	-	-	-
Elana Agrocredit AD	10,000	1.30	13	-	-	-
Sirma Group Holding AD	2,000	1.00	2	-	-	-
Total			**7,195**			**4,929**

The investments in Ecobulpack AD, UniCredit Bulbank AD, Expo group AD and Achieve Life Science Inc., USA, are valued and presented at acquisition price (cost).

Fair value hierarchy

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:

Available-for-sale financial investments (shares)	***Fair value***	***Level 1***	***Level 2***
	31.12.2017		
	BGN '000	***BGN '000***	***BGN '000***
Lavena AD	3,519	-	3,519
Olainfarm AD - Latvia	1,826	1,826	-
Achieve Life Science Inc. – USA	770	770	-
Hydroizomat AD	489	489	-
Sopharma properties REIT	317	317	-
Todorov AD	155	-	155
BTF Expat Bulgaria	78	78	-
Chimimport AD	26	26	-
Elana Agrocredit AD	13	13	-
Sirma Group Holding AD	2	2	-
Total	**7,195**	**3,521**	**3,674**

Available-for-sale financial investments (shares)	***Fair value***	***Level 1***	***Level 2***
	31.12.2016		
	BGN '000	***BGN '000***	***BGN '000***
Lavena AD	2,883	-	2,883
Olainfarm AD - Latvia	1,796	1,796	-
Hydroizomat AD	131	131	-
BTF Expat Bulgaria	82	82	-
Todorov AD	37	37	-
Total	**4,929**	**2,046**	**2,883**

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

Available-for-sale financial investments (shares)	***Level 1***	***Level 2***	***Level 3***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Balance at 1 January 2016	**1,680**	**1,428**	**2,102**	**5,210**
Purchases	461	328	-	789
Issue of shares	230	-	-	230
Sales	(731)	(3)	-	(734)
Transfer to investment in associates *(Note 19)*	-	-	(2,102)	(2,102)
Transfer from Level 2 to Level 1	132	(132)	-	-
Realised gain/(loss) included in the current profit and loss for the year in the item Finance income – *Net gain on transactions with securities*	23	2		25
Unrealised loss included in the current profit and loss for the year *(Note 12)*	(2)	(2)		(4)
Unrealised gain/(loss), net, included in other comprehensive income *(Note 14)*	253	1,262		1,515
Balance at 31 December 2016	**2,046**	**2,883**	**-**	**4,929**
Purchases	402	73	-	475
Issue of shares	424	478	-	902
Sales	(396)	(16)	-	(412)
Transfer from Level 1 to Level 2	(37)	37	-	-
Realised gain/(loss) included in the current profit and loss for the year in the item Finance income – *Net gain on transactions with securitie*	11	10	-	21
Unrealised loss included in the current profit and loss for the year *(Note 12)*	(4)	-	-	(4)
Unrealised gain/ (loss) net included in other comprehensive income for the year *(Note 14)*	1,075	209	-	1,284
Balance at 31 December 2017	**3,521**	**3,674**	**-**	**7,195**

Techniques and approaches for evaluation

Fair value estimates at level 2 are based on market comparisons. The valuation technique is based on the market multiplier method.

21. LONG-TERM RECEIVABLES FROM RELATED PARTIES

The long-term receivables from related parties include:

	31.12.2017	*31.12.2016*
	BGN '000	***BGN '000***
Long-term loans granted	21,340	10,780
Long-term rental deposit granted	243	267
Total	**21,583**	**11,047**

Long-term loans are granted to the *following related parties:*

	31.12.2017	*31.12.2016*
	BGN '000	***BGN '000***
Associate company	16,538	9,797
Other related parties	3,818	-
Subsidiary company	984	983
Total	**21,340**	**10,780**

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

Currency	***Contracted amount***	***Maturity***	***Interest %***	***31.12.2017***		***31.12.2016***	
	'000			***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
					including interest		***including interest***
EUR	29,384	31.12.2019	3.50%	*16,538*	*17*	*9,797*	*48*
BGN	13,900	11.06.2019	3.00%	*3,818*	*3*	*-*	*-*
EUR	500	01.03.2019	6.60%	*984*	*21*	*983*	*5*
				21,340	***41***	***10,780***	***53***

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 and amounts to BGN 235 thousand (31 December 2016: BGN 267 thousand valid until 19 December 2019 and 1 August 2022).

22. OTHER LONG-TERM RECEIVABLES

Company's *other long-term receivables* include:

	31.12.2017	*31.12.2016*
	BGN '000	*BGN '000*
Receivables under transactions in securities	2,939	3,389
Long-term loans provided	945	-
Receivables on sales of LTA	325	325
Total	**4,209**	**3,714**

The receivables under transactions in securities 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 2,939 thousand and expected maturity on 31 December 2020 (31 December 2016: BGN 3,389 thousand).

The terms of long-term loans granted to third parties are as follows:

Currency	*Contract amount*	*Maturity*	*Intrest %*	*31.12.2017*		*31.12.2016*	
	'000			*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
					including interest		*including interest*
EUR	480	12.10.2022	3.05%	*945*	*6*	-	-
				945	**6**	**-**	**-**

The receivables on sales of non-current assets under deferred payment terms at the amount of BGN 325 thousand mature on 10 April 2021 (31 December 2016: BGN 325 thousand).

23. INVENTORIES

Company's *inventories* include:

	31.12.2017	*31.12.2016*
	BGN '000	*BGN '000*
Materials	27,580	27,549
Finished products	22,941	18,182
Semi-finished products	11,525	10,339
Work in progress	3,359	5,488
Goods	104	153
Total	**65,509**	**61,711**

Materials by type are as follows:

	31.12.2017 ***BGN '000***	***31.12.2016*** ***BGN '000***
Basic materials	24,607	25,984
Materials in transit	2,103	483
Technical materials	472	461
Spare parts	180	218
Auxiliary materials	159	330
Other	59	73
Total	**27,580**	**27,549**

Basic materials by type are as follows:

	31.12.2017 ***BGN '000***	***31.12.2016*** ***BGN '000***
Substances	11,916	12,602
Chemicals	3,583	3,789
Herbs	2,630	2,531
Ampoules	2,156	1,471
Packaging materials	1,623	2,388
PVC and aluminium foil	1,311	1,092
Sanitary-hygiene and dressing materials	929	1,323
Tubes	237	585
Vials	222	203
Total	**24,607**	**25,984**

Finished products existing at 31 December include:

	31.12.2017 ***BGN '000***	***31.12.2016*** ***BGN '000***
Tablet dosage forms	13,945	11,159
Ampoule dosage forms	4,429	2,323
Syrups	1,002	929
Ointments	983	1,499
Bandages	768	742
Lyophilic products	534	239
Inhalation products	393	79
Plasters	264	378
Sanitary-hygene materials	202	418
Suppositories	195	199
Drops	159	101
Medicinal cosmetics	45	116
Sachets	22	-
Total	**22,941**	**18,182**

Pledges were established on Company's inventories with carrying amount of BGN 31,441 thousand as at 31 December 2017 as collateral to bank loans received (31 December 2016: BGN 24,425 thousand) *(Note 33 and Note 39).*

24. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:

	31.12.2017 BGN '000	***31.12.2016 BGN '000***
Receivables from subsidiaries	*73,242*	*65,406*
Impairment of uncollectable receivables	*(1,648)*	*(3,243)*
	71,594	62,163
Receivables from companies related through key managing personnel	2,956	11,593
Impairment of uncollectable receivables	-	(269)
	2,956	11,324
Receivables from other related parties	370	96
Receivables from companies related through a main shareholder	-	13
Total	**74,920**	**73,596**

The receivables from related parties by type are as follows:

	31.12.2017 BGN '000	***31.12.2016 BGN '000***
Receivables on sales of finished products and materials	63,326	55,682
Impairment of uncollectable receivables	*(848)*	*(1,134)*
	62,478	54,548
Trade loans granted	13,242	21,426
Impairment of uncollectable receivables	*(800)*	*(2,378)*
	12,442	19,048
Total	**74,920**	**73,596**

The receivables on sales are interest-free and BGN 38,342 thousand of them are denominated in BGN (31 December 2016: BGN 38,891 thousand) and in EUR – BGN 24,136 thousand (31 December 2016: BGN 15,657 thousand).

The receivables from a subsidiary with principal activities in the field of trade in pharmaceuticals were the most significant and amounted to BGN 38,226 thousand as at 31 December 2017 or 61.18 % of all receivables on sales of finished products and materials to related parties (31 December 2016: BGN 38,828 thousand – 71,18%).

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:

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
up to 30 days	10,441	6,321
from 31 to 90 days	26,539	24,421
from 91 to 180 days	17,059	19,527
from 181 to 240 days	1,208	862
over 241	581	1,639
Total	**55,828**	**52,770**

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

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
from 31 to 90 days	39	285
from 91 to 180 days	2,227	-
from 181 to 365 days	4,384	36
over 365	-	-
Total	**6,650**	**321**

The overdue 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:

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
From 91 to 180 days	-	429
from 180 to 365 days	-	528
over 365 days	848	1,634
Allowance for impairment	(848)	(1,134)
Total	**-**	**1,457**

The overdue 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:

	2017	***2016***
	BGN '000	***BGN '000***
Balance at 1 January	**1,134**	**1,062**
Impairment charge	847	288
Transfer of impairment from commercial receivables	3	-
Reversed impairment	(1,136)	(216)
Balance at 31 December	**848**	**1,134**

Special pledges have been established as at 31 December 2017 on receivables from related parties at the amount of BGN 54,505 thousand as collateral under bank loans received (31 December 2016: BGN 18,229 thousand) *(Note 33)*.

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

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
Subsidiaries	*9,919*	*9,737*
Impairment of commercial loans	*(800)*	*(2,109)*
	9,119	7,628
Receivables from companies related through key managing personnel	2,956	11,593
Impairment of commercial loans	-	*(269)*
	2,956	11,324
Other related parties	367	96
Total	**12,442**	**19,048**

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

	2017	***2016***
	BGN '000	***BGN '000***
Balance at 1 January	**2,378**	**1,963**
Impairment charge	340	415
Recovered impairment	(1,909)	-
Impairment written off	(9)	-
Balance at 31 December	**800**	**2,378**

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

Currency	***Contracted amount '000***	***Maturity***	***Interest %***	***31.12.2017***		***31.12.2016***	
				BGN '000	***BGN '000 including interest***	***BGN '000***	***BGN '000 including interest***
to companies related through key managing personnel							
BGN	66,700	31.12.2018	2.81%	*2,956*	*4*	*4,472*	*72*
EUR	8,154	31.12.2017	4.10%	-	-	*6,292*	*5*
EUR	12,807	31.12.2017	3.05%	-	-	*560*	*1*
to subsidiaries							
EUR	2,770	31.12.2018	4.70%	*4,702*	-	*4,957*	-
BGN	11,979	31.12.2018	4.10%	*3,369*	*9*	*2,670*	*66*
EUR	375	10.05.2018	3.95%	*748*	*15*	-	-
BGN	850	31.12.2018	3.50%	*300*	-	*1*	-
to other related parties							
BGN	300	31.08.2018	3.10%	*305*	*5*	-	-
BGN	190	31.12.2018	3.50%	*62*	-	*96*	-
				12,442	***33***	**19,048**	***144***

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 corporate shares and securities (shares).

25. TRADE RECEIVABLES

Trade receivables include:

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
Receivables from clients	21,920	24,320
Impairment of uncollectable receivables	(559)	(286)

	21,361	24,034
Advances granted	1,137	1,377
Total	**22,498**	**25,411**

The *receivables from clients* are interest-free and BGN 2,287 thousand of them are denominated in BGN (31 December 2016: BGN 2,809 thousand), in EUR – BGN 17,985 thousand (31 December 2016: BGN 19,758 thousand), in USD – BGN 1,089 thousand (31 December 2016: BGN 1,467 thousand) and Polish zloty - none (31.12.2016: none)

One main counterpart of the Company is accountable for about 75.55 % of the receivables from clients (2016: one main counterpart accountable for 69.70%).

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 21,361 thousand were established at 31 December 2017 as collateral to bank loans received (31 December 2016: BGN 21,312 thousand).

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

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
up to 30 days	5,765	12,494
from 31 to 90 days	6,468	8,145
from 91 to 180 days	823	373
Total	**13,056**	**21,012**

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

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
from 31 to 90 days	7,437	1,085
from 91 to 180 days	116	349
from 181 to 365 days	527	600
over 365 dyas	225	45
Total	**8,305**	**2,079**

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

	31.12.2017	*31.12.2016*
	BGN '000	*BGN '000*
from 31 to 90 days	-	105
from 91 to 180 days	-	135
from 181 to 365 days	-	438
over 365 days	559	551
Allowance for impairment	(559)	(286)
Total	**-**	**943**

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

	2017	*2016*
	BGN '000	*BGN '000*
Balance at 1 January	**286**	**631**
Impairment charge	376	261
Reversed impairment	(35)	(362)
Transfer to impairment of court and receivables	(65)	-
Transfer to impairment of receivables from related parties	(3)	-
Amounts written-off as uncollectable	-	(244)
Balance at 31 December	**559**	**286**

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

	31.12.2017	*31.12.2016*
	BGN '000	*BGN '000*
Inventories	858	753
Services	279	624
Total	**1,137**	**1,377**

The *advances granted* are regular. They include: in BGN – BGN 457 thousand (31 December 2016: BGN 1,119 thousand), in EUR – BGN 135 thousand (31 December 2016: BGN 209 thousand), in USD – BGN 541 thousand (31.12.2016: BGN 48 thousand) and in other currency – BGN 4 thousand (31 December 2016: BGN 1 thousand).

26(A). LOANS GRANTED TO THIRD PARTIES

The loans granted to third parties are intended to provide support for financing of activities, performed by these entities, but having common strategic objectives. They are secured through pledges on securities (shares) and receivables.

	31.12.2017	*31.12.2016*
	BGN '000	*BGN '000*
Commercial loans granted	*3,639*	*2,718*
Impairment of commercial loans	*(438)*	*(273)*
Total	**3,201**	**2,445**

The movement of the impairment allowance relating to the loans granted to third parties is as follows:

	2017	*2016*
	BGN '000	*BGN '000*
Balance on 1 January:	**273**	**-**
Reported impairment	165	273
Balance on 31 December:	**438**	**273**

The terms and conditions under which loans are granted to third parties are as follows:

Currency	*Contracted amount*	*Maturity*	*Interest %*	*31.12.2017*		*31.12.2016*	
	'000			*BGN'000*	*BGN'000 including interest*	*BGN'000*	*BGN'000 including interest*
BGN	3,057	31.12.2018	4.30%	*2,846*	-	*1,769*	-
BGN	532	31.12.2018	4.50%	*251*	*1*	*130*	-
BGN	949	31.12.2018	4.70%	*104*	*1*	*546*	*3*
				3,201	**2**	**2,445**	**3**

26(B). OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	31.12.2017	*31.12.2016*
	BGN '000	*BGN '000*
Taxes refundable	3,093	3,655
Prepayments	787	969
Claims	175	23
Receivables on deposits placed as guarantees	147	189
Amounts granted to an investment intermediary	125	101

Financial assets to fair value through profit	-	316
Court and awarded receivables	*2,219*	*2,180*
Impairment of court receivables	*(2,219)*	*(2,163)*
	-	17
Other	93	66
Total	**4,420**	**5,336**

Taxes refundable include:

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
Excise duties	3,093	2,737
Corporate tax	-	476
Value added tax	-	442
Total	**3,093**	**3,655**

Prepayments include:

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
Subscriptions	298	371
Insurance	268	387
Licence and patent fees	53	38
Vouchers	44	11
Rentals	38	37
Other	86	125
Total	**787**	**969**

Deposits placed as guarantees include:

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
Guarantees under contracts for fuel supply	86	86
Guarantees under construction contracts	44	66
Guarantees under rental contracts	2	12
Guarantees under contracts for supply of LTA	-	19
Other	15	6
Total	**147**	**189**

27. CASH AND CASH EQUIVALENTS

Cash includes:

	31.12.2017	*31.12.2016*
	BGN '000	*BGN '000*
Cash at current bank accounts	*3,264*	*9,341*
Impairment of cash at current bank accounts	*(166)*	*(172)*
Net change of cash in current accounts	3,098	9,169
Cash in hand	107	99
Blocked cash under issued bank guarantees	11	7
Total	**3,216**	**9,275**

Cash structure at current bank accounts is as follows: in BGN: BGN 2,210 thousand (31 December 2016: BGN 7,244 thousand), in EUR – BGN 446 thousand (31 December 2016: BGN 1,729 thousand), in USD – BGN 376 thousand (31 December 2016: BGN 185 thousand) and in other currency – BGN 66 thousand (31 December 2016: BGN 11 thousand).

Cash in hand includes: in BGN: BGN 106 thousand (31 December 2016: BGN 79 thousand), in EUR – none (31 December 2016: BGN 4 thousand), in USD – BGN none (31 December 2016: BGN 1 thousand) and in other currency – BGN 1 thousand (31 December 2016: BGN 15 thousand).

28. EQUITY

Share capital

As at 31 December 2017, 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.

Ordinary shares issued and fully paid	***Shares***	***Share capital net of treasury shares***
	number	***BGN '000***
Balance at 1 January 2016	**129,578,603**	**117,201**
Treasury shares sold	300	1
Treasury shares	(443,418)	(1,207)
Expense on treasury shares	-	(6)
Balance at 31 December 2016	**129,135,485**	**115,989**
Balance at 1 January 2017	**129,135,485**	**115,989**
Effects from merger of a subsidiary	181,302	602
Treasury shares sold	419,931	1,399
Treasury shares		(16,974)

	(3,971,799)	
Expense on treasury shares	-	(52)
Balance at 31 December 2017	**125,764,919**	**100,964**

On 01.01.2017, under a signed agreement, a transformation was made through the merger of a subsidiary in Sopharma AD. The effect of the merger at the expense of the redeemed 181,302 shares amounts to BGN 602 thousand.

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

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
Equity (registered), nominal	134,798	134,798
Premium reserve	8,785	8,785
Total paid-in capital	**143,583**	**143,583**

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 9,032,980 at the amount of BGN 33,834 thousand as at 31 December 2017 (31 December 2016: 5,662,416 shares at the amount of BGN 18,809 thousand). 3,971,799 shares were purchased in the current year (2016: 443,418 shares) and 419,931 shares were sold and 181,302 shares is the effect of the merger of a subsidiary in Sopharma AD (2016: 300 shares).

As at 31 December 2017, the Company has no **shares held by its subsidiaries** (31.12.2016: Unipharm held 151,166 shares);

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

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
Statutory reserves	51,666	47,841
Property, plant and equipment revaluation reserve	23,839	24,171
Available-for-sale financial assets reserve	4,089	2,805
Additional reserves	251,081	229,586
Total	**330,675**	**304,403**

Statutory reserves at the amount of BGN 51,666 thousand (31 December 2016: BGN 47,841 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 42,881 thousand (31 December 2016: BGN 39,056 thousand), and (b) share premium representing the excess of the issue value over the nominal value of the issued shares on the merger of subsidiaries into Sopharma AD – BGN 8,785 thousand (31 December 2016: BGN 8,785 thousand)

The movements of statutory reserves were as follows:

	2017	***2016***
	BGN '000	***BGN '000***
Balance at 1 January	**47,841**	**45,256**
Distribution of profit	3,825	2,585
Balance at 31 December/31 December	**51,666**	**47,841**

The ***property, plant and equipment revaluation reserve***, amounting to BGN 23,839 thousand (31 December 2016: BGN 24,171 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:

	2017	***2016***
	BGN '000	***BGN '000***
Balance at 1 January	**24,171**	**22,286**
Transfer to retained earnings	(293)	(481)
Revaluation of property, plant and equipment	(43)	2,629
Deferred tax relating to revaluations	4	(263)
Balance at 31 December/31 December	**23,839**	**24,171**

The ***available-for-sale financial assets reserve***, amounting to BGN 4,089 thousand (31 December 2016: BGN 2,805 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:

	2017	*2016*
	BGN '000	***BGN '000***
Balance at 1 January	**2,805**	**1,290**
Net gain arising on revaluation of available-for-sale financial assets	1,296	1,522
Cumulative (gains)/losses reclassified to current profit or loss upon sale/realisation of available-for-sale financial assets	(12)	(7)
Balance at 31 December/31 December	**4,089**	**2,805**

Additional reserves at the amount of BGN 251,081 thousand (31 December 2016: BGN 229,586 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:

	2017	*2016*
	BGN '000	***BGN '000***
Balance at 1 January	**229,586**	**215,395**
Distributed profit in the year	21,495	14,191
Balance at 31 March/ 31 December	**251,081**	**229,586**

Retained earnings amount to BGN 46,618 thousand as at 31 December 2017 (31 December 2016: BGN 43,023 thousand

The movements of ***retained earnings*** are as follows:

	2017	*2016*
	BGN '000	***BGN '000***
Balance at 1 January	**43,023**	**41,269**
Net profit for the year (originally reported)	42,140	37,770
Effect from treasury shares sold	479	-
Transfer from property, plant and equipment revaluation reserve	293	481
Distribution of profit to reserves	(25,320)	(16,776)
Distribution of profit for dividends	(12,930)	(9,070)

Actuarial losses from remeasurements	(465)	(120)
Effects from merger of a subsidiary	(602)	(10,517)
Effects from merger of a subsidiary of actuarial losses from remeasurements	-	(14)
Balance at 31 December/31 December	**46,618**	**43,023**

Net earnings per share

	31.12.2017	***31.03.2016***
Weighted average number of shares	129,483,060	129,393,992
Net profit for the year (BGN '000)	42,140	37,770
Net earnings per share (BGN)	**0.33**	**0.29**

29. LONG-TERM BANK LOANS

			31.12.2017			***31.12.2016***		
Currency	***Contracted loan amount***	***Maturity***	***Non-current portion***	***Current portion***	***Total***	***Non-current portion***	***Current portion***	***Total***
	'000		***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Investment-purpose loans								
EUR	32 000	15.04.2021	16,706	7,172	**23,878**	23,844	7,185	**31,029**
EUR	565	25.10.2018	-	220	**220**	220	276	**496**
			16,706	**7,392**	**24,098**	**24,064**	**7,461**	**31,525**

The investment-purpose loan received in Euro was agreed at interest rate based on three-month EURIBOR plus a mark-up of up to 1.7 points but not less than 1.7 points and one-motnh EURIBOR plus a mark-up of 1.7 points, but no less than 1.7 points (2016: three-month EURIBOR plus a mark-up of up to 2.2 points but not less than 2.2 points and one-month EURIBOR plus a mark-up of 3.9 points).

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

- Mortgages of real estate with a carrying amount of BGN 42,387 thousand as at 31 December 2017 (31 December 2016: BGN 44,176 thousand) (*Note 15*);
- Special pledges on machinery and equipment with a carrying amount of BGN 17,390 thousand as at 31 December 2017 (31 December 2016: BGN 18,724 thousand) *(Note 15).*

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*
	31.12.2017	***31.12.2017***	***31.12.2016***	***31.12.2016***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Property, plant and equipment	74,269	7,427	75,951	7,595
including revaluation reserve	*22,651*	*2,265*	*23,021*	*2,302*
Intangible assets	1,661	165	1,899	190
Investment property	6,026	603	5,146	515
including revaluation reserve	*187*	*19*	*187*	*19*
Biological assets	26	3	14	1
Total deferred tax liabilities	**81,982**	**8,198**	**83,010**	**8,301**
Payables to personnel	(7,205)	(721)	(5,900)	(590)
Receivables	(5,136)	(514)	(6,851)	(685)
Inventories	(4,553)	(455)	(4,126)	(413)
Accrued liabilities	(591)	(59)	(263)	(26)
Cash	(166)	(17)	(172)	(17)
Total deferred tax assets	**(17,651)**	**(1,765)**	**(17,312)**	**(1,731)**
Deferred income tax liabilities, net	**64,317**	**6,432**	**65,698**	**6,570**

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.

The change in the balance of deferred taxes for 2017 is as follows:

Deferred tax (liabilities)/ assets	***Balance at 1 January 2017***	***Recognised in the statement of comprehensive income***	***Recognised in equity***	***Recognised in the statement of changes in equity and the current tax return***	***Balance at 31 December 2017***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Property, plant and equipment	(7,595)	(125)	-	43	(7,427)
Intangible assets	(190)	25			(165)
Investment property	(515)	(88)	-	-	(603)
Biological assets	(1)	(2)	-	-	(3)
Payables to personnel	590	131	-	-	721
Receivables	685	(171)			514
Inventories	413	42	-	-	455
Accrued liabilities	26	33	-	-	59
Cash	17	-	-	-	17

Total	**(6,570)**	**95**	**-**	**43**	**(6,432)**

The change in the balance of deferred taxes for 2016 was as follows:

Deferred tax (liabilities)/ assets	*Balance at 1 January 2016*	*Recognised in the statement of comprehensive income*	*Recognised in the statement of comprehensive income*	*Recognised in the statement of changes in equity and the current tax return*	*Balance at 31 December 2016*
	BGN '000	*BGN '000*		*BGN '000*	*BGN '000*
Property, plant and equipment	(6,588)	(769)	(263)	24	(7,595)
Intangible assets	(165)	(25)			(190)
Investment property	(459)	(56)	-	-	(515)
Biological assets	(1)	-	-	-	(1)
Receivables	639	47	-	-	685
Payables to personnel	520	70	-	-	590
Inventories	392	21	-	-	413
Accrued liabilities	42	(16)	-	-	26
Cash	17	-	-	-	17
Total	**(5,600)**	**(728)**	**(263)**	**24**	**(6,570)**

31. GOVERNMENT GRANTS

The 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.

The table below presents the non-current and the current portion of the grants received by type:

	31.12.2017			***31.12.2016***		
	Non-current portion	*Current portion*	*Total*	*Non-current portion*	*Current portion*	*Total*
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Acquisition of machinery and equipment for a new tablets production line	2 817	179	**2 996**	2 996	179	**3 175**
Implementation of innovative products in the production of ampoule dosage forms	2 300	200	**2 500**	2 500	200	**2 700**

Acquisition of machinery and equipment for technological renovation and modernisation of tablet production	250	120	**370**	370	120	**490**
Acquisition of ventilation and climatization equipment	111	9	**120**	120	9	**129**
	5 478	**508**	**5 986**	**5 986**	**508**	**6 494**

The current portion of the financing will be recognised as current income over the following 12 months from the date of the separate statement of financial position and presented as 'other current liabilities' (*Note 38).*

32. RETIREMENT BENEFIT OBLIGATIONS

Long-term payables to personnel include:

	31.12.2017 BGN '000	***31.12.2016 BGN '000***
Long-term retirement benefit obligations	3 377	2 731
Long-term benefit obligations for tantieme	247	199
Total	**3 624**	**2 930**

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 for the same employer during the last 10 years of their service the indemnity amounts to 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 2017 by using the services of a certified actuary.

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

	2017	*2016*
	BGN '000	*BGN '000*
Present value of the obligation at 1 January	**2 731**	**2 516**
Current service cost	314	327
Interest cost	77	76
Net actuarial loss recognised for the period	30	2
Payments made in the year	(270)	(324)
Remeasurement gains or losses on the retirement benefit obligations, incl. from:	495	134
Actuarial gains / losses from changes in demographic assumptions	13	(5)
Actuarial losses from changes in financial assumptions	267	62
Actuarial losses / (gains) on adjustments due to past experience	215	77
Present value of the obligation at 31 December	**3 377**	**2 731**

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

	2017	*2016*
	BGN '000	*BGN '000*
Current service cost	314	327
Interest cost	77	76
Net actuarial loss recognised for the period	30	2
Components of expenses on plans with defined income, acknowledged in the profit or loss *(Note 7)*	**421**	**405**
Remeasurement gains or losses on the retirement benefit obligations, incl. from:		
Actuarial gains / losses from changes in demographic assumptions	13	(5)
Actuarial losses from changes in financial assumptions	267	62
Actuarial losses / (gains) on adjustments due to past experience	215	77
Components of expenses on plans with defined income, acknowledged in other component of comprehensive income *(Note 14)*	**495**	**134**
Total	**916**	**539**

The following actuarial assumptions have been made in determining the present value at 31.12.2017:

- a rate of annual interest rate of 1.4% (2016: 2.5%) was used to determine the discount factor. The assumption made is based on yield data of long-term government securities with 10-year maturity;

- the assumption of the future salary level is based on the information provided by the management of the company and amounts to 5% annual growth compared to the previous reporting period (2016: 5%);

- mortality - according to the NSI mortality chart for the total mortality rate of the population of Bulgaria for the years 2014-2016 (2016: 2013-2015);

- Rate of turnover - between 0 and 16% depending on five distinct age groups (2016: between 0 and 16%).

This defined benefit plan creates the Company's exposure to the following risks: investment, interest rate, longevity risk and rising wage risk. The management of the company determines them as follows:

- for the investment - as long as it is a non-funded plan, the company should monitor and balances the upcoming payments on it by providing sufficient cash resources. The historical experience and the structure of the obligation show that the necessary resources are not essential to the commonly held liquidity;

- for the interest rate - any reduction in the yield of government securities of similar duration results in an increase in the obligation under the plan;

- for longevity risk - the present value of the retirement benefit obligation is calculated using the best judgment and current mortality information of the plan participants. The increase in life expectancy would have an impact on the possible increase in the liability. Relative sustainability of this indicator has been observed in recent years; and

- for wage risk - the present value of the retirement benefit obligation is calculated by applying the best estimate of the future wage growth of the plan participants. Such an increase would result in an increase in the obligation of the plan.

The sensitivity analysis of the key actuarial assumptions is based on the reasonably possible changes in these assumptions by the end of the reporting period, assuming that the rest remain unchanged.

Effects of change (increase or decrease) by 1% on:
a. wage growth
b. the discount rate
c. turnover
on the present value of the defined benefit retirement benefit obligation are assessed as follows:

	2017		2016	
	Increase	*Decrease*	*Increase*	*Decrease*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Change in wage growth	289	(251)	221	(193)
Change in the discount rate	(256)	302	(194)	228
Change in turnover	(272)	318	(209)	242

The weighted average duration of the employee defined benefit obligations is 8.2 years (31.12.2016: for Sopharma AD (receiving company) is 7.7 years, for Medica AD (the inflowing company) is 8.4 years).

The expected benefits of retirement benefits under the defined benefit plan for the next five years are as follows:

Estimated Payments	***Retirement by age and length of service***	***Retirement sickness***	***Total***
	BGN '000	***BGN '000***	***BGN '000***
Payments in 2018	531	12	543
Payments in 2019	352	12	364
Payments in 2020	367	11	378
Payments in 2021	322	11	333
Payments in 2022	232	11	243
	1 804	**57**	**1 861**

Long-term obligations for income for tantiems

As at 31 December 2017, the long-term benefit obligations to personnel include also the amount of BGN 247 thousand (31 December 2016: BGN 199 thousand due in 2018 and 2019), representing a payable to personnel related to tantieme payment for a period of more than 12 months (from 2019 to 2020).

33. SHORT-TERM BANK LOANS

Currency	***Contracted amount***	***Maturity***	***31.12.2017***	***31.12.2016***
	'000		***BGN '000***	***BGN '000***
Bank loans (overdrafts)				
EUR	10,000	31.10.2018	13,614	11,603
BGN	20,000	21.04.2018	11,775	9,242
BGN	10,000	28.02.2018	10,001	10,001

BGN	10,000	31.05.2018	2,860	-
EUR	10,000	20.03.2017	-	6,827
			38,250	**37,673**
Extended credit lines				
BGN	10,000	30.10.2018	9,244	8,005
EUR	5,000	31.08.2018	5,594	2,613
			14,838	**10,618**
Total			**53,088**	**48,291**

The euro bank loans received are contracted at an interest rate based on a one-month EURIBOR plus a surcharge of up to 1.7 points, but not less than 1.7 points and a one-month EURIBOR plus a margin of 1.5 points, and for those in BGN - quarterly SOFIBOR plus 1.3 points , but not less than 1.45 points, one month SOFIBOR plus 1.3 points, but not less than 1.3 points, one month SOFIBOR plus 1.5 points, one month SOFIBOR plus 1.45 points and one month SOFIBOR plus 1.25 points (2016: for those in EUR - three-month EURIBOR plus margin to 1.5 points, but not less than 1.5 points, one-month EURIBOR plus a surplus of up to 2.75 points, a one-month EURIBOR plus a margin of 1.75 points, but not less than 1.75 points and a one-month EURIBOR plus a margin of 1.7 points, and of those in BGN - a three month SOFIBOR plus 1.7 points but not less than 1.85 points, one month SOFIBOR plus 1.75 points, one month SOFIBOR plus 1.7 points, one month SOFIBOR plus 1.5 points, but not less than 1.5 points and 17.8% leva of Medica AD (the merging company)). Loans are for 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 350 thousand. (31 December 2016: BGN 40 thousand);
- of a subsidiary none (31 December 2016: BGN 1 thousand).

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

- Mortgages of real estate with a carrying amount of BGN 32,347 thousand as at 31 December 2017 (31 December 2016: BGN 35,842 thousand) *(Note 15 and Note 17*);
- Special pledges on:
  - machinery and equipment with a carrying amount of BGN 16,950 thousand as at 31 December 2017 (31 December 2016: BGN 18,601 thousand) *(Note 15 and Note 17*);
  - inventories with a carrying amount of BGN 31,441 thousand as at 31 December 2017 (31 December 2016: BGN 24,425 thousand) *(Note 23)*;
  - receivables from related parties with a carrying amount of BGN 54,505 thousand as at 31 December 2017 BGN (31 December 2016: BGN 18,229 thousand) *(Note 24*);
  - trade receivables with a carrying amount of BGN 21,361 thousand as at 31 December 2017 (31 December 2016: BGN 11,735 thousand) *(Note 25*);
  - trade receivables from third parties of a subsidiary with a carrying amount of BGN 7,823 thousand as at 31 December 2017 (31 December 2016: BGN 7,823 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.

34. TRADE PAYABLES

Trade payables include:

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
Payables to suppliers	6,826	5,383
Advances received	256	384
Total	**7,082**	**5,767**

Payables to suppliers are as follows:

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
Payables to foreign suppliers	5,119	3,396
Payables to local suppliers	1,707	1,987
Total	**6,826**	**5,383**

The payables to suppliers are regular, interest-free and refer to supplies of materials and services. The payables in BGN amount to BGN 1,612 thousand (31 December 2016: BGN 1,876 thousand), in EUR – BGN 2,970 thousand (31 December 2016: BGN 2,198 thousand), in USD – BGN 2,243 thousand (31 December 2016: BGN 1,305 thousand), in Polish zloty - BGN 1 thousand (31.12.2016: none), in other currency none (31 December 2016: BGN 4 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 and bank guarantees as security for payables to suppliers under commercial transactions at the amount of BGN 497 thousand (31 December 2016: BGN 229 thousand) *(Note 26 and 33*).

35. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
Payables to subsidiaries	1,011	137

Payables to companies related through a main shareholder	394	9
Payables to companies related through key managing personnel	192	215
Payables to main shareholding companies	21	14
Total	**1,618**	**375**

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

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
Supply of services	1,135	338
Supply of inventories	483	13
Supply of long-lasting assets	-	-
Obligations for increasing the capital of a subsidiary	-	24
Total	**1,618**	**375**

The trade payables to related parties are regular and interest-free. The payables in Bulgarian Levs amount to BGN 1,567 thousand (31 December 2016: BGN 345 thousand), in EUR - BGN 30 thousand (31.12.2016: none), in PLN – BGN 21 thousand (31 December 2016: BGN 30 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.

The Company has placed deposits as security for payables to related parties under commercial transactions at the amount of BGN 243 thousand (31 December 2016: BGN 267 thousand) *(Note 21*).

36. TAX PAYABLES

Tax payables include:

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
Individual income taxes	524	217
Corporate tax	486	-
Taxes on expenses	421	446
VAT	80	170
Total	**1,511**	**833**

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 31 December 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.

Medica AD (as a transforming company)

- under VAT Act – until 31 January 2013;
- full-scope tax audit – until 31 December 2002;
- National Social Security Institute – until 31 January 2016.

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.

37. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security are as follows:

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
Payables to personnel, including:	5,915	4,866
tantieme	*3,328*	*2,898*
accruals on unused compensated leaves	*1,306*	*793*
current liabilities	*1,281*	*1,175*
Payables for social security/health insurance, including:	1,257	905

current liabilities	*1,042*	*777*
accruals on unused compensated leaves	*215*	*128*
Total	**7,172**	**5,771**

38. OTHER CURRENT LIABILITIES

Other current liabilities include:

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
Government grants *(Note 29)*	508	508
Awarded amounts under litigations	303	343
Deductions from work salaries	188	184
Dividend liabilities	192	324
Fines and penalties	-	189
Finance lease liabilities	-	3
Other	32	1
Total	**1,223**	**1,552**

39. 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 31.12.2017, 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 38*), 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
			Original currency	BGN '000	31.12.2017 BGN '000
Sopharma Trading AD	2018 - 2024	EUR	71,006	138,874	117,229
Sopharma Properties REIT	2024	EUR	22,619	44,240	22,467
Sopharma Trading AD	2018	BGN	14,732	14,732	14,134
OAO Vitamini	2018	EUR	7,000	13,691	1,752
Biopharm Engineering AD	2019	BGN	4,250	4,250	1,098
Veta Pharma AD	2018	BGN	1,000	1,000	288
Mineralcommerce AD	2018 - 2021	BGN	726	726	625
Total					**157,593**

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

(a) under loans of subsidiaries:

- Mortgages of real estate with a carrying amount of BGN 10,231 thousand as at 31 December 2017 (31 December 2016: BGN 10,368 thousand) *(Note 15*);
- Special pledges on:

  - machinery and equipment with a carrying amount of BGN 10,370 thousand as at 31 December 2017 (31 December 2016: BGN 11,005 thousand) *(Note 15*);

  - inventories with a carrying amount of BGN 17,000 thousand as at 31 December 2017 (31 December 2016: BGN 17,000 thousand) *(Note 23*);

  - trade receivables with a carrying amount of BGN 11,735 thousand as at 31 December 2017 (31 December 2016: BGN 11,735 thousand) *(Note 25*).

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.

40. RECALCULATIONS AS A RESULT OF A MERGER

In its financial report for 2017, Sopharma AD presents comparative information for the year 2016 on the basis of the merger of the individual financial statements of the merger (Medica AD) and the acquiring companies (Sopharma AD) (Note 2.3), as follows:

40.1. Interpretation of the financial position at the date of the merger - 01.01.2017

The opening statement of the financial position of Sopharma AD as a result of the merger on 01.01.2017 was prepared on the basis of the carrying amounts of the assets and liabilities of the two companies in their individual financial statements as at 31.12.2016.

To the extent that the date of accounting for the merger is 01.01.2017 the data in the statement of financial position at that date correspond to the data for the comparative comparative period as at 31.12.2016.

The assets and liabilities of the two companies, combined with the accounting date of the merger as at 01.01.2017, as structure and size are as follows:

FINANCIAL POSITION REPORT	**Sopharma AD**	**Medica AD**	**Correction at time of merger**	**United financial position report**
	1 January 2017 BGN'000	**1 January 2017 BGN'000**	**1 January 2017 BGN'000**	**1 January 2017 BGN'000**
ASSETS				
Non-current assets				
Property, plant and equipment	209,326	16,168	(44)	225,490
Intangible assets	2,177	328	3,775	6,280
Invetment propertioes	22,840	-	-	22,840
Investments in subsidiaries	147,583	5	(32,146)	115,442
Investments in associates	5,219	-	-	5,219
Available and for sale investments	5,229	888	(888)	5,229
Long-term receivables form related parties	11,011	-	36	11,047
Other long-term receivables	3,714	-	-	3,714
	407,099	**17,389**	**(29,247)**	**395,241**
Current assets				
Inventories	56,807	4,904	-	61,711
Receivables from related perties	71,076	2,686	(166)	73,596
Commercial receivables	22,479	2,722	210	25,411
Loans granted to thir parties	2,445	-		2,445
Other receivables and prepaid expenses	4,859	371	106	5,336
Financial assets to fair value through profit	-	316	(316)	-
Cash and cash equivalents	4,343	4,932	-	9,275

	162,009	**15,931**	**(166)**	**177,774**
TOTAL ASSETS	**569,108**	**33,320**	**(29,413)**	**573,015**
OWNERS' EQUITY AND LIABILITIES				
OWNERS' EQUITY				
Share capital	134,798	10,069	(10,069)	134,798
Treasury shares	(18,809)	-	-	(18,809)
Reserves	304,403	12,473	(12,473)	304,403
Retained earnings	42,483	7,553	(7,013)	43,023
	462,875	**30,095**	**(29,555)**	**463,415**
LIABILITIES				
Non-current liabilites				
Long-term bank loans	23,844	220	-	24,064
Deferred taxes	5,703	594	273	6,570
Government grants	5,866	120	-	5,986
Long-term liabilities to personnel	2,649	243	38	2,930
	38,062	**1,177**	**311**	**39,550**
Current liabilities				
Short-term bank loans	48,291	-	-	48,291
Short-term portion of long-term bank loans	7,185	276	-	7,461
Commercial payables	4,712	1,041	14	5,767
Payables to related parties	497	14	(136)	375
Tax payables	609	225	(1)	833
Short-term part of paybles to personnel and for retirement	-	30	(30)	-
Social security payables to personnel	5,363	416	(8)	5,771
Other current liabilities	1,514	46	(8)	1,552
	68,171	**2,048**	**(169)**	**70,050**
TOTAL LIABILITIES	**106,233**	**3,225**	**142**	**109,600**
TOTAL OWNERS' EQUITY AND LIABILITIES	**569,108**	**33,320**	**(29,413)**	**573,015**

The adjustments made to the financial statements of the two companies for consolidation are mainly the result of: a) unification of the accounting policy; and b) elimination of the investment in a subsidiary and of intragroup calculations between the two companies, incl. the related deferred tax effects. The net effect on accumulated profits as at 01.01.2017 is a profit of BGN 540 thousand.

40.2.Comparative information

In the financial report for 2017 of Sopharma AD (the receiving company), the comparative data for 2016 and the earliest comparative period - 01.01.2016 were also recalculated for the sole purpose of comparability. These adjustments are made to aggregate the data in: (a) the statement of financial position as at 31.12.2016; (b) the statement of comprehensive income for the year ended 31 December 2016; (c) the cash flow statement for the year ended 31 December 2016; and (d) the statement of financial position as at 01.01.2016 of the two companies as if the merging and receiving companies were always united.

The effects of the merger in the relevant reports are presented as follows:

a) statement of financial position at 31.12.2016:

The data from the opening financial statement on 01.01.2017 are presented as comparative data as at 31.12.2016 in this report (Appendix № 40.1).

(b) the statement of comprehensive income for the year ended 31 December 2016:

COMPREHENSIVE INCOME REPORT	**Sopharma AD**	**Medica AD**	**Correction at time of merger**	**United financial position report**
	2016 BGN'000	**2016 BGN'000**	**2016 BGN'000**	**2016 BGN'000**
Revenues	163,827	18,382	187	182,396
Other operating revenue/(loss), net	4,193	25	(153)	4,065
Change of available stock of finished goods and work in progress	360	(555)	(88)	(283)
Materials	(55,172)	(6,740)	(6)	(61,918)
External services	(33,297)	(1,818)	(1,371)	(36,486)
Emoloyees	(34,414)	(3,849)	-	(38,263)
Amortization	(13,919)	(1,228)	(339)	(15,486)
Carrying amount of goods sold	-	(1,423)	1,423	-
Other operating expenses	(5,244)	(543)	125	(5,662)
Operating profit	**26,334**	**2,251**	**(222)**	**28,363**
				-
Impairment of non-current assets	(5,627)	-	(6)	(5,633)
Financial income	24,158	265	(2,190)	22,233
Financial expenses	(3,176)	(165)	823	(2,518)
Financial income/(expenses), net	**20,982**	**100**	**(1,367)**	**19,715**
				-
Profit before tax	**41,689**	**2,351**	**(1,595)**	**42,445**
Profit tax	(3,919)	(224)	45	(4,098)
Net profit	**37,770**	**2,127**	**(1,550)**	**38,347**

Other components of the total income:				
Items that will not be reclassified to profit or loss:				-
Property, plant and equipment	2,629	-	-	2,629
Subsequent valuation of defined-benefit pension plans	(120)	(14)	-	(134)
Income tax, related to the components of other comprehensive income, which will not be reclassified	(263)	-	-	(263)
	2,246	**(14)**	**-**	**2,232**
Items that may be reclassified to profit or loss:				
Net change in the fairvalue of available-for-sale financial assets	1,515	173	(173)	1,515
	1,515	**173**	**(173)**	**1,515**
Other comprehensive income for the period net of tax	**3,761**	**159**	**(173)**	**3,747**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**41,531**	**2,286**	**(1,723)**	**42,094**

The effect of the total comprehensive income for 2016 as a result of the merger of the subsidiary is BGN 563 thousand. and is formed as follows:

a) the total comprehensive income for the year of Medica AD is a profit of BGN 2,286 thousand; b) The effects of the elimination of intragroup transactions between the two companies and the related deferred taxes are a loss of BGN 1,723 thousand.
(c) cash flow statement for the year ended 31 December 2016:

INDIVIDUAL STATEMENT OF CASH FLOWS	**Sopharma AD**	**Medica AD**	**Correction at time of merger**	**United financial position report**
	2016 BGN'000	**2016 BGN'000**	**2016 BGN'000**	**2016 BGN'000**
Cash flows from operating activities				
Sales proceeds	175,838	21,523	(306)	197,055
Payments to suppliers	(106,733)	(11,635)	306	(118,062)
Payments for wages and social insurance	(32,713)	(3,560)	-	(36,273)

Taxes paid (profit tax excluded)	(5,958)	(1,273)	(15)	(7,246)
Taxes refunded (profit tax excluded)	2,031	-	15	2,046
Profit tax paid	(3,230)	(233)	-	(3,463)
Paid interest and bank fees on working capital loans	(1,525)	-	-	(1,525)
Exchange rate differences, net	(211)	-	-	(211)
Other proceeds/(payments), net	(863)	(17)	-	(880)
Net cash flows from/(used in) operating activities	**26,636**	**4,805**	**-**	**31,441**
Cash flows from investing activities				
Purchase of property, plant and equipment	(5,640)	(421)	-	(6,061)
Proceeds from sale of property, plant and equipment	441	-	-	441
Purchase of intangible assets	(95)	(35)	-	(130)
Proceed from sales of intangible assets	15	-	-	15
Purchase of shares in associated companies	(2,058)	-	-	(2,058)
Purchase of available-for-sale investments	(2,080)	(31)	31	(2,080)
Proceeds from sale of available-for-sale investments	741	145	(142)	744
Purchase of shares in subsidiaries	(25,631)	-	(31)	(25,662)
Proceeds from sale of shares in subsidiaries	18,466	-	59	18,525
Purchase of shares in subsidiaries	(25,631)	-	(31)	(25,662)
Loans granted to related parties	(5,958)	-	-	(5,958)
Repaid loans, granted to related parties	23,362	-	-	23,362
Loans granted to third parties	(784)	-	-	(784)
Repaid loans, granted to third parties	281	-	-	281
Income from dividends from subsidiaries	9,110	-	(1,238)	7,872
Proceeds from dividends from available-for-sale investments	51	145	(145)	51
Received interest on granted loans and deposits	2,777	-	-	2,777
Other proceeds/(payments), net	(107)	-	-	(107)
Net cash flows used in investing activities	**12,891**	**(197)**	**(1,466)**	**11,228**
Cash flows from finance activities				
Settlement of long-term bank loans	(7,186)	(276)	-	(7,462)
Proceeds from short-term bank loans (overdraft), net	13,884	-	-	13,884
Settlement of short-term bank loans (overdraft), net	(34,495)	(180)	-	(34,675)
Paid interest and bank fees on investment purpose loans	(873)	(29)	-	(902)
Treasury shares	(1,212)	-	-	(1,212)
Proceeds from sales of treasury shares	-	-	83	83
Dividends paid	(9,026)	(1,400)	1,383	(9,043)

Finance lease payments	(21)	-	-	(21)
Net financial cash flows	**(38,929)**	**(1,885)**	**1,466**	**(39,348)**
Net (decrease)/increase in cash and cash equivalents	**598**	**2,723**	**-**	**3,321**
Cash and cash equivalents at 1 January	**3,745**	**2,209**	**-**	**5,954**
Cash and cash equivalents at 31 December	**4,343**	**4,932**	**-**	**9,275**

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

d) statement of financial position as at 01.01.2016:

The assets and liabilities of the two companies unified as at 01.01.2016 as structure and size are as follows:

INDIVIDUAL STATEMENT OF FINANCIAL POSITION	**Sopharma AD**	**Medica AD**	**Correction at time of merger**	**United financial position report**
	1 January 2016 BGN'000	**1 January 2016 BGN'000**	**1 January 2016 BGN'000**	**1 January 2016 BGN'000**
ASSETS				
Non-current assets				
Property, plant and equipment	211,943	16,897	(35)	228,805
Intangible assets	2,507	392	4 117	7,016
Investment properties	22,160	-	-	22,160
Investments in subsidiaries	132,899	5	(21,068)	111,836
Available-for-sale investments	5,510	859	(857)	5,512
Long-term receivables from related parties	20,505	-	36	20,541
Other long-term receivables	3,257	-	-	3,257
	398,781	**18,153**	**(17,807)**	**399,127**
Current assets				
Inventory	61,701	6,244	(43)	67,902
Receivables from related persons	78,035	3,042	(97)	80,980
Commercial receivables	21,466	2,656	(53)	24,069
Loans granted to third parties	2,481	-	-	2,481
Other receivables and prepayments	4,400	406	314	5,120

Financial assets to fair value through profit	-	314	(314)	-
Cash and cash equivalents	3,745	2,209	-	5,954
	171,828	**14,871**	**(193)**	**186,506**
TOTAL ASSETS	**570,609**	**33,024**	**(18,000)**	**585,633**
EQUITY AND LIABILITIES				
EQUITY				
Share capital	134,798	10,069	(10,069)	134,798
Treasury shares	(17,597)	-	(107)	(17,704)
Reserves	284,227	12,300	(12,300)	284,227
Retained earnings	30,198	6,849	4,222	41,269
	431,626	**29,218**	**(18,254)**	**442,590**
LIABILITIES				
Non-current liabilities				
Long-term bank loans	30,819	496	-	31,315
Deferred taxes	4,697	588	315	5,600
Government grants	6,371	129	-	6,500
Payables to employees on retirement	2,426	216	27	2,669
Financial leasing liabilities	3	-	-	3
	44,316	**1,429**	**342**	**46,087**
Current liabilities				
Short-term bank loans	68,961	180	-	69,141
Short-term part of long-term bank loans	7,380	276	-	7,656
Commercial payables	8,014	1,259		9,273
Payables to related parties	3,070	90	(61)	3,099
Tax payables	965	172	-	1,137
Short-term payables to personnel	-	23	(23)	-
Payables to employees and social insurance	4,769	333	(4)	5,098
Other current liabilities	1,508	44	-	1,552
	94,667	**2,377**	**(88)**	**96,956**
TOTAL LIABILITIES	**138,983**	**3,806**	**254**	**143,043**
TOTAL EQUITY AND LIABILITIES	**570,609**	**33,024**	**(18,000)**	**585,633**

The adjustments made to the financial statements of the two companies for consolidation are mainly the result of: a) unification of the accounting policy; and b) elimination of the investment in a subsidiary and of intragroup calculations between the two companies, incl. the related deferred tax effects. The net effect on the accumulated profits as at 01.01.2016 is a profit of BGN 11,071 thousand.

The effect on the treasury shares on 01.01.2016 is in the direction of an increase of BGN 107 thousand.

41. 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:

Financial assets	*31.12.2017*	*31.12.2016*
	BGN '000	***BGN '000***
Available-for-sale financial assets	***7,206***	***5,229***
Available-for-sale investments (in shares)	*7,206*	*5,229*
Loans and receivables	***125,421***	***115,025***
Long-term receivables from related parties	*21,583*	*11,047*
Other long-term receivables	*4,209*	*3,714*
Short-term receivables from related parties	*74,920*	*73,596*
Commercial receivables	*21,361*	*24,034*
Other receivables	*3,653*	*2,634*
Cash and cash equivalents	3,216	9,275
Total financial assets	***135,843***	***129,529***

Financial liabilities	***31.12.2017***	***31.12.2016***
	BGN '000	***BGN '000***
Bank loans	***77,186***	***79,816***
Long-term bank loans	16,706	24,064
Short-term bank loans	*53,088*	*48,291*
Current portion of long-term bank loans	*7,392*	*7,461*
Other liabilities	***8,963***	***6,617***
Commercial payables to related parties	*1,618*	*375*
Commercial payables	*6,826*	*5,383*
Finance lease liabilities	**-**	*3*
Other liabilities	*519*	*856*
Total financial liabilities at amortised cost	***86,149***	***86,433***

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:

31 December 2017	**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	770	1,826	4,610	-	7,206
Receivables and loans granted	4,028	70,099	51,293	1	125,421
Cash and cash equivalents	376	457	2,316	67	3,216
Total financial assets	**5,174**	**72,382**	**58,219**	**68**	**135,843**
Bank loans	-	43,306	33,880	-	77,186
Other liabilities	2,534	3,023	3,384	22	8,963
Total financial liabilities	**2,534**	**46,329**	**37,264**	**22**	**86,149**

31 December 2016	**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	290	1,796	3,143	-	5,229
Receivables and loans granted	4,856	58,235	52,238	12	115,341
Cash and cash equivalents	186	1,740	7,323	26	9,275
Total financial assets	**5,332**	**61,771**	**62,704**	**38**	**129,845**
Bank loans	-	52,568	27,248	-	79,816
Other liabilities	1,640	2,198	2,742	37	6,617
Total financial liabilities	**1,640**	**54,766**	**29,990**	**37**	**86,433**

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	
		31.12.2017	31.12.2016
		BGN '000	BGN '000
Financial result	+	238	336
Accumulated profits	+	238	336
Financial result	-	(238)	(336)
Accumulated profits	-	(238)	(336)

In case of 10% increase in the exchange rate of USD to BGN, the final effect on post-tax profit of the Company for 2017 would be an increase by BGN 238 thousand (0.56%) (2016: increase at the amount of BGN 336 thousand) (0.88%). The same effect in terms of value would be seen on equity – 'retained earnings' component.

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 2017 is a decrease by BGN 3 thousand (0.01 %) (2016: decrease at the amount of BGN 1 thousand (0.003%). 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:

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
Client 1	40%	46%
Client 2	21%	12%
Client 3	12%	11%

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 75.55% of all trade receivables (31 December 2016: 69.70 %).

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.

31 December 2017	**Up to 1 months**	**from 1 to 3 months**	**from 3 to 6 months**	**from 6 to 12 months**	**from 1 -to 2 years**	**from 2 - to 5 years**	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Bank loans	753	11,368	16,627	32,549	7,415	9,697	**78,409**
Other loans and payables	6,131	2,145	192	495	-	-	**8,963**
Total liabilities	**6,884**	**13,513**	**16,819**	**33,044**	**7,415**	**9,697**	**87,372**

31 December 2016.	**Up to 1 months**	**from 1 to 3 months**	**from 3 to 6 months**	**from 6 to 12 months**	**from 1 -to 2 years**	**from 2 - to 5 years**	**Total**
	BGN'000	*BGN'000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Bank loans	10,848	8,297	11,367	26,333	7,865	17,214	**81,924**
Other loans and payables	3,070	2,617	60	870	-	-	**6,617**
Total liabilities	**13,918**	**10,914**	**11,427**	**27,203**	**7,865**	**17,214**	**88,541**

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:

(a) optimisation of the sources of credit resources for achieving relatively lower price of attracted funds; and

(b) combined structure of interest rates on loans comprising two components – a permanent one and a variable one, the correlation between them, as well as their absolute value, can be achieved and maintained in a proportion 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.

31 December 2017	**interest-free**	**with floating interest %**	**with fixed interest %**	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	7,206	-	-	7,206
Loans and receivables	86,636	-	38,785	125,421
Cash and cash equivalents	107	3,109	-	3,216
Total financial assets	**93,949**	**3,109**	**38,785**	**135,843**
Bank loans	-	77,186	-	77,186
Other loans and liabilities	8,963	-	-	8,963
Total financial liabilities	**8,963**	**77,186**	**-**	**86,149**

31 December 2016	**interest-free**	**with floating interest %**	**with fixed interest %**	**Total**
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Available-for-sale financial assets	5,229	-	-	5,229
Loans and receivables	83,268	-	32,073	115,341
Cash and cash equivalents	99	9,176	-	9,275
Total financial assets	**88,596**	**9,176**	**32,073**	**129,845**
Bank loans	-	79,816	-	79,816
Other loans and liabilities	6,614	3	-	6,617
Total financial liabilities	**6,614**	**79,819**	**-**	**86,433**

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/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.

2017

	Increase/ decrease in interest rate	***Impact on post-tax financial result profit/(loss)***	***Impact on equity increase/(decrease)***
EUR	Increase	(195)	(195)
BGN	Increase	(152)	(152)
EUR	Decrease	195	195
BGN	Decrease	152	152

2016

	Increase/ decrease in interest rate	***Impact on post-tax financial result profit/(loss)***	***Impact on equity increase/(decrease)***
EUR	Increase	(236)	(236)
BGN	Increase	(123)	(123)
EUR	Decrease	236	236
BGN	Decrease	123	123

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 the difference between 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 2017, the strategy of the Company management was to maintain the ratio within 10% – 15% (2016: 10 % – 18 %).

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

	2017	*2016*
	BGN '000	*BGN '000*
Total borrowings, including:	**77,185**	**79,819**
bank loans	*77,185*	*79,816*
finance lease liabilities	-	*3*
Less: Cash and cash equivalents	**(3,216)**	**(9,275)**
Net debt	**73,969**	**70,544**
Total equity	**478,257**	**463,415**
Total capital	**552,226**	**533,959**
Gearing ratio	**0.13**	**0.13**

The liabilities shown in the table are disclosed in *Notes 27, 29, 33 and 38.*

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). With regard to loans, extended with fixed interest rate, the method used for setting this rate uses as a staring point for the calculations the current observations of the Company with regard to the market interest levels.

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.

42. RELATED PARTY TRANSACTIONS

The companies related to Sopharma AD and the type of their relationship are as follows:

Related parties	***Relation type***	***Relation period***
Telecomplect Invest AD	Main shareholding company	2016 and 2017
Donev Investments Holding AD	Main shareholding company	2016 and 2017
Sopharma Trading AD	Subsidiary company	2016 and 2017
Pharmalogistica AD	Subsidiary company	2016 and 2017
Sopharma Poland OOD – in liquidation	Subsidiary company	2016 and 2017
Electroncommerce EOOD	Subsidiary company	2016 and 2017
Biopharm Engineering AD	Subsidiary company	2016 and 2017
Vitamina AD	Subsidiary company	2016 and 2017
Ivančić and Sinovi d.o.o.	Subsidiary company	Until 09.05.2016
Sopharma Buildings REIT	Subsidiary company	2016 and 2017
Momina Krepost AD	Subsidiary company	2016 and 2017
Briz SIA	Subsidiary company	2016 and 2017
Unipharm AD	Subsidiary company	2016 and 2017
Sopharma Warsaw EOOD	Subsidiary company	2016 and 2017
Sopharma Ukraine EOOD	Subsidiary company	2016 and 2017
Sopharma Kazahstan EOOD	Subsidiary company	2016 and 2017
Phyto Palauzovo AD	Subsidiary company	2016 and 2017
Veta Pharma AD	Subsidiary company	Form 11.11. 2016 and 2017
RAP Pharma International OOD	Subsidiary company	From 14.04. 2017
Aromania OOD	Subsidiary company	From 31.07. 2017
Sopharmacy EOOD	Subsidiary company through Sopharma Trading AD	2016 and 2017

Sopharmacy 2 EOOD	Subsidiary company through Sopharma Trading AD	2016 and 2017
Sopharmacy 3 EOOD	Subsidiary company through Sopharma Trading AD	2016 and 2017
Sopharmacy 4 EOOD	Subsidiary company through Sopharma Trading AD	From 29.02.2016 and 2017
Sopharmacy 5 EOOD	Subsidiary company through Sopharma Trading AD	From 01.03.2016 and 2017
Sopharmacy 6 EOOD	Subsidiary company through Sopharma Trading AD	2016 and 2017
Sopharmacy 7 EOOD	Subsidiary company through Sopharma Trading AD	From 15.03.2017
Sopharmacy 8 EOOD	Subsidiary company through Sopharma Trading AD	From 15.03.2017
Sopharmacy 9 EOOD	Subsidiary company through Sopharma Trading AD	From 11.09.2017
Sopharmacy 10 EOOD	Subsidiary company through Sopharma Trading AD	From 11.09.2017
PharmaStore 1 OOD	Subsidiary company through Sopharma Trading AD	From 07.12.2017
PharmaStore 2 OOD	Subsidiary company through Sopharma Trading AD	From 07.12.2017
PharmaStore 3 OOD	Subsidiary company through Sopharma Trading AD	From 07.12.2017
PharmaStore 4 OOD	Subsidiary company through Sopharma Trading AD	From 07.12.2017
PharmaStore 5 OOD	Subsidiary company through Sopharma Trading AD	From 07.12.2017
Sopharma Trading OOD - Belgrade	Subsidiary company through Sopharma Trading AD	2016 and 2017
Lekovit D.o.o.	Subsidiary company through Sopharma Trading AD	From 09.08. 2017
Medica Zdrave EOOD – in liquidation	Subsidiary company	2016 and until 22.02.2017
Medica Balkans EOOD – in liquidation	Subsidiary company	Until 24/03/2016
SOOO Brititrade	Subsidiary company through Briz OOD	2016 and 2017
OOO Tabina	Subsidiary company through Briz OOD	2016 and 2017
ZAO Interpharm	Joint venture through Briz OOD	2016 and until 25.04. 2017
ZAO Interpharm	Subsidiary company through Briz OOD	From 26.04. 2017
SOOO Brizpharm	Subsidiary company through Briz OOD	2016 and 2017
OOO Vivaton Plus	Joint venture through Briz OOD	2016 and until 17.05. 2017
OOO Farmacevt Plus	Subsidiary company through Briz OOD	2016 and 2017
ZAO UAB TBS Pharma	Subsidiary company through Briz OOD	2016 and 2017
ODO Vestpharm	Subsidiary company through Briz OOD	2016 and until 01.08. 2017
ODO Alean	Subsidiary company through Briz OOD	2016 and until 31.08. 2017
OOO NPK Biotest	Subsidiary company through Briz OOD	until 05/12/2016
ODO BelAgroMed	Subsidiary company through Briz OOD	2016 and to 01.08. 2017
BOOO SpetzApharmacia	Joint venture through Briz OOD	2016 and 2017
OOO Med-dent	Joint venture through Briz OOD	2016 and 2017
OOO Bellerophon	Joint venture through Briz OOD	2016 and 2017
ODO Alenpharm Plus	Subsidiary company through Briz OOD	2016 and 2017
ODO Salyus Line	Associate company through Briz OOD	to 22/11/2016 and 2017
ODO Salyus Line	Subsidiary company through Briz OOD	from 23/11/2016 and 2017
OOO Mobil Line	Associate company through Briz OOD	to 15.02.2016
OOO Mobil Line	Subsidiary company through Briz OOD	From 16.02.2016 to 04.07.2017
ODO Medjel	Subsidiary company through Briz OOD	2016 and 2017
OOO GalenaPharm	Subsidiary company through Briz OOD	2016 and 2017

OOO Danapharm	Subsidiary company through Briz OOD	2016 and to 01.12. 2017
OOO NPFK Ariens	Joint venture through Briz OOD	2016 and to 15.08. 2017
OOO NPFK Ariens	Subsidiary company through Briz OOD	as from 16.08.2017
OOO Ivem & K	Joint venture through Briz OOD	2016 and until 15.08. 2017
OOO Ivem & K	Subsidiary company through Briz OOD	as from 16.08.2017
OOO Zdorovei	Associate company through Briz OOD	2016 and until 15.08. 2017
OOO Zdorovei	Subsidiary company through Briz OOD	2016 and 2017
OOO Farmatea	Subsidiary company through Briz OOD	2016 and 2017
Sopharma Properties REIT	Company related through a main shareholder	2016 and 2017
Sofprint Group AD	Company related through a main shareholder	2016 and 2017
Elpharma AD	Company related through key managing personnel	2016 and 2017
Telso AD	Company related through key managing personnel	2016 and 2017
Telecomplect AD	Company related through key managing personnel	2016 and 2017
DOH Group	Company related through key managing personnel	until 20/12/2016
Doverie Obedinen Holding AD	Associate	as from 21/12/2016 and 2017
Bulgarsko Vino OOD	Other related party	as from 21/12/2016 and 2017
ZOF Mediko 21 EAD	Other related party	as from 21/12/2016 and 2017
STM Doverie OOD	Other related party	as from 21/12/2016 and 2017
Veko EOOD	Other related party	as from 21/12/2016 and 2017
Doverie Kapital AD	Other related party	as from 21/12/2016 and 2017

The transactions between Sopharma AD and related companies as at 31 December are as follows:

Sales to related parties	***2017***	***2016***
	BGN '000	***BGN '000***
Sales of finished products to:		
Subsidiaries	108,165	93,817
Other related parties	1	-
	108,166	**93,817**
Sales of goods and materials to:		
Subsidiaries	5,404	5,181
Companies related through main shareholder	777	584
	6,181	**5,765**
Sales of services to:		
Subsidiaries	1,694	1,670
Companies related through a main shareholder	48	41
Companies related through key managing personnel	10	57
Other related parties	4	-

	1,756	**1,768**
Income from sale of LTA:		
Subsidiaries	53	186
	53	**186**
Interest on loans granted to:		
Companies related through key managing personnel	547	1,475
Subsidiaries	521	496
Associates	411	10
Other related parties	76	-
	1,555	**1,981**
Income from dividends:		
Subsidiaries		
Companies related through main shareholder	7,397	7,872
	-	12
	7,397	**7,884**
Total	**125,108**	**111,215**

Supplies from related parties	***2017***	***2016***
	BGN '000	***BGN '000***
Supply of inventories from:		
Companies related through a main shareholder	9,209	6,868
Subsidiaries	157	389
Other related parties	80	2
Companies related through key managing personnel	35	94
	9,481	**7,353**
Supply of services from:		
Subsidiaries	11,916	8,839
Companies related through key managing personnel	3,075	3,405
Companies related through a main shareholder	1,699	1,785
Other related parties	816	-
Main shareholding companies	229	252
	17,735	**14,281**
Supply of non-current assets:		
Companies related through key managing personnel	344	75
Other related parties	29	-
Subsidiaries	-	6
Companies related through a main shareholder	-	2
	373	**83**
Supplies for acquisition of non-current assets:		
Companies related through key managing personnel	1,265	4,869

Companies related through a main shareholder	6	-
	1,271	**4,869**
Acquired investments from:		
Companies related through key managing personnel	1,023	4,933
Increase in capital in companies linked through a main shareholder	425	-
Subsidiaries in which there was a capital increase	-	48
	1,448	**4,981**
Other supplies from:		
Subsidiaries	3	174
Companies related through key managing personnel	-	1
	3	**175**
Dividends to:		
Main shareholding companies	6,141	4,227
Companies related through key managing personnel	545	475
Subsidiaries	15	24
Key management personnel	42	15
	6,743	**4,741**
Total	**37,054**	**36,483**

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 35.*

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 1,321 thousand (2016: BGN 1,368 thousand) are as follows:

- current remunerations – BGN 922 thousand (31.12.2017: BGN 1,092 thousand)
- tantiems – BGN 399 thousand (31.12.2017: BGN 276 thousand)

43. EVENTS AFTER THE REPORTING PERIOD

By decision № 1547-DA / 18.12.2017 the Financial Supervision Commission approved the transformation contract by merger of Unipharm AD (transforming company) into Sopharma AD (receiving company) as of 01.01.2018.

An extraordinary general meeting of the shareholders will be held on 23.02.2018, which will decide on the transformation through merger of Unipharm AD into Sopharma AD. Will be submitted for approval as follows:

- Decision for transformation through merger of Unipharm AD into Sopharma AD;
- Contract for transformation through merger of Unipharm AD into Sopharma AD, concluded on 14.09.2017 and of Additional Agreement No1 of 08.11.2017 to it;
- Report of the Board of Directors of Sopharma AD to the shareholders of the company regarding the transformation through merger of Unipharm AD into Sopharma AD;
- Auditor's Report under Art. 262m of the CA on the transformation through merger of Unipharm AD into Sopharma AD;
- Changes in the Company's Articles of Association;
- Decision for acquisition of own shares.