SOPHARMA AD

INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 SEPTEMBER 2018

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 30 September 2018, the structure of Company's joint-stock capital was as follows:

	%
Donev Investments Holding AD	25.33
Telecomplect Invest AD	20.41
Rompharm Company OOD	6.03
Sopharma AD (treasury shares)	6.55
Other companies	34.16
Natural persons	7.52

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 30 September 2018 as follows:

Ognian Donev, PhD	Chairman
Vessela Stoeva	Member
Ognian Palaveev	Member
Alexandar Tchaushev	Member
Ivan Badinski	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 2018 is 2,085 employees (2017: 2,182).

1.2. Principal activities

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

- 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 № BG / MIA - 0017 dated 20 March 2018, issued by the Bulgarian Drug Agency (BDA).

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 and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force on 1 January 2018 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).

Published standards that are not yet in force and are not adopted earlier.

New standards and interpretations issued by the IASB, which have not yet been adopted by the EU.

Currently, IFRSs adopted by the EU do not differ materially from those adopted by the IASB except for the following new standards, amendments to existing standards and new interpretations not yet endorsed by the EU at the date of approval of these financial statements (the dates of entry into force specified below are for full IFRSs):

IFRS 17 "Insurance Contracts" (in force for annual periods beginning on or after 1 January 2021)

IFRS 9 (revised) "Financial Instruments" - Prepayments with negative benefits (effective for annual periods beginning on or after 1 January 2019);

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*);*

Improvements to different standards "Improvements to IFRS (Cycle 2015-2017)", resulting from the annual IFRS Improvements Project (IFRS 3, IFRS 11, IAS 12 and IAS 23), mainly for the purpose of eliminating contradictions and clarifying the wording for annual periods beginning on or after 1 January 2019);

IFRIC 22 - "Foreign currency transactions and prepayments" (effective for annual periods beginning on or after 1 January 2018)

IFRIC 23 - "Uncertainties in the treatment of income taxes" (effective for annual periods beginning on or after 1 January 2019)

IAS 19 (amended) "Employee Benefits" - Improvement, curtailment or settlement of the plan (effective for annual periods beginning on or after 1 January 2019).

The Company expects the adoption of these standards and amendments to existing standards not to have a material effect on the financial statements of the Company during the period of their initial application.

The individual 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 13, Note 15 and Note 18.*

2.2. Consolidated financial statements of the Company

The Company has started the process of preparation of its consolidated financial statements as at 30 September 2018 in accordance with IFRS for year 2018 whereas these individual 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 30 November 2018 and after this date the financial statements will be publicly made available to third parties.

2.3. Merger of Unipharm AD and Medica AD into Sopharma AD

a) legal form of the merger

The merger of Unipharm AD (transforming company) into Sopharma AD (receiving company) was realized through the legal form of transformation, regulated in the Commercial Law. The merger was entered in the Commercial Register at the Registry Agency on September 13, 2018. As a result of the transaction, the whole property of Unipharm AD was transferred to Sopharma AD and Unipharm AD was terminated without liquidation.

On 17 May 2018 a contract for transformation by merger between Sopharma AD (receiving company) and Unipharm 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 generally accepted valuation methods, on the basis of which a replacement ratio of 0.951317 is formed.

The transformation contract and the report of the examiner were approved by the General Meeting of the receiving company on 1 August 2018.

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 8 August 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 January 2017 a contract for the transformation by merger between Sopharma AD (receiving company) and Medica 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.

The transformation contract and the report of the examiner were approved by the general meeting of the receiving company on 31 January 2017.

The purpose of the transformation transactions 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

On the occasion of the merger of Unipharm AD for accounting purposes, the date of the merger was accepted 1 January 2018, and for Medica AD – 01 January 2017.

Both companies until the time of the merger were subsidiaries of Sopharma AD. The transactions were treated as a restructuring of the two companies' operations.

The mergers are 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 merged since the beginning of the earliest period presented in the financial statements (01.01.2016 for Medica AD and 01.01. 2017 for Unipharm AD) irrespective of legal events and procedures and their effects on the legal status and life of the receiving and transforming companies. Effects of all business operations between the receiving and the transforming companies, 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 38*).

2.4. Comparatives

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

Where necessary, comparative data is reclassified (and recalculated) 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 (BGN). 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, Medica AD and Unipharm 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 - 10 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 article from the report.

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 transaction) 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 ‘financial income’ or 'financial 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 'financial 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 VAT (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

Debt 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.

Loan costs are also reduced by any investment income earned on the temporary investment of those loan 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.

Share-based payments

Share-based payments to employees and other persons providing similar services are measured at the fair value of equity instruments at the date of delivery. For share-based payment remuneration with non-vesting terms, the fair value of the share-based payment date is measured to reflect these terms and there are no real differences between expected and actual results.

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 Law 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;
- other sources as provided for by a decision of the General Meeting;
- any premium received in excess of the nominal value of shares upon their issue (share premium reserve).

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

Treasury shares are presented in the statement of financial position at cost (acquisition price) and their gross amount is deducted from Company's equity. Gains or losses on sales of treasury shares are at the account of 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 2.15, 2.16 and 2.17*). Interest income on loans and receivables is recognised by applying the effective interest rate except for short-term receivables (due in less than three months) where the recognition of such interest would be unjustifiable as immaterial and within the common credit terms. It is presented in the statement of comprehensive income (within profit or loss for the year) under the item 'finance income'.

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative assets that are either acquired for the purpose of being sold or are not classified in any other category. These are usually shares or interest in other companies, acquired for investment purposes (available-for-sale investments), and are included within non-current assets, except where the Company intends to sell them in the following 12 months and is actively searching for a buyer (*Note 2.13*).

Available-for-sale financial assets are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment.

The available-for-sale financial assets are subsequently measured at fair value except for the shares in closed-end companies not traded in a stock-exchange market (*Note 2.13*).

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

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

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

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

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

2.24.2. Financial liabilities and equity instruments

The Company classifies debt and equity instruments either as financial liabilities or as equity depending on the substance and the conditions of the contractual arrangements with the respective counterpart regarding these instruments.

Financial liabilities

Financial liabilities include loans and payables to suppliers and other counterparts. They are initially recognised in the statement of financial position at fair value net of the directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method (*Note 2.18, Note 2.19 and Note 2.21*).

2.25. Income taxes

Company's *current income taxes* are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act. The nominal income tax rate in Bulgaria for 2018 is 10 % (2017: 10%).

Deferred income taxes are determined using the balance sheet liability method for determining all temporary differences of the company at the balance sheet date that exist between the carrying amounts and the tax bases of the separate assets and liabilities.

Deferred tax liabilities are recognized for all taxable temporary differences, except for those that arise from the recognition of an asset or liability that, at the date of the business operation, did not affect the accounting and tax gains / (loss).

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.

As at 30.09.2018 the deferred taxes on the profit of the company were assessed at a rate of 10% (31.12.2017: 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, medical products and other forms.

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)* <u>on a recurring (annual) basis</u> – *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.

Measurement of fair value is made from the assumptions and judgments that potential market participants would make when they would determine the price of the asset or liability concerned, assuming that they would act to achieve the best economic benefit for them.

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 Financial 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 period, 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 30 September 2018 a depreciation of inventories is not reported (30 September 2017: none).

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 4,241 thousand (31 December 2017: BGN 3,890 thousand) have been stated as a result of these calculations *(Note 30).*

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

As at 30 September 2018 no recognition of impairment of certain investments in subsidiaries has been identified (30 September 2017: none).

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 100% written off.

As at 30 September 2018 the change in recognized impairment of trade receivables is a total amount of (BGN 585 thousand) - (accrued) / reversed impairment, net (30.09.2017: BGN 625 thousand (accrued) / restored 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.

As at 30 September 2018, the recognized impairment losses (net of repayments) related to commercial loans granted amounted to (BGN 461 thousand) (accrued) / reversed impairment, net (30.09.2017: BGN 726 thousand) (accrued) / reversed impairment, net (*Notes 10 and 11*).

Deferred tax assets

There are unrecognised deferred tax assets at the amount of BGN 3,520 thousand (31 December 2017: BGN 3,520 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 35,197 thousand (31 December 2017: BGN 35,197 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 30 September 2018.

3. REVENUES

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

	2018	***2017***
	BGN '000	***BGN '000***
Export	88,786	92,629
Domestic market	63,290	65,356
Total	**152,076**	**157,985**

Sales by product – export

	2018	***2017***
	BGN '000	***BGN '000***
Tablet dosage forms	69,628	71,334
Ampoule dosage forms	9,655	9,105
Ointments	4,516	5,301
Syrup dosage forms	2,653	4,104
Medicinal cosmetics	636	537
Lyophilic products	550	1,170
Suppositories	406	371
Plasters	224	281
Drops	181	169
Bandages	175	156
Sanitary-hygene products	161	100
Other	1	1
Total	**88,786**	**92,629**

Sales by product – domestic market

	2018	***2017***
	BGN '000	***BGN '000***
Tablet dosage forms	31,722	35,967
Ampoule dosage forms	14,695	12,705
Bandages	3,876	3,656
Lyophilic products	3,433	2,931
Plasters	2,189	2,063
Ointments	1,752	1,423
Concentrates for hemodialysis	1,449	1,325
Syrup dosage forms	1,088	1,029

Sanitary-hygene products	1,050	1,047
Inhalation products	917	1,945
Drops	572	834
Suppositories	307	326
Medicinal cosmetics	190	73
Saches	50	31
Other	-	1
Total	**63,290**	**65,356**

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

	2018 BGN '000	***Relative share***	***2017 BGN '000***	***Relative share***
Europe	72,245	48%	76,342	49%
Bulgaria	63,290	42%	65,356	41%
Other countries	16,541	10%	16,287	10%
Total	**152,076**	**100%**	**157,985**	**100%**

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

	2018 BGN '000	***% of revenue***	***2017 BGN '000***	***% of revenue***
Client 1	62,020	41%	57,899	37%
Client 2	42,917	28%	49,701	31%
Client 3	13,793	9%	14,441	9%

4. OTHER OPERATING INCOME AND LOSSES

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

	2018 BGN '000	***2017 BGN '000***
Services rendered	2,910	2,493
Derecognition of liabilities	1,324	11
Income from government grants under under European projects	453	643
Income from sale of fixed assets	*440*	*327*
Carrying amount of sold fixed assets	*(334)*	*(335)*

Profit from sale of fixed assets	106	(8)
Sales of goods	*1,114*	*1,122*
Cost of goods sold	*(1,048)*	*(1,052)*
Profit from sale of goods	66	70
Profit from sale of materials	*766*	*736*
Balance sheet value of materials sold	*(713)*	*(679)*
Gain from sale of materials	53	57
Net loss on exchange differences under trade receivables and payables and current accounts	(206)	(223)
Other income	120	307
Total	**4,826**	**3,350**

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

Services rendered include:

	2018	***2017***
	BGN '000	***BGN '000***
Rentals	1,112	933
Social activities	756	738
Manufacturing services	588	348
Gamma irradiation	131	108
Laboratory analyses	75	58
Regulatory services	51	79
Transport organisation	19	16
Other	178	213
Total	**2,910**	**2,493**

Sales of goods include:

	2017	***2016***
	BGN '000	***BGN '000***
Edibles	914	785
Cosmetics	140	272
Goods with a technical purpose	55	38
Medical supplies	5	-
Food supplements	-	27
Total	**1,114**	**1,122**

The *cost of goods sold* is as follows:

	2018	*2017*
	BGN '000	*BGN '000*
Edibles	873	741
Cosmetics	126	246
Goods with a technical purpose	44	48
Medical supplies	5	-
Food supplements	-	17
Total	**1,048**	**1,052**

5. RAW MATERIALS AND CONSUMABLES

The *raw materials and consumables used* include:

	2018	*2017*
	BGN '000	*BGN '000*
Basic materials	40,244	44,051
Electric energy	4,212	3,867
Heat power	2,484	2,252
Laboratory materials	2,301	1,848
Auxiliary materials	1,259	1,809
Technical materials	1,173	491
Spare parts	995	1,310
Working clothes and personal protective equipment for labour	647	557
Fuels and lubricating materials	513	664
Water	463	495
Scrapped materials	31	79
Total	**54,322**	**57,423**

Expenses on basic materials include:

	2018	*2017*
	BGN '000	*BGN '000*
Substances	17,700	20,821
Packaging materials	8,196	7,935

Liquid and solid chemicals	5,902	6,040
Sanitary-hygene materials	2,019	1,917
Herbs	2,005	2,631
Ampoules	1,428	1,645
Tubes	1,388	1,139
Aluminium and PVC foil	936	1,122
Vials	670	801
Total	**40,244**	**44,051**

6. HIRED SERVICES EXPENSE

Hired services expense includes:

	2018	***2017***
	BGN '000	***BGN '000***
Advertising and marketing	6,334	2,571
Maintenance of buildings and equipment	3,775	2,686
Manufacture of medicines	2,570	2,388
Transportation	2,264	2,722
Rentals	1,854	1,546
Consulting services	1,636	1,786
Logistic services (domestic market)	1,284	1,350
Local taxes and charges	1,084	1,096
State and regulatory charges	1,009	855
Subscription fees	953	664
Security	811	867
Services under civil contracts	701	682
Medical services	550	594
Insurance	497	446
Vehicles repair and maintenance	326	411
Taxes on expenses	311	315
Documents translation	289	202
Announcements and communications	286	282
Logistic services (export)	286	388
Licence fees and charges	270	313
Services on registration of medicines	227	326
Fees and charges on current bank accounts	132	158
Courier services	104	97
Destruction of pharmaceuticals	92	287
Commission fees	48	89
Clinical trials	-	8

Other	621	645
Total	**28,314**	**23,774**

7. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense includes:

	2018	*2017*
	BGN '000	*BGN '000*
Current wages and salaries	27,435	26,840
Social security/health insurance contributions	4,909	4,807
Social benefits and payments	1,797	1,752
Accruals for unused paid leaves	1,333	1,194
Tantiems	1,276	775
Share-based Payment (*Note 35*)	1,221	-
Social security/health insurance contributions on leaves	253	209
Accruals for long-term retirement benefit obligations *(Note 30)*	393	219
Total	**38,617**	**35,796**

8. OTHER OPERATING EXPENSES

Other expenses include:

	2018	*2017*
	BGN '000	*BGN '000*
Representative events	963	1,351
Impairment of current assets (*Note 9*)	585	(625)
Business trip costs	553	653
Scrapping of finished products and work in progress	256	100
Donations	247	276
Training courses	228	229
Scrapping of sample for stability	143	-
Unrecognized VAT tax credit	104	43
Scrapping of goods	34	6
Other taxes and payments to the state budget	11	49
Scrapping of fixed assets	-	17
Other	138	103

Total	**3,262**	**2,202**

9. IMPARIMENT OF CURRENT ASSETS

Impairment costs of *current assets* include:

	2018	*2017*
	BGN '000	*BGN '000*
Impairment of trade receivables	*589*	*523*
Recovered impairment of trade receivables	*(4)*	*(1,148)*
Net change in impairment of receivables (*Note 8*)	585	(625)
Total	**585**	**(625)**

10. FINANCE INCOME

Finance income includes:

	2018	*2017*
	BGN'000	*BGN'000*
Revenue from shareholding	8,800	7,310
Income from interest on loans granted	1,202	1,291
Net gain on available-for-sale investments in securities and shares	394	1,539
Net gain on exchange differences on receivables from sale of subsidiary	115	-
Impairment on receivables on commercial loans granted	-	*(935)*
Recovered impairment on receivables on commercial loans granted	-	*1,661*
Net change of the impairment on commercial loans granted	-	726
Revenue from liquidation of subsidiaries	-	7
Total	**10,511**	**10,873**

11. FINANCE COSTS

Finance costs include:

	2018	*2017*
	BGN'000	*BGN'000*
Interest expense on loans received	845	993
Impairment of receivables from commercial loans granted	461	-

Bank fees and charges on loans and guarantees	161	165
Effects from derivatives	45	70
Interest expense on financial leasing	1	-
Effects of infusion of available for sale investments	-	289
Net loss on exchange differences on the disposal of a subsidiary	-	398
Total	**1,513**	**1,915**

12. OTHER COMPREHENSIVE INCOME

Other comprehensive income includes:

	2018 BGN '000	***2017 BGN '000***
Net change in fair value of available-for-sale financial assets incl.:		
(Loss)/Gains arising during the year	*(384)*	*2,064*
Less: Reclassification adjustments for (gains)/losses included in profit or loss for the current year	*(1,057)*	*(5)*
Subsequent evaluations of defined benefit pension plans	(3)	(22)
	(1,444)	**2,037**
Income tax related to components of other comprehensive income	-	
Other total comprehensive income for the period	**(1,444)**	**2,037**

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		***Plant and equipment***		***Other***		***Assets in progress***		***Total***	
	2018	***2017***	***2018***	***2017***	***2018***	***2017***	***2018***	***2017***	***2018***	***2017***
	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	**172,843**	**168,075**	**186,029**	**179,889**	**24,273**	**25,821**	**4,282**	**2,471**	**387,427**	**376,256**
Additions	382	252	718	2,368	298	606	8,364	11,872	9,762	15,098
Transfer to property, plant and equipment	2,599	4,643	5,207	5,136	550	224	(8,356)	(10,003)	-	-
Effect of revaluation to fair value	-	-		-	-	13	-	-	-	13
Disposals	(62)	(127)	(86)	(1,364)	(1,546)	(2,391)		(58)	(1,694)	(3,940)
Balance at 30 September / 31 December	**175,762**	**172,843**	**191,868**	**186,029**	**23,575**	**24,273**	**4,290**	**4,282**	**395,495**	**387,427**

Accumulated depreciation

Balance at 1 January	**30,538**	**25,761**	**98,857**	**89,609**	**18,311**	**18,281**	**-**	**-**	**147,706**	**133,651**
Depreciation charge for the year	3,824	4,832	7,980	10,378	1,356	2,156	-	-	13,160	17,366
Impairment	-	-		42	-	-	-	-	-	42
Depreciation written-off	-	(55)	(75)	(1,172)	(1,063)	(2,126)	-	-	(1,138)	(3,353)
Balance at 30 September / 31 December	**34,362**	**30,538**	**106,762**	**98,857**	**18,390**	**18,311**	**-**	**-**	**159,514**	**147,706**
Carrying amount at 30 September / 31 December	**141,400**	**142,305**	**85,106**	**87,172**	**5,185**	**5,962**	**4,290**	**4,282**	**235,981**	**239,721**
Carrying amount at 1 January	**142,305**	**142,314**	**87,172**	**90,280**	**5,962**	**7,540**	**4,282**	**2,471**	**239,721**	**242,605**

As at 30 September 2018 Company's tangible fixed assets include: land amounting to BGN 46,620 thousand (31 December 2017: BGN 45,060 thousand) and buildings of carrying amount BGN 94,780 thousand (31 December 2017: BGN 97,245 thousand).

Tangible fixed assets in progress as at 30 September include:

- expenses on new buildings construction **-** BGN 1,442 thousand (31 December 2017: BGN 1,012 thousand);
- advances for the purchase of machinery and equipment – BGN 1,144 thousand (31 December 2017: BGN 2,511 thousand);
- buildings reconstruction – BGN 872 thousand (31 December 2017: BGN 262 thousand);
- other **–** BGN 832 thousand (31 December 2017: BGN 497 thousand).

As at 30 September 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 7,122 thousand (31 December 2017: BGN 7,627 thousand);
- for ampoule production at the amount of BGN 4,749 thousand (31 December 2017: BGN 5,053 thousand);
- exchange installations for ventilation and climatization for the production of medical products at the amount of BGN 731 thousand (31 December 2017: BGN 776 thousand);
- for the production of innovative tear drops worth BGN 245 thousand (31.12.2017: BGN 264 thousand).

The amount of other assets as at 30 September 2018 includes also biological assets - Golden Chain (Laburnum anagyroides) plantation at the amount of BGN 543 thousand (31 December 2017: BGN 139 thousand).

Operating lease

The Company has leased tangible fixed assets with carrying amount of BGN 5,641 thousand as at 30 September 2018 to related parties (31 December 2017: BGN 6,184 thousand). In addition, tangible fixed assets at carrying amount of BGN 226 thousand are leased to third parties as at 30 September 2018 (31 December 2017: BGN 234 thousand).

Financial leasing

As at 30 September 2018 assets with carrying amount of BGN 138 thousand were acquired under contracts for financial leasing (31.12.2017: BGN 242 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 December 2017: BGN 379 thousand);
- Property, plant and equipment – BGN 43,001 thousand (31 December 2017: BGN 42,590 thousand);
- Other – BGN 12,077 thousand (31.2017: BGN 13,286 thousand).

The following encumbrances were constituted on Company's tangible fixed assets as at 30 September 2018 in relation to received loans:

- Land and buildings with a carrying amount of BGN 22,316 thousand and BGN 52,049 thousand (31.12.2017: respectively BGN 22,316 thousand and BGN 54,363 thousand) (Note *27, Note 31 and Note 37);*
- Pledges on equipment – BGN 34,442 thouand (31.12.2017: BGN 39,234 thousand) (*Note 27, Note 31 and Note 33)*.

Periodical fair value remeasurement

Revaluation of Company's property, plant and equipment was performed as at 31 December 2017 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.

The effects of the revaluation carried out at the amount of BGN 2,290 thousand are recorded in the statement of comprehensive income (in profit or loss for the year and other components of comprehensive income).

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 30 September 2018, 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 (*Note 2.8*).

14. INTANGIBLE ASSETS

	Goodwill		*Intellectual property rights*		*Software*		*Assets in progress*		*Total*	
	2018	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*
	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	**6,698**	**6,698**	**11,145**	**10,845**	**4,420**	**3,919**	**109**	**72**	**22,372**	**21,534**
Additions	-	-	564	236	16	33	181	740	761	1,009
Transfer	-	-	31	140	40	479	(71)	(619)	-	-
Impairment	-	-		-	-	-	-	-	-	-
Disposals	-	-	(43)	(76)		(11)	(109)	(84)	(152)	(171)
Balance at 30 September / 31 December	**6,698**	**6,698**	**11,697**	**11,145**	**4,476**	**4,420**	**110**	**109**	**22,981**	**22,372**
Accumulated amortisation										
Balance at 1 January	-	-	**7,123**	**6,125**	**2,792**	**2,584**	-	-	**9,915**	**8,709**
Amortisation charge for the year	-	-	644	1,072	236	219	-	-	880	1,291
Amortisation written-off	-	-	(41)	(74)	(2)	(11)	-	-	(43)	(85)
Balance at 30 September / 31 December	-	-	**7,726**	**7,123**	**3,026**	**2,792**	-	-	**10,752**	**9,915**
Carrying amount at 30 September / 31 December	**6,698**	**6,698**	**3,971**	**4,022**	**1,450**	**1,628**	**110**	**109**	**12,229**	**12,457**
Carrying amount at 1 January	**6,698**	**6,698**	**4,022**	**4,720**	**1,628**	**1,335**	**109**	**72**	**12,457**	**12,825**

The rights on intellectual property include mainly products of development activities and trademarks. The cost of acquisition of tangible intangible assets as at 30 September includes:

- expenses for the acquisition of licenses and authorizations for the use of medicinal products amounting to BGN 104 thousand (31 December 2017: BGN 109 thousand);
- Software acquisition costs amounting to BGN 5 thousand (31.12.2017: none).

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

- rights on intellectual property – BGN 1,089 thousand (31 December 2017: BGN 1,923 thousand);
- software – BGN 1,765 thousand (31 December 2017: BGN 1,818 thousand);

15. INVESTMENT PROPERTY

	30.09.2018 ***BGN '000***	***31.12.2017*** ***BGN '000***
Balance at 1 January	**24,799**	**22,840**
Additions	1,962	1,993
Written-off	(140)	-
Net loss on fair value adjustment, included in profit or loss	-	(34)
Balance at 30 September / 31 December	**26,621**	**24,799**

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	***30.09.2018*** ***BGN '000***	***31.12.2017*** ***BGN '000***
Warehouse premises	19,885	19,450
Offices	2,403	2,403
Production buildings	925	1,065
Social objects	410	410
Expenses for acquisition of investment properties	2,998	1,471
Total	**26,621**	**24,799**

There are established encumbrances as at 30 September 2018 on investment property as follows:

- mortgage of warehouse premises – BGN 8,286 thousand (31 December 2017: BGN 8,286 thousand) *(Notes 31 and 37);*
- pledges on attached equipment – BGN 5,476 thousand (31 December 2017: BGN 5,476 thousand) *(Note 31).*

Fair value estimates

Hierarchy of fair values

The fair value measurements of the investment property groups are categorized as fair values of level 2 based on the inputs used in the valuation technique.

The revaluation of the investment property to fair value is recurring (annual) and is due 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*	*Acquisition costs*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Balance at 1 January 2017	**18,671**	**2,342**	**1,032**	**407**	**388**	**22,840**
Acquired	-	-	29	-	1,964	1,993
Transfer	881				(881) -	-
Revaluation to fair value through profit or loss - unrealised	(102)	61	4	3		(34)
Balance at 31 December 2017	**19,450**	**2,403**	**1,065**	**410**	**1,471**	**24,799**
	3	-	-	-	1,959	1,962
Acquired	432	-	-	-	(432)	-
Transfer	-	-	(140)	-	-	(140)
Written-off						
Balance at 30 September 2018	**19,885**	**2,403**	**925**	**410**	**2,998**	**26,621**

16. INVESTMENTS IN SUBSIDIARIES

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

		30.09.2018 BGN '000	***Interest %***	***31.12.2017 BGN '000***	***Interest %***
Sopharma Trading AD	Bulgaria	30,672	72.91	30,547	72.86
Briz OOD	Latvia	22,270	66.13	22,270	66.13
Sopharma Ukraine EOOD	Ukraine	9,669	100.00	9,669	100.00
Veta Pharma AD	Bulgaria	9,666	99.98	9,666	99.98
Biopharm Engineering AD	Bulgaria	8,384	97.15	8,384	97.15
Momina Krepost AD	Bulgaria	4,229	93.56	4,229	93.55
Vitamina AD	Ukraine	1,127	99.56	1,127	99.56
Pharmalogistica AD	Bulgaria	961	89.39	961	89.39
Aromania OOD	Bulgaria	750	76.00	750	76.00
Sopharma Buildings REIT	Bulgaria	567	40.38	567	40.38
Sopharma Kazakhstan EOOD	Kazakhstan	502	100.00	502	100.00
Electroncommerce EOOD	Bulgaria	384	100.00	384	100.00
Sopharma Warsaw EOOD	Poland	323	100.00	323	100.00
RAP Pharma International OOD	Moldova	293	51.00	293	51.00
Phyto Palauzovo AD	Bulgaria	57	95.00	57	95.00
Total		**89,854**		**89,729**	

As at 30 September 2018, 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.
- 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 incorporation – 31 September 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 January 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 movement of investments in subsidiaries is presented below:

	Investments in subsidiaries	
Acquisition cost	***30.09.2018 BGN '000***	***31.12.2017 BGN '000***
Balance at 1 January	**124,965**	**120,074**
Additional interest acquired	125	8,946
New interest acquired	-	1,043
Written-off investments due to liquidation	-	(5)
Interest sold without loss of control	-	-
Effects of merging a subsidiary	-	(5,092)
Acquired through an increase in capital	-	-
Sold participations with loss of control	-	(1)
Balance at 30 September / 31 December	**125,090**	**124,965**
Impairment charged		

Balance at 1 January	**35,236**	**31,323**
Impairment charged		3,913
Balance at 30 September / 31 December	**35,236**	**35,236**
Carrying amount at 30 September / 31 December	**89,854**	**89,729**
Carrying amount at 1 January	**89,729**	**88,751**

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.

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.

As a result of the analyzes made as at 30 September 2018, there is no need to recognize impairment of certain investments in subsidiaries.

17. INVESTMENTS IN ASSOCIATES

As at 30 September 2018 the book value of the investments in associates amounts to BGN 7,931 thousand and includes a participation of 33.14% of the capital of Doverie Obedinen Holding AD (31 December 2017: BGN 7,740 thousand and a participation of 32.57%).

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 movement of investments in associates is presented below:

	30.09.2018	***31.12.2017***
	BGN '000	***BGN '000***
Balance on 1 January	**7,740**	**5,219**
Acquisition of shares	196	4,053
Sales of shares	(5)	(1,532)
Balance on 30 September / 31 December	**7,931**	**7,740**

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.

As at the date of issue of this statement, there is no need to recognize impairment of investments in associates.

18. AVAILABLE-FOR-SALE INVESTMENTS

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

	30.09.2018 BGN '000	***Interest %***	***31.12.2017 BGN '000***	***Interest %***
Lavena AD	3,367	10.84	3,519	11.30
Sopharma properties REIT	2,124	1.43	663	0.50
Olainfarm AD - Latvia	1,343	0.77	1,826	0.77
Achieve Life Sciences Inc. – USA	178	1.30	770	3.01
Todorov AD	157	10.88	155	10.56
Elana Agrocredit AD	79	0.19	13	0.05
BTF Expat Bulgaria	67	0.17	78	0.19
ImVenchar 1 KDA	50	0.014	-	-
Sirma Group Holding AD	10	0.017	2	0.003
Ecobulpack AD	7	1.48	7	1.48
Aroma AD	4	0.01	-	-
UniCredit Bulbank AD	3	0.001	3	0.001
Gradus AD	3	0.007	-	-
Expo Group AD	1	0.05	1	0.05
Hydroizomat AD	-	-	489	13.81
Chimimport AD	-	-	26	0.01
Total	**7,393**		**7,552**	

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

The fair value per share as at 30 September is as follows:

Available-for-sale investments	***Number of shares***	***30.09.2017*** ***Fair value per share***	***Fair value as per the statement of financial position***	***Number of shares***	***31.12.2017*** ***Fair value per share***	***Fair value as per the statement of financial position***
		BGN	***BGN '000***		***BGN***	***BGN '000***
Lavena AD	901,969	3.73	3,367	36,170	97.29	3,519
Sopharma properties REIT	299,256	7.10	2,124	101,237	6.55	663
Olainfarm AD - Latvia	108,500	12.38	1,343	108,500	16.83	1,826
Achieve Life Sciences Inc. – USA	35,930	4.95	178	359,305	2.14	770
Todorov AD	370,081	0.42	157	359,001	0.43	155
Elana Agrocredit AD	68,564	1.15	79	10,000	1.30	13
BTF Expat Bulgaria	55,604	1.20	67	64,316	1.21	78
ImVenchar 1 KDA	500	100.00	50	-	-	-
Sirma Group Holding AD	10,000	1.00	10	2,000	1.00	2
Aroma AD	2,221	1.80	4	-	-	-
Gradus AD	1,500	2.00	3	-	-	-
Hydroizomat AD	-	-	-	412,936	1.18	489
Chimimport AD	-	-	-	15,093	1.72	26
Total			**7,382**			**7,541**

The investments in Ecobulpack AD, UniCredit Bulbank AD, Expo group AD are valued and presented at acquisition price.

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***
	30.09.2018		
	BGN '000	***BGN '000***	***BGN '000***
Lavena AD	3,367	-	3,367
Sopharma properties REIT	2,124	2,124	-
Olainfarm AD - Latvia	1,343	1,343	-
Achieve Life Sciences Inc. – USA	178	178	-
Todorov AD	157	-	157
Elana Agrocredit AD	79	79	-
BTF Expat Bulgaria	67	67	-
ImVenchar 1 KDA	50	50	-
Sirma Group Holding AD	10	10	-
Aroma AD	4	4	-
Gradus AD	3	3	-
Total	**7,382**	**3,858**	**3,524**

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 Sciences Inc. – USA	770	770	-
Sopharma properties REIT	663	663	-
Hydroizomat AD	489	489	-
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	**7,541**	**3,867**	**3,674**

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

Available-for-sale financial investments (shares)	*Level 1*	*Level 2*	*Total*
	BGN '000	*BGN '000*	*BGN '000*
Balance at 1 January 2017	**2,111**	**2,883**	**4,994**
Purchases	669	73	742
Issue of shares	424	478	902
Sales	(396)	(16)	(412)
Transfer to investment 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 securities*	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 *(Note 14)*	1,089	209	1,298
Balance at 31 December 2017	**3,867**	**3,674**	**7,541**
Purchases	751	15	766
Emissions of shares	933	-	933
Sales	(652)	(169)	(821)
Realised gain/(loss) included in the current profit and loss for the year in the item Finance income – *Net gain on transactions with securitie*	313	91	404

Unrealised gain/ (loss) net included in other comprehensive income for the year *(Note 14)*	(1,354)	(87)	(1,441)
Balance at 30 September 2018	**3,858**	**3,524**	**7,382**

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.

19. LONG-TERM RECEIVABLES FROM RELATED PARTIES

The long-term receivables from related parties include:

	30.09.2018	***31.12.2017***
	BGN '000	***BGN '000***
Long-term loans granted	24,323	21,340
Long-term rental deposit granted	214	243
Total	**24,537**	**21,583**

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

	30.09.2018	***31.12.2017***
	BGN '000	***BGN '000***
Associated companies	18,082	16,538
Other related parties	5,258	3,818
Subsidiary companies	983	984
Total	**24,323**	**21,340**

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

Currency	***Contracted amount***	***Maturity***	***Interest %***	***30.09.2018***		***31.12.2017***	
	'000			***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
					including interest		***including interest***
EUR	30,452	31.12.2021	3.50%	*18,082*	*177*	*16,538*	*17*
BGN	29,900	31.12.2021	3.00%	*3,882*	*67*	*3,818*	*3*
EUR	700	31.12.2021	3.00%	*1,376*	*7*	*-*	*-*
EUR	500	01.03.2020	6.60%	*983*	*5*	*984*	*21*

24,323	***256***	***21,340***	***41***

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 214 thousand (31 December 2017: BGN 243 thousand).

20. OTHER LONG-TERM RECEIVABLES

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

	30.09.2017 ***BGN '000***	***31.12.2017*** ***BGN '000***
Receivables under transactions in securities	3,057	2,940
Long-term loans provided	2,082	945
Receivables on sales of LTA	325	325
Total	**5,464**	**4,210**

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 3,057 thousand and expected maturity on 31 December 2020 (31 December 2017: BGN 2,940 thousand).

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

Currency	***Contract amount***	***Maturity***	***Intrest %***	***31.09.2018***		***31.12.2017***	
	'000			***BGN'000***	***BGN'000*** ***including interest***	***BGN'000***	***BGN'000*** ***including interest***
EUR	695	12.10.2022	3.05%	*1,392*	*33*	*945*	*6*
EUR	1,000	29.06.2023	3.05%	*690*	*5*	*-*	*-*
				2,082	**38**	**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 2017: BGN 325 thousand).

21. INVENTORIES

Company's *inventories* include:

	30.09.2018 *BGN '000*	*31.12.2017* *BGN '000*
Materials	28,115	29,238
Finished products	27,701	22,924
Semi-finished products	10,226	10,680
Work in progress	4,129	6,073
Goods	70	103
Total	**70,241**	**69,018**

Materials by type are as follows:

	30.09.2018 *BGN '000*	*31.12.2017* *BGN '000*
Basic materials	27,242	26,201
Technical materials	453	490
Spare parts	211	180
Auxiliary materials	166	159
Materials in transit	-	2,114
Other	43	94
Total	**28,115**	**29,238**

Basic materials by type are as follows:

	30.09.2018 *BGN '000*	*31.12.2017* *BGN '000*
Substances	12,584	12,925
Chemicals	4,363	3,765
Herbs	2,570	2,632
Ampoules	2,406	2,156
Packaging materials	1,739	1,976
PVC and aluminium foil	1,576	1,346
Sanitary-hygiene and dressing materials	1,522	929
Tubes	246	237
Vials	236	235
Total	**27,242**	**26,201**

Finished products by type are as follows:

	30.09.2018 *BGN '000*	*31.12.2017* *BGN '000*
Tablet dosage forms	17,472	13,907
Ampoule dosage forms	3,672	4,304
Ointments	1,541	989

Bandages	1,278	779
Syrups	1,269	996
Lyophilic products	821	533
Plasters	354	297
Medicinal cosmetics	321	45
Sanitary-hygene materials	278	142
Drops	226	191
Suppositories	157	195
Inhalation products	152	394
Concentrates for hemodialysis	151	130
Sachets	9	22
Total	**27,701**	**22,924**

Goods by type are as follows:

	30.09.2018 BGN '000	***31.12.2017 BGN '000***
Food	63	51
Medical supplies	7	10
Food additives	-	42
Total	**70**	**103**

Pledges were established on Company's inventories with carrying amount of BGN 33,721 thousand as at 30 September 2018 as collateral to bank loans received (31 December 2017: BGN 30,442 thousand) *(Notes 31 and 37).*

22. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:

	30.09.2018 BGN '000	***31.12.2017 BGN '000***
Receivables from subsidiaries	*90,867*	*75,540*
Impairment of uncollectable receivables	*(2,022)*	*(1,648)*
	88,845	73,892
Receivables from other related parties	2,013	370
Receivables from related companies through a major shareholder	70	-
Receivables from companies related through key managing personnel	-	2,956
Total	**90,928**	**77,218**

The receivables from related parties by type are as follows:

	30.09.2018	***31.12.2017***

	BGN '000	BGN '000
Receivables on sales of finished products and materials	79,866	65,624
Impairment of uncollectable receivables	*(831)*	*(848)*
	79,035	64,776
Trade loans granted	13,014	13,242
Impairment of uncollectable receivables	*(1,191)*	*(800)*
	11,823	12,442
Dividend receivables	70	-
Total	**90,928**	**77,218**

The receivables on sales are interest-free and BGN 61,664 thousand of them are denominated in BGN (31 December 2017: BGN 40,640 thousand) and in EUR – BGN 17,371 thousand (31 December 2017: BGN 24,136 thousand).

The receivables from a subsidiary with principal activities in the field of trade in pharmaceuticals were the most significant and amounted to BGN 61,481 thousand as at 30 September 2018 or 77.79 % of all receivables on sales of finished products and materials to related parties (31 December 2017: BGN 40,524 thousand – 62,56%).

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:

	30.09.2018 BGN '000	*31.12.2017* BGN '000
up to 30 days	12,914	10,868
from 31 to 90 days	15,728	26,539
from 91 to 180 days	22,319	17,059
from 181 to 240 days	964	1,208
over 241	343	581
Total	**52,268**	**56,255**

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

	30.09.2018 BGN '000	*31.12.2017* BGN '000

from 31 to 90 days	2,761	1,909
from 91 to 180 days	5,350	2,041
from 181 to 365 days	18,656	2,908
Total	**26,767**	**6,858**

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:

	30.09.2018	*31.12.2017*
	BGN '000	***BGN '000***
From 91 to 180 days	-	187
from 180 to 365 days	-	1,588
over 365 days	831	736
Allowance for impairment	(831)	(848)
Total	**-**	**1,663**

Overdue receivables are partially impaired taking into account the collateral provided by the debtor companies, mainly in the form of stakes in 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:

	2018	***2017***
	BGN '000	***BGN '000***
Balance at 1 January	**848**	**1,134**
Reversed impairment	(17)	(1,136)
Impairment charge	-	847
Transfer of impairment from commercial receivables	-	3
Balance at 30 September / 31 December	**831**	**848**

Special pledges have been established as at 30 September 2018 on receivables from related parties at the amount of BGN 68,567 thousand as collateral under bank loans received (31 December 2017: BGN 44,726 thousand) *(Note 31)*.

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

	30.09.2018 BGN '000	*31.12.2017* BGN '000
Subsidiaries	*11,033*	*9,919*
Impairment of commercial loans	*(1,191)*	*(800)*
	9,842	9,119
Other related parties	1,981	367
Receivables from companies related through key managing personnel	-	2,956
Total	**11,823**	**12,442**

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

	2018 BGN '000	*2017* BGN '000
Balance at 1 January	**800**	**2,378**
Impairment charge	391	340
Recovered impairment	-	(1,909)
Impairment written off	-	(9)
Balance at 30 September / 31 December	**1,191**	**800**

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

Currency	*Contracted amount '000*	*Maturity*	*Interest %*	*30.09.2018* BGN '000	*30.09.2018* BGN '000 including interest	*31.12.2017* BGN '000	*31.12.2017* BGN '000 including interest
to companies related through key managing personnel							
BGN	67,450	31.12.2018	2.81%	-	-	*2,956*	*4*
to subsidiaries							
EUR	2,770	31.12.2018	4.70%	*4,575*	-	*4,702*	-
BGN	12,229	31.12.2018	4.10%	*3,500*	*18*	*3,369*	*9*
BGN	1,550	31.12.2018	3.50%	*967*	*4*	*300*	-
EUR	390	10.05.2019	3.95%	*800*	*37*	*748*	*15*
to other related parties							
BGN	1,910	31.08.2018	3.10%	*1,925*	*15*	*305*	*5*
BGN	190	31.12.2018	3.50%	*56*	-	*62*	-
				11,823	***74***	**12,442**	***33***

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).

23. TRADE RECEIVABLES

Trade receivables include:

	30.09.2018	*31.12.2017*
	BGN '000	*BGN '000*
Receivables from clients	22,031	22,831
Impairment of uncollectable receivables	(1,342)	(756)
	20,689	22,075
Advances granted	974	1,183
Total	**21,663**	**23,258**

The *receivables from clients* are interest-free and BGN 954 thousand of them are denominated in BGN (31 December 2017: BGN 2,972 thousand), in EUR – BGN 18,211 thousand (31 December 2017: BGN 18,014 thousand), in USD – BGN 1,524 thousand (31 December 2017: BGN 1,089 thousand).

One main counterpart of the Company is accountable for about 66.16 % of the receivables from clients (31 December 2017: one main counterpart accountable for 72.49%).

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

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

Special pledges on trade receivables at the amount of BGN 20,689 thousand were established at 30 September 2018 as collateral to bank loans received (31 December 2017: BGN 21,393 thousand) *(Notes 31 and 37).*

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

	30.09.2018	*31.12.2017*
	BGN '000	*BGN '000*
up to 30 days	10,133	5,767
from 31 to 90 days	8,393	6,774
from 91 to 180 days	229	936
Total	**18,755**	**13,477**

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

	30.09.2018	*31.12.2017*
	BGN '000	***BGN '000***
from 31 to 90 days	875	7,627
from 91 to 180 days	1,020	102
from 181 to 365 days	39	300
over 365 days	-	249
Total	**1,934**	**8,278**

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

	30.09.2018	*31.12.2017*
	BGN '000	***BGN '000***
from 91 to 180 days	-	131
from 181 to 365 days	-	363
over 365 days	1342	582
Allowance for impairment	(1,342)	(756)
Total	**-**	**320**

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

	2018	***2017***
	BGN '000	***BGN '000***
Balance at 1 January	**756**	**286**
Impairment charge	587	573
Reversed impairment	(1)	(35)
Transfer to impairment of court and receivables	-	(65)
Transfer to impairment of receivables from related parties	-	(3)
Amounts written off as uncollectible	-	-
Balance at 30 September / 31 December	**1,342**	**756**

The *advances granted to suppliers* are for the purchase of:

	30.09.2018	***31.12.2017***
	BGN '000	***BGN '000***
Inventories	752	896
Services	222	287

Total	**974**	**1,183**

The *advances granted* are current. They include: in BGN – BGN 413 thousand (31 December 2017: BGN 506 thousand), in EUR – BGN 45 thousand (31 December 2017: BGN 135 thousand), in USD – BGN 510 thousand (31.12.2017: BGN 541 thousand) and in other currency – BGN 6 thousand (31 December 2017: BGN 1 thousand).

24(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.

	30.09.2018	***31.12.2017***
	BGN '000	***BGN '000***
Commercial loans granted	*8,868*	*3,639*
Impairment of commercial loans	*(509)*	*(438)*
Total	**8,359**	**3,201**

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

	2018	***2017***
	BGN '000	***BGN '000***
Balance on 1 January:	**438**	**273**
Reported impairment	71	165
Balance on 30 September / 31 December:	**509**	**438**

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

Currency	***Contracted amount***	***Maturity***	***Interest %***	***30.09.2018***		***31.12.2017***	
	'000			***BGN'000***	***BGN'000 including interest***	***BGN'000***	***BGN'000 including interest***
BGN	2,412	31.12.2018	3.05%	*4,718*	*1*	-	-
BGN	4,046	31.12.2018	4.30%	*3,229*	-	*2,846*	-
BGN	632	31.12.2018	4.50%	*305*	*4*	*251*	*1*
BGN	949	31.12.2018	4.70%	*107*	*5*	*104*	*1*

	8,359	**10**	**3,201**	**2**

24(B). OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	30.09.2018	***31.12.2017***
	BGN '000	***BGN '000***
Taxes refundable	5,533	3,463
Prepayments	1,007	849
Receivables on reclamation	160	175
Receivables on deposits placed as guarantees	154	172
Amounts granted for dividend payments	150	-
Amounts granted to an investment intermediary	31	125
Court and awarded receivables	*124*	*2,223*
Impairment of court receivables	*(124)*	*(2,223)*
	-	-
Other	239	117
Total	**7,274**	**4,901**

Taxes refundable include:

	30.09.2018	***31.12.2017***
	BGN '000	***BGN '000***
Excise duties	4,129	3,136
Corporate tax	1,402	-
Value added tax	2	327
Total	**5,533**	**3,463**

Prepayments include:

	30.09.2018	***31.12.2017***
	BGN '000	***BGN '000***
Subscriptions	398	319
Vouchers	385	53
Insurance	120	297
Licence and patent fees	80	53
Rentals	-	38
Other	24	89

Total	**1,007**	**849**

Deposits placed as guarantees include:

	30.09.2018	*31.12.2017*
	BGN '000	*BGN '000*
Guarantees under contracts for fuel supply	88	106
Guarantees under contracts for supply of LTA	25	-
Guarantees under construction contracts	22	44
Guarantees under rental contracts	2	2
Guarantees under contracts for delivery of medicines	-	2
Other	17	18
Total	**154**	**172**

25. CASH AND CASH EQUIVALENTS

Cash includes:

	30.09.2018	*31.12.2017*
	BGN '000	*BGN '000*
Cash at current bank accounts	*8,525*	*5,797*
Impairment of cash at current bank accounts	*(166)*	*(166)*
Net change of cash in current accounts	8,359	5,631
Cash in hand	151	122
Blocked cash under issued bank guarantees	23	11
Total	**8,533**	**5,764**

Cash structure at current bank accounts is as follows: in BGN: BGN 6,457 thousand (31 December 2017: BGN 3,679 thousand), in EUR – BGN 932 thousand (31 December 2017: BGN 640 thousand), in USD – BGN 888 thousand (31 December 2017: BGN 1,245 thousand) and in other currency – BGN 82 thousand (31 December 2017: BGN 67 thousand).

The funds in cash are: in BGN - BGN 150 thousand (31.12.2017: BGN 122 thousand), in EUR - none (31.12.2017: none), in USD - none (31.12.2017: none) and in other currencies – BGN 1 thousand (31.12.2017: none).

The blocked funds under issued bank guarantees are: in BGN - BGN 12 thousand (31.12.2017: none) and in EUR - BGN 11 thousand (31.12.2017: BGN 11 thousand).

26. EQUITY

Share capital

As at 30 September 2018, 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 2017	**129,286,651**	**115,662**
Effects from merger of a subsidiaries	332,468	929
Treasury shares sold	419,931	1,399
Treasury shares	(3,971,799)	(16,974)
Expense on treasury shares	-	(52)
Balance at 31 December 2017	**126,067,251**	**100,964**
Balance at 1 January 2018	**126,067,251**	**100,964**
Payments based on shares	287,900	1,080
Effects from merger of a subsidiary	70,606	265
Treasury shares	(151,342)	(638)
Expense on treasury shares	-	(3)
Balance at 30 September 2018	**126,274,415**	**101,668**

On 1 January 2017, under a signed agreement, a transformation was made through the merger of the subsidiary Medica AD in Sopharma AD. The effect of the merger at the expense of the treasury 181,302 shares amounts to BGN 602 thousand.

On 1 January 2018, under a signed agreement, a transformation was made through the merger of the subsidiary Unipharm AD into Sopharma AD. The effect of the merger at the expense of the treasury 70,606 shares amounts to BGN 265 thousand.

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

	30.09.2018	*31.12.2017*
	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 9,113,716 at the amount of BGN 33,130 thousand as at 30 September 2018 (31 December 2017: 9,032,980 shares at the amount of BGN 33,834 thousand). 151,342 shares were purchased in the current year (2017: 3,971,799 shares) and none were sold (2017: 419,931 shares). The effect of the merger of a subsidiary in Sopharma AD was 70,606 shares amounting to BGN 265 thousand (2017: 332,468 shares at the amount of BGN 929 thousand).

On 15.06.2018 it was decided by the General Meeting of Shareholders 287,900 treasury shares to be distributed to the employees as bonus, once for the 85 anniversary of Sopharma AD to all persons with more than one year of service in the Company, who are in employment relationship with the Company or are working under a management contract ("entitled persons"). The shares are distributed to 1,836 persons on a step scale, according to the years employed by the Company (*Note 7*).

As at 30 September 2018 and 31 December 2017 the Company has no ***shares held by its subsidiaries***.

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

	30.09.2018	***31.12.2017***
	BGN '000	***BGN '000***
Statutory reserves	55,967	51,666
Property, plant and equipment revaluation reserve	24,952	23,839
Available-for-sale financial assets reserve	2,668	4,089
Additional reserves	275,977	251,089
Total	**359,564**	**330,683**

Statutory reserves at the amount of BGN 55,967 thousand (31 December 2017: BGN 51,666 thousand) represent the Reserve Fund, which is set aside under a requirement of the Commercial Law and the Company's Articles of Association, and includes two components: (a) amounts from distribution of profit for the Reserve Fund – BGN 47,182 thousand (31 December 2017: BGN 42,881 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 2017: BGN 8,785 thousand)

The *movements of statutory reserves* were as follows:

	2018	***2017***
	BGN '000	***BGN '000***

Balance at 1 January	**51,666**	**47,841**
Distribution of profit	4,301	3,825
Balance at 30 September / 31 December	**55,967**	**51,666**

The ***property, plant and equipment revaluation reserve***, amounting to BGN 24,952 thousand (31 December 2017: BGN 23,839 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:

	2018	***2017***
	BGN '000	***BGN '000***
Balance at 1 January	**23,839**	**24,171**
Effects of merging a subsidiary	1,744	-
Transfer to retained earnings	(631)	(294)
Revaluation of property, plant and equipment	-	(42)
Deferred tax relating to revaluations	-	4
Balance at 30 September / 31 December	**24,952**	**23,839**

The ***available-for-sale financial assets reserve***, amounting to BGN 2,670 thousand (31 December 2017: BGN 4,089 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:

	2018	***2017***
	BGN '000	***BGN '000***
Balance at 1 January	**4,089**	**2,805**
Net gain arising on revaluation of available-for-sale financial assets	(384)	1,296
Effects of merging a subsidiary	20	-
Cumulative (gains)/losses reclassified to current profit or loss upon sale/realisation of available-for-sale financial assets	(1,057)	(12)
Balance at 30 September / 31 December	**2,668**	**4,089**

Additional reserves at the amount of BGN 275,977 thousand (31 December 2017: BGN 251,089 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:

	2018	***2017***
	BGN '000	***BGN '000***
Balance at 1 January	**251,089**	**229,586**
Distributed profit in the year	24,888	21,503
Balance at 30 September / 31 December	**275,977**	**251,089**

Retained earnings amount to BGN 22,992 thousand as at 30 September 2018 (31 December 2017: BGN 45,831 thousand

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

	2018	***2017***
	BGN '000	***BGN '000***
Balance at 1 January	**45,831**	**45,358**
Net profit for the year	27,716	44,228
Transfer from property, plant and equipment revaluation reserve	631	294
Payments based on shares	141	-
Effects of merging a subsidiary from actuarial losses from subsequent estimates	(3)	(67)
Distribution of profit to reserves	(29,189)	(25,328)
Distribution of profit for dividends	(20,106)	(12,921)
Effects from merger of a subsidiary	(2,029)	(5,729)
Effect from treasury shares sold	-	479
Effects of merging a subsidiary from a net change in the fair value of available-for-sale financial assets	-	14
Actuarial losses from remeasurements	-	(497)
Balance at 30 September / 31 December	**22,992**	**45,831**

Net earnings per share

	30.09.2018	***30.09.2017***
Weighted average number of shares	129,119,688	129,278,391

Net profit for the year (BGN '000)	27,716	39,818
Basic earnings per share (BGN)	**0,21**	**0,31**

27. LONG-TERM BANK LOANS

Currency	*Contracted loan amount*	*Maturity*	*30.09.2018* Non-current portion	*30.09.2018* Current portion	*30.09.2018* Total	*31.12.2017* Non-current portion	*31.12.2017* Current portion	*31.12.2017* Total
	'000		*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Investment-purpose loans								
EUR	32,000	15.04.2021	11,335	7,153	**18,488**	16,691	7,172	**23,863**
AZN	35	16.03.2021	19	11	**30**	-	-	**-**
EUR	565	25.10.2018	-	12	**12**	-	220	**220**
			11,354	**7,176**	**18,530**	**16,691**	**7,392**	**24,083**

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 (2017: 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).

The investment loan in Azerbaijan Manati has a fixed interest rate of 24.10% (31 December 2017: none).

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

- Mortgages of real estate with a carrying amount of BGN 41,046 thousand as at 30 September 2018 (31 December 2017: BGN 42,387 thousand) (*Note 13*);
- Special pledges on machinery and equipment with a carrying amount of BGN 16,397 thousand as at 30 September 2018 (31 December 2017: BGN 17,390 thousand) *(Note 13).*

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.

28. DEFERRED TAX LIABILITIES

Deferred income taxes as at 30 September / 31 December are related to the following items of the statement of financial position:

Deferred tax (liabilities)/ assets	*temporary difference*	*tax*	*temporary difference*	*tax*
	30.09.2018	***30.09.2018***	***31.12.2017***	***31.12.2017***

	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	80,244	8,024	80,755	8,076
including revaluation reserve	*24,765*	*2,477*	*25,396*	*2,540*
Intangible assets	2,086	209	2,309	231
Investment property	6,823	682	6,026	603
including revaluation reserve	*187*	*19*	*187*	*19*
Biological assets	26	3	26	3
Total deferred tax liabilities	**89,179**	**8,918**	**89,116**	**8,912**
Payables to personnel	(7,975)	(797)	(7,708)	(771)
Receivables	(4,498)	(450)	(5,334)	(533)
Inventories	(2,001)	(200)	(3,969)	(397)
Accrued liabilities	(137)	(14)	(410)	(41)
Cash	(166)	(17)	(166)	(17)
Total deferred tax assets	**(14,777)**	**(1,478)**	**(17,587)**	**(1,759)**
Deferred income tax liabilities, net	**74,402**	**7,440**	**71,529**	**7,153**

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 2018 is as follows:

Deferred tax (liabilities)/ assets	***Balance at 1 January 2018***	***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 30 September 2018***
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(8,076)	21	-	31	(8,024)
Intangible assets	(231)	22	-	-	(209)
Investment property	(603)	(79)	-	-	(682)
Biological assets	(3)	-	-	-	(3)
Payables to personnel	771	26	-	-	797
Receivables	533	(83)	-	-	450
Inventories	397	(197)	-	-	200
Accrued liabilities	41	(27)	-	-	14
Cash	17	-	-	-	17
Total	**(7,153)**	**(317)**	**-**	**31**	**(7,440)**

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

Deferred tax (liabilities)/ assets	*Balance at 1 January 2017*	*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 2017*
	BGN '000	*BGN '000*		*BGN '000*	*BGN '000*
Property, plant and equipment	(8,200)	81	-	43	(8,076)
Intangible assets	(310)	79	-	-	(231)
Investment property	(515)	(88)	-	-	(603)
Biological assets	(1)	(2)	-	-	(3)
Payables to personnel	636	135	-	-	771
Receivables	685	(152)	-	-	533
Inventories	423	(26)	-	-	397
Accrued liabilities	26	15	-	-	41
Cash	17	-	-	-	17
Total	**(7,239)**	**41**	**-**	**43**	**(7,153)**

29. 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" and Operational Program "Energy Efficiency". The table below presents the non-current and the current portion of the grants received by type:

	30.09.2018			*31.12.2017*		
	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	2,683	179	**2,862**	2,817	179	**2,996**
Implementation of innovative products in the production of ampoule dosage forms	2,150	200	**2,350**	2,300	200	**2,500**

Acquisition of fixed assets and reconstruction of buildings	311	19	**330**	326	41	**367**
Acquisition of machinery and equipment for technological renovation and modernisation of tablet production	160	120	**280**	250	120	**370**
Deployment in the production of innovative eye drops of the type "artificial tears"	90	47	**137**	126	47	**173**
Acquisition of ventilation and climatization equipment	104	9	**113**	111	9	**120**
	5,498	**574**	**6,072**	**5,930**	**596**	**6,526**

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 36).*

30. RETIREMENT BENEFIT OBLIGATIONS

Long-term payables to personnel include:

	30.09.2018 ***BGN '000***	***31.12.2017*** ***BGN '000***
Long-term retirement benefit obligations	4,241	3,890
Long-term benefit obligations for tantieme	324	249
Total	**4,565**	**4,139**

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*).

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

	2018	*2017*
	BGN '000	*BGN '000*
Present value of the obligation at 1 January	**3,890**	**3,145**
Current service cost	384	356
Interest cost	5	86
Net actuarial loss recognised for the period	4	32
Payments made in the year	(45)	(293)
Remeasurement gains or losses on the retirement benefit obligations, incl. from:	3	564
Actuarial gains / losses from changes in demographic assumptions	-	12
Actuarial losses from changes in financial assumptions	2	293
Actuarial losses / (gains) on adjustments due to past experience	1	259
Present value of the obligation at 30 September / 31 December	**4,241**	**3,890**

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

	2018	*2017*
	BGN '000	*BGN '000*
Current service cost	384	215
Interest cost	5	4
Net actuarial loss recognized during the period	4	0
Components of expenses on plans with defined income, acknowledged in the profit or loss *(Note 7)*	**393**	**219**
Effects of subsequent reassessment of payables to retirement personnel, incl. from:		
Actuarial losses from changes in financial assumptions	2	24
Actuarial losses / (gains) on adjustments due to past experience	1	(2)
Components of defined benefit plan expense recognized in other components of comprehensive income (Note 12)	**3**	**22**
Total	**396**	**241**

In determining the present value as at 30 September 2018 the following actuarial assumptions were made:

- for the determination of the discount factor, the rate is based on an annual interest rate of 1.2% (2017: 1.4%). 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 2% annual growth over the previous reporting period (2017: 5%);
- mortality - according to the NSI mortality table for the total mortality rate of the population of Bulgaria for the period 2015-2017 (2017: 2014-2016);
- rate of turnover - between 0% and 16% depending on five distinct age groups (2017: between 0% and 16%).

Long-term obligations for income for tantiems

	30.09.2018	***31.12.2017***
	BGN '000	***BGN '000***
Long - term income obligations for tantiems with maturity 2021	172	-
Long - term income obligations for tangibles with maturity 2020	152	152
Long - term income obligations for tantiems with maturity 2019	-	97
	324	**249**

31. SHORT-TERM BANK LOANS

Currency	***Contracted amount***	***Maturity***	***30.09.2018***	***31.12.2017***
	'000		***BGN '000***	***BGN '000***
Bank loans (overdrafts)				
BGN	20,000	21.05.2019	17,775	11,775
EUR	10,000	31.10.2018	14,606	13,614
BGN	10,000	31.12.2018	10,000	10,001
BGN	10,000	31.05.2019	10,000	2,860
BGN	9,779	01.06.2019	7,761	-
			60,142	**38,250**
Extended credit lines				
BGN	20,000	30.10.2018	7,698	9,244
EUR	5,000	31.08.2019	5,169	5,594
			12,867	**14,838**

Total	**73,009**	**53,088**

The euro bank loans received are contracted at an interest rate based on a one-month EURIBOR plus a surcharge of up to 1.3 points, but not less than 1.3 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 average deposit index plus 1 point (2017: for those in EUR - one-month EURIBOR plus margin to 1.7 points, but not less than 1.7 points, one-month EURIBOR plus a surplus of up to 1.5 points, and of those in BGN - a three month 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. Loans are for working capital.

Part of the utilized loans are in the form of bank guarantees issued to the NHIF and suppliers in the amount of BGN 108 thousand. (31 December 2017: BGN 516 thousand) to cover liabilities.

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

- Mortgages of real estate with a carrying amount of BGN 31,538 thousand as at 30 September 2018 (31 December 2017: BGN 32,347 thousand) *(Note 13 and Note 15*);
- Special pledges on:
  - machinery and equipment with a carrying amount of BGN 13,627 thousand as at 30 September 2018 (31 December 2017: BGN 16,950 thousand) *(Note 13 and Note 15*);
  - inventories with a carrying amount of BGN 33,721 thousand as at 30 September 2018 (31 December 2017: BGN 30,442 thousand) *(Note 21)*;
  - receivables from related parties with a carrying amount of BGN 20,689 thousand as at 30 September 2018 BGN (31 December 2017: BGN 44,726 thousand) *(Note 23*);
  - trade receivables with a carrying amount of BGN 23,430 thousand as at 30 September 2018 (31 December 2017: BGN 21,393 thousand) *(Note 23*);
  - trade receivables from third parties of a subsidiary with a carrying amount of BGN 7,823 thousand as at 30 September 2018 (31 December 2017: 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.

32. TRADE PAYABLES

Trade payables include:

	30.09.2018 ***BGN '000***	***31.12.2017*** ***BGN '000***
Payables to suppliers	6,010	7,650
Advances received	404	63
Total	**6,414**	**7,713**

Payables to suppliers are as follows:

	30.09.2018	***31.12.2017***
	BGN '000	***BGN '000***
Payables to foreign suppliers	2,839	5,435
Payables to local suppliers	3,171	2,215
Total	**6,010**	**7,650**

The payables to suppliers are regular, interest-free and refer to supplies of materials and services. The payables in BGN amount to BGN 3,171 thousand (31 December 2017: BGN 2,120 thousand), in EUR – BGN 1,868 thousand (31 December 2017: BGN 3,283 thousand), in USD – BGN 969 thousand (31 December 2017: BGN 2,243 thousand), in Polish zloty – none (31.12.2017: BGN 1 thousand), in other currency – BGN 2 thousand (31 December 2017: BGN 3 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 262 thousand (31 December 2017: BGN 688 thousand) *(Note 24 b and Note 31*).

33. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	30.09.2018	***31.12.2017***
	BGN '000	***BGN '000***
Payables to main shareholding companies	3,107	21
Payables to companies related through a main shareholder	606	403
Payables to companies related through key managing personnel	166	269
Payables to subsidiaries	135	125
Key managing personnel	70	-
Total	**4,084**	**818**

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

	30.09.2018	***31.12.2017***
	BGN '000	***BGN '000***
Dividend liabilities	3,153	-

Liabilities for supply of inventories	600	431
Supply of services	253	350
Liabilities on advances	78	-
Liabilities for the supply of fixed assets	-	37
Total	**4,084**	**818**

The trade payables to related parties are regular and interest-free. The payables in BGN amount to BGN 4,028 thousand (31 December 2017: BGN 719 thousand), in EUR - BGN 39 thousand (31.12.2017:BGN 78 thousand), in PLN – BGN 17 thousand (31 December 2017: BGN 21 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 214 thousand (31 December 2017: BGN 243 thousand) *(Note 19)*.

34. TAX PAYABLES

Tax payables include:

	30.09.2018 BGN '000	***31.12.2017 BGN '000***
Individual income taxes	498	558
Taxes on expenses	320	515
Local taxes and fees	130	-
Dividend Tax	37	-
Value added tax	-	2
Corporate tax	-	450
Total	**985**	**1,525**

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

Sopharma AD (as a receiving company):

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

Bulgarian Rose Sevtopolis (as a transforming company)

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

Unipharm AD (as a transforming company)

- under VAT – until 31 December 2011;
- full-scope tax audit – until 31 December 2011;
- National Social Security Institute – until 31 December 2017.

Order № P-29002918004131-020-001 / 16.07.2018 and Order № P-29002918004275-020-001 / 23.07.2018 was assigned a tax audit of Unipharm AD (the merging company) as follows:

- VAT - from 1 December 2012 to 31 May 2018;
- full tax audit - from 1 January 2012 to 31 December 2017

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.

35. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security are as follows:

	30.09.2018	***31.12.2017***
	BGN '000	***BGN '000***
Payables to personnel, including:	6,536	6,443
tantieme	*3,031*	*3,328*
accruals on unused compensated leaves	*1,792*	*1,528*
current liabilities	*1,713*	*1,587*
Payables for social security/health insurance, including:	1,232	1,385
current liabilities	*909*	*1,129*
accruals on unused compensated leaves	*323*	*256*
Total	**7,768**	**7,828**

36. OTHER CURRENT LIABILITIES

Other current liabilities include:

	30.09.2018	***31.12.2017***
	BGN '000	***BGN '000***
Dividend liabilities	3,426	196
Government grants *(Note 29)*	574	596
Awarded amounts under litigations	319	303
Deductions from work salaries	148	206
Financial leasing liability	-	71

Liabilities on deposits received as guarantees	24	24
Total	**4,491**	**1,396**

37. CONTINGENT LIABILITIES AND COMMITMENTS

Significant irrevocable agreements and commitments

The Company received three government grants under Operational Programme "Development of the Competitiveness of the Bulgarian Economy 2007 – 2013" and Operational Program "Energy Efficiency" *(Note 29 and Note 36*), related to technological renovation and modernisation of tablet production facilities and implementation of innovative products in the ampoule production section and the acquisition of generic ventilation and air conditioning installations in the manufacture of medical products *(Note 13*). 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	30.09.2018 BGN '000
Sopharma Trading AD	2018 - 2024	EUR	71,174	139,203	119,355
Sopharma Trading AD	2018 - 2024	BGN	30,732	30,732	27,242
Sopharma Properties REIT	2024	EUR	22,619	44,240	17,985
OAO Vitamini	2018	EUR	7,000	13,691	1,944
Biopharm Engineering AD	2019 - 2028	BGN	8,550	8,550	1,887
Energoinvestments AD	2020	BGN	2,000	2,000	1,275
Mineralcommerce AD	2018 – 2021	BGN	726	726	595
Veta Pharma AD	2018	BGN	1,000	1,000	273
Momina krepost AD	2019	BGN	500	500	100
Total					**170,656**

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 10,067 thousand as at 30 September 2018 (31 December 2017: BGN 10,231 thousand) *(Note 13)*;
- Special pledges on:
  - machinery and equipment with a carrying amount of BGN 9,894 thousand as at 30 September 2018 (31 December 2017: BGN 10,370 thousand) *(Note 13)*;
  - inventories with a carrying amount of BGN 17,000 thousand as at 30 September 2018 (31 December 2017: BGN 17,000 thousand) *(Note 21)*;
  - trade receivables with a carrying amount of BGN 11,735 thousand as at 30 September 2018 (31 December 2017: BGN 11,735 thousand) *(Note 23)*.

38. RECALCULATIONS AS A RESULT OF A MERGER

In its financial report for 2018, Sopharma AD presents comparative information for the year 2017 on the basis of consolidation of the individual financial statements of the merger (Unipharm AD) and the acquiring company (Sopharma AD) (*Note 2.3*), as follows:

38.1. Inception statement on the financial position at the date of the merger – 1 January 2018

The opening statement of the financial position of Sopharma AD as a result of the merger on 1 January 2018 was prepared on the basis of the balance sheet values of the assets and liabilities of the two companies from their individual financial statements as at 31 December 2017.
As the date of the accounting for the merger is 1 January 2018, the data in the statement of financial position at that date correspond to the data for the comparative comparative period as at 31 December 2017.

The assets and liabilities of the two companies, merged with the accounting date of the merger as at 01.01.2018, as structure and size are as follows:

BALANCE SHEET	Sopharma AD	Unipharm AD	Merger adjustments	Unified statement of financial position
	31 December 2017 BGN'000	31 December 2017 BGN'000	31 December 2017 BGN'000	31 December 2017 BGN'000
ASSET				
Non-current assets				
Property, machinery and equipment	223,097	9,658	6,966	239,721
Intangible assets	6,471	57	5,929	12,457
Investment property	24,799	-	-	24,799
Investments in subsidiaries	120,145	-	(30,416)	89,729

Investments in associates	7,740	-	-	7,740
Investments available and for sale	7,206	802	(456)	7,552
Long - term receivables from related paerties	21,583	-	-	21,583
Deferred tax assets	-	106	(106)	-
Other long - term receivables	4,210	-	-	4,210
	415,251	**10,623**	**(18,083)**	**407,791**
Current assets				
Inventories	66,433	2,911	(326)	69,018
Receivables from related parties	74,920	3,299	(1,001)	77,218
Trade receivables	22,527	920	(189)	23,258
Loans granted to third parties	3,201	-	-	3,201
Other receivables and prepaid expenses	4,757	120	24	4,901
Cash and cash equivalents	3,216	2,557	(9)	5,764
	175,054	**9,807**	**(1,501)**	**183,360**
TOTAL ASSETS	**590,305**	**20,430**	**(19,584)**	**591,151**

BALANCE SHEET	**Sopharma AD**	**Unipharm AD**	**Merger adjustments**	**Unified statement of financial position**
	1 January 2018 BGN'000	**1 January 2018 BGN'000**	**1 January 2018 BGN'000**	**1 January 2018 BGN'000**
EQUITY AND LIABILITIES				
EQUITY				
Share capital	134,798	6,000	(6,000)	134,798
Treasury shares	(33,834)	-	-	(33,834)
Reserves	330,683	11,021	(11,021)	330,683
Retained earnings	46,687	1,325	(2,181)	45,831
	478,334	**18,346**	**(19,202)**	**477,478**
LIABILITIES				
Non-current liabilities				
Long-term bank loans	16,691	-	-	16,691
Deferred taxes	6,553	-	600	7,153
Government grants	5,478	452	-	5,930
Provisions for liabilities	-	513	(513)	-
Payables to employees on retirement	3,624	2	513	4,139
	32,346	**967**	**600**	**33,913**
Current liabilities				
Short-term bank loans	53,088	-	-	53,088

Short-term part of long-term bank loans	7,392	-	-	7,392
Short-term part of financial leasing liability	-	71	(71)	-
Commercial payables	7,569	134	10	7,713
Payables to related companies	1,752	51	(985)	818
Tax payables	1,429	96	-	1,525
Payables to employees and social insurance	7,172	656	-	7,828
Deferred income from financing	-	88	(88)	-
Other current liabilities	1,223	21	152	1,396
	79,625	**1,117**	**(982)**	**79,760**
TOTAL LIABILITIES	**111,971**	**2,084**	**(382)**	**113,673**
TOTAL EQUITY AND LIABILITIES	**590,305**	**20,430**	**(19,584)**	**591,151**

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 1 January 2018 is a loss of BGN 856 thousand.

38.2. Comparative information

In the financial report for 2018 of Sopharma AD (the receiving company), the comparative data for 2017 and the earliest comparative period – 1 January 2017 were also recalculated for the sole purpose of comparability. These adjustments are made to consolidate the data into: (a) the statement of financial position as at 31 December 2017; (b) the statement of comprehensive income for the year ending 31 December 2017; (c) the cash flow statement for the year ended 31 December 2017; and (d) the statement of financial position as at 1 January 2017 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 December 2017: The data from the opening financial statement on 01 January 2018 are presented as comparative data as at 31 December 2017 in this report (*Note 38.1*).

(b) the statement of comprehensive income for the year ending 31 December 2017:

STATEMENT OF COMPREHENSIVE INCOME	**Sopharma AD**	**Unipharm AD**	**Merger adjustments**	**Unified statement of comprehensive income**

	2017 BGN'000	2017 BGN'000	2017 BGN'000	2017 BGN'000
Sales revenues	205,259	19,007	(6,781)	217,485
Other operating revenue/(loss), net	4,500	627	(453)	4,674
Change of available stock of finished goods and work in progress	6,451	204	(216)	6,439
Materials	(68,983)	(8,107)	184	(76,906)
External services	(38,769)	(2,064)	(6,912)	(33,921)
Emoloyees	(43,804)	(5,608)	179	(49,233)
Amortization	(16,238)	(2,145)	(64)	(18,447)
Other operating expenses	(6,569)	(416)	(240)	(7,225)
Operating profit	**41,847**	**1,498**	**(479)**	**42,866**
Impairment of non-current assets	(5,280)	-	1,324	(3,956)
Financial income	11,927	331	(574)	11,684
Financial expenses	(2,096)	(12)	6	(2,102)
Financial income/(expenses) net	**9,831**	**319**	**(568)**	**9,582**
Profit before tax	**46,398**	**1,817**	**277**	**48,492**
Profit tax	(4,159)	(176)	71	(4,264)
Net profit for the year	**42,239**	**1,641**	**348**	**44,228**
Other components of the total income:				
Items that will not be reclassified to profit or loss:				
Profit from revaluation of property, plant and equipment	(42)	-	-	(42)
Subsequent evaluations of defined benefit pension plans	(497)	(67)	-	(564)
Income tax related to components of other comprehensive income that will not be reclassified	4	-	-	4
	(535)	**(67)**	**-**	**(602)**
Items that may be reclassified to profit or loss:				
Net change in the fairvalue of available-for-sale financial assets	1,284	27	(13)	1,298

	1,284	**27**	**(13)**	**1,298**
Other comprehensive income for the period net of tax	**749**	**(40)**	**(13)**	**696**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**42,988**	**1,601**	**335**	**44,924**

The effect on the total comprehensive income for 2017 as a result of the merger of the subsidiary amounts to BGN 1,936 thousand and is formed as follows:

a) the total comprehensive income for the year of Unipharm AD is a profit of BGN 1,601 thousand;
b) the effects of the elimination of intragroup transactions between the two companies and the related deferred taxes are a profit of BGN 335 thousand;
(c) cash flow statement for the year ended 31 December 2017:

STATEMENT OF CASH FLOWS	**Sopharma AD**	**Unipharm AD**	**Merger adjustments**	**Unified statement of cash flows**
	2017 BGN'000	**2017 BGN'000**	**2017 BGN'000**	**2017 BGN'000**
Cash flows from operating activities				
Sales proceeds	216,495	16,458	(1,291)	231,662
Payments to suppliers	(120,731)	(7,132)	1,291	(126,572)
Payments for wages and social insurance	(40,678)	(5,055)	-	(45,733)
Taxes paid (profit tax excluded)	(6,444)	(2,098)	(43)	(8,585)
Taxes refunded (profit tax excluded)	1,957	-	43	2,000
(Paid) / refunded taxes on profit, net	(3,201)	(131)	-	(3,332)
Paid interest and bank fees on working capital loans	(999)	-	-	(999)
Exchange rate differences, net	(284)	(25)	-	(309)
Other proceeds/(payments), net	(1,200)	20	(15)	(1,195)
Net cash flows from/(used in) operating activities	**44,915**	**2,037**	**(15)**	**46,937**
Cash flows from investing activities				
Purchase of property, plant and equipment	(12,649)	(1,174)	-	(13,823)
Proceeds from sale of property, plant and equipment	111	306	-	417
Purchase of intangible assets	(29)	-	-	(29)
Purchase of shares in associated companies	(4,052)	-	-	(4,052)
Proceeds from sale of shares in associated companies	3,080	-	-	3,080
Purchase of available-for-sale investments	(1,377)	(3)	(265)	(1,645)
Proceeds from sale of available-for-sale investments	731	-	-	731
Purchase of shares in subsidiaries	(10,013)	-	(377)	(10,390)

Proceeds from sale of shares in subsidiaries	1	-	-	1
Proceeds from liquidation shares of subsidiaries	12	-	-	12
Loans granted to related companies	(108,465)	-	-	(108,465)
Repaid loans, granted to related companies	104,655	-	-	104,655
Loans granted to third parties	(2,568)	-	-	(2,568)
Proceeds from dividends from investments in subsidiaries	7,397	-	(229)	7,168
Proceeds from dividends from available-for-sale investments	142	22	(18)	146
Received interest on granted loans	3,340	-	-	3,340
Other proceeds/(payments), net	(65)	-	-	(65)
Net cash flows used in investing activities	**(19,749)**	**(849)**	**(889)**	**(21,487)**

STATEMENT OF CASH FLOWS	**Sopharma AD**	**Uniphar m AD**	**Merger adjustment s**	**Unified statement of cash flows**
	2017 BGN'000	**2017 BGN'000**	**2017 BGN'000**	**2017 BGN'000**
Settlement of long-term bank loans	(7,463)	-	-	(7,463)
Proceeds from short-term bank loans (overdraft), net	7,866	-	-	7.866
Settlement of short-term bank loans (overdraft), net	(3,043)	-	-	(3,043)
Paid interest and bank fees on investment purpose loans	(555)	-	-	(555)
Treasury shares	(17,026)	-	-	(17,026)
Proceeds from sale of treasury shares	1,878	-	648	2,526
Dividends paid	(12,878)	(241)	247	(12,872)
Finance lease payments	(4)	(271)	-	(275)
Net financial cash flows	**(31,225)**	**(512)**	**895**	**(30,842)**
Net (decrease)/increase in cash and cash equivalents	**(6,059)**	**676**	**(9)**	**(5,392)**
Cash and cash equivalents at 1 January	9,275	1,881	-	11,156
Cash and cash equivalents at 31 December	**3,216**	**2,557**	**(9)**	**5,764**

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 1 January 2017:*

The assets and liabilities of the two companies unified as at 1 January 2017 as structure and size are as follows:

STATEMENT OF FINANCIAL POSITION	Sopharma AD	Medica AD	Unipharm AD	Merger adjustments	Unified statement of financial position
	1 January 2017 BGN'000	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	10,599	6,512	242,605
Intangible assets	2,177	328	79	10,241	12,825
Investment properties	22,840	-	-	-	22,840
Investments in subsidiaries	147,583	5	-	(58,837)	88,751
Investments in associated companies	5,219	-	-	-	5,219
Available-for-sale investments	5,229	888	582	(1,406)	5,293
Long-term receivables from related parties	11,011	-	-	36	11,047
Deferred tax assets	-	-	110	(110)	-
Other long-term receivables	3,714	-	-	-	3,714
	407,099	**17,389**	**11,370**	**(43,564)**	**392,294**
Current assets					
Inventories	56,807	4,904	2,707	(104)	64,314
Receivables from related companies	71,076	2,686	2,272	(255)	75,779
Commercial receivables	22,479	2,722	1,421	210	26,832
Loans granted to third parties	2,445	-	-	-	2,445
Other receivables and prepayments	4,859	371	222	129	5,581
Financial assets at fair value through profit	-	316	-	(316)	-
Cash and cash equivalents	4,343	4,932	1,881	(10)	11,146
	162,009	**15,931**	**8,503**	**(346)**	**186,097**
TOTAL ASSETS	**569,108**	**33,320**	**19,873**	**(43,910)**	**578,391**
EQUITY AND LIABILITIES					
EQUITY					
Share capital	134,798	10,069	6,000	(16,069)	134,798
Treasury shares	(18,809)	-	-	(327)	(19,136)
Reserves	304,403	12,473	11,065	(23,538)	304,403
Retained earnings	42,483	7,553	33	(4,711)	45,358
	462,875	**30,095**	**17,098**	**(44,645)**	**465,423**
LIABILITIES					
Non-current liabilities					

Long-term bank loans	23,844	220	-	-	24,064
Deferred taxes	5,703	594	-	942	7,239
Government grants	5,866	120	530	-	6,516
Provision for liabilities	-	-	414	(414)	-
Payables to employees on retirement	2,649	243	5	452	3,349
	38,062	**1,177**	**949**	**980**	**41,168**
Current liabilities					
Short-term bank loans	48,291	-	-	-	48,291
Short-term part of long-term bank loans	7,185	276	-	-	7,461
Short-term part of finance lease liability	-	-	71	(71)	-
Commercial payables	4,712	1,041	504	18	6,275
Payables to related companies	497	14	4	(216)	299
Tax payables	609	225	237	(1)	1,070
Short-term part of payables to personnel at retirement	-	30	-	(30)	-
Payables to employees and social insurance	5,363	416	606	(8)	6,377
Deferred income from financing	-	-	349	(349)	-
Other current liabilities	1,514	46	55	412	2,027
	68,171	**2,048**	**1,826**	**(245)**	**71,800**
TOTAL LIABILITIES	**106,233**	**3,225**	**2,775**	**735**	**112,968**
TOTAL EQUITY AND LIABILITIES	**569,108**	**33,320**	**19,873**	**(43,910)**	**578,391**

The adjustments made to the financial statements of the three merging companies are mainly the result of: a) unification of accounting policy; and b) elimination of investments in subsidiaries and of intragroup settlements between the three companies, incl. the related deferred tax effects. The net effect on the accumulated profits as at 1 January 2017 amounts to BGN 2,875 thousand and is as follows:

a) *from Medica AD* - profit of BGN 540 thousand;

b) *from Unipharm AD* - profit amounting to BGN 2,335 thousand;

The effect on the treasury shares on 1 January 2017 is in the direction of an increase of BGN 327 thousand.

39. 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	***30.09.2018***	***31.12.2017***
	BGN '000	***BGN '000***
Available-for-sale financial assets	***7,393***	***7,552***
Available-for-sale investments (in shares)	*7,393*	*7,552*
Loans and receivables	***150,061***	***128,459***
Long-term receivables from related parties	*24,537*	*21,583*
Other long-term receivables	*5,464*	*4,210*
Short-term receivables from related parties	*90,928*	*77,218*
Commercial receivables	*20,689*	*22,075*
Other receivables	*8,513*	*3,373*
Cash and cash equivalents	8,533	5,764
Total financial assets	***166,057***	***141,775***

Financial liabilities	***30.09.2018***	***31.12.2017***
	BGN '000	***BGN '000***
Bank loans	***91,539***	***77,171***
Long-term bank loans	11,354	16,691

Short-term bank loans	*73,009*	*53,088*
Current portion of long-term bank loans	*7,176*	*7,392*
Other liabilities	***13,863***	***9,062***
Commercial payables to related parties	*4,006*	*818*
Commercial payables	*6,010*	*7,650*
Finance lease liabilities	**-**	*71*
Other liabilities	*3,769*	*523*
Total financial liabilities at amortised cost	***105,324***	***86,233***

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:

30 September 2018	**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	178	1,343	5,872	-	7,393
Receivables and loans granted	4,581	72,294	73,255	1	150,131
Cash and cash equivalents	888	943	6,619	83	8,533
Total financial assets	**5,647**	**74,580**	**85,746**	**84**	**166,057**

Bank loans	-	38,275	53,234	30	91,539
Other liabilities	1,270	1,930	10,566	19	13,785
Total financial liabilities	**1,270**	**40,205**	**63,800**	**49**	**105,324**

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	4,956	-	7,552
Receivables and loans granted	4,029	70,128	54,301	1	128,459
Cash and cash equivalents	1,245	651	3,800	68	5,764
Total financial assets	**6,044**	**72,605**	**63,057**	**69**	**141,775**
Bank loans	-	43,291	33,880	-	77,171
Other liabilities	2,534	3,455	3,048	25	9,062
Total financial liabilities	**2,534**	**46,746**	**36,928**	**25**	**86,233**

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	
		30.09.2018	**31.12.2017**
		BGN '000	**BGN '000**
Financial result	+	394	219
Accumulated profits	+	394	219
Financial result	-	(394)	(219)
Accumulated profits	-	(394)	(219)

In case of 10% increase in the exchange rate of USD to BGN, the final effect on post-tax profit of the Company for 2018 would be an increase by BGN 394 thousand (1.42%) (2017: increase at the amount of BGN 219 thousand) (0.50%). 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 2018 is a decrease by

BGN 52 thousand (0.02 %) (2017: an increase of BGN 3 thousand (0.01%).). 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 difficult receivables. 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 commercial rebates. 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:

	BGN '000	***BGN '000***
Client 1	53%	41%
Client 2	22%	21%
Client 3	10%	12%

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 66.16% of all trade receivables (31 December 2017: 71.11 %).

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 flows.

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.

30 September 2018	**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	23,025	11,362	2,008	44,569	7,340	4,224	**92,528**
Other loans and payables	5,976	7,223	243	343	-	-	**13,785**
Total liabilities	**29,001**	**18,585**	**2,251**	**44,912**	**7,340**	**4,224**	**106,313**

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	751	11,368	16,627	32,549	7,415	9,698	**78,408**
Other loans and payables	3,692	4,496	363	511	-	-	**9,062**
Total liabilities	**4,443**	**15,864**	**16,990**	**33,060**	**7,415**	**9,698**	**87,470**

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.

30 September 2018	**interest-free**	**with floating interest %**	**with fixed interest %**	**Total**
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Available-for-sale financial assets	7,393	-	-	7,393
Loans and receivables	103,922	-	46,209	150,131
Cash and cash equivalents	151	8,382	-	8,533
Total financial assets	**111,466**	**8,382**	**46,209**	**160,057**
Bank loans	-	91,539	-	91,539
Other loans and liabilities	13,785	-	-	13,785
Total financial liabilities	**13,785**	**91,539**	**-**	**105,324**

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	7,552	-	-	7,552
Loans and receivables	89,674	-	38,785	128,459
Cash and cash equivalents	122	5,642	-	5,764
Total financial assets	**97,348**	**5,642**	**38,785**	**141,775**
Bank loans	-	77,171	-	77,171
Other loans and liabilities	8,991	71	-	9,062
Total financial liabilities	**8,991**	**77,242**	**-**	**86,233**

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 30 September / 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.

2018

	Increase/ decrease in interest rate	***Impact on post-tax financial result profit/(loss)***	***Impact on equity increase/(decrease)***
EUR	Increase	(172)	(172)
BGN	Increase	(240)	(240)
EUR	Decrease	172	172
BGN	Decrease	240	240

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

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.

In 2018, the strategy of the management of the Company is to maintain the ratio within 10% – 15% (2017: 10 % – 15 %).

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

	2018 BGN '000	***2017 BGN '000***
Total debt, including:	**91,539**	**77,242**

bank loans	*91,539*	*77,171*
financial leasing liabilities	*-*	*71*
Less: Cash and cash equivalents	**(8,533)**	**(5,764)**
Net debt	**83,006**	**71,478**
Total equity	**484,154**	**477,478**
Total capital	**567,160**	**548,956**
Gearing ratio	**0.15**	**0.13**

The liabilities shown in the table are disclosed in *Notes 25, 27, 31 and 36.*

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.

40. 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	2017 and 2018
Donev Investments Holding AD	Main shareholding company	2017 and 2018
Sopharma Trading AD	Subsidiary company	2017 and 2018
Pharmalogistica AD	Subsidiary company	2017 and 2018
Sopharma Poland OOD – in liquidation	Subsidiary company	2017 and 2018
Electroncommerce EOOD	Subsidiary company	2017 and 2018
Biopharm Engineering AD	Subsidiary company	2017 and 2018
Vitamina AD	Subsidiary company	2017 and 2018
Ivancic and sons OOD	Subsidiary company	Until 09.05.2016
Sopharma Buildings REIT	Subsidiary company	2017 and 2018
Momina Krepost AD	Subsidiary company	2017 and 2018
Briz SIA	Subsidiary company	2017 and 2018
Unipharm AD	Subsidiary company	2017 and 2018
Sopharma Warsaw EOOD	Subsidiary company	2017 and 2018
Sopharma Ukraine EOOD	Subsidiary company	2017 and 2018
Sopharma Kazahstan EOOD	Subsidiary company	2017 and 2018
Phyto Palauzovo AD	Subsidiary company	2017 and 2018
Veta Pharma AD	Subsidiary company	2017 and 2018
RAP Pharma International OOD	Subsidiary company	From 14.04. 2017 and 2018
Aromania OOD	Subsidiary company	From 31.07. 2017 and 2018
Sopharmacy EOOD	Subsidiary company through Sopharma Trading AD	2017 and 2018
Sopharmacy 2 EOOD	Subsidiary company through Sopharma Trading AD	2017 and 2018
Sopharmacy 3 EOOD	Subsidiary company through Sopharma Trading AD	2017 and 2018
Sopharmacy 4 EOOD	Subsidiary company through Sopharma Trading AD	2017 and 2018
Sopharmacy 5 EOOD	Subsidiary company through Sopharma Trading AD	2017 and 2018
Sopharmacy 6 EOOD	Subsidiary company through Sopharma Trading AD	2017 and 2018
Sopharmacy 7 EOOD	Subsidiary company through Sopharma Trading AD	From 15.03.2017 and 2018
Sopharmacy 8 EOOD	Subsidiary company through Sopharma Trading AD	From 15.03.2017 and 2018
Sopharmacy 9 EOOD	Subsidiary company through Sopharma Trading AD	From 11.09.2017 and 2018
Sopharmacy 10 EOOD	Subsidiary company through Sopharma Trading AD	From 11.09.2017 and 2018
Sopharmacy 11 EOOD	Subsidiary company through Sopharma Trading AD	From 07.12.2017 and 2018
Sopharmacy 12 EOOD	Subsidiary company through Sopharma Trading AD	From 07.12.2017 and 2018
Sopharmacy 13 EOOD	Subsidiary company through Sopharma Trading AD	From 07.12.2017 and 2018
Sopharmacy 14 EOOD	Subsidiary company through Sopharma Trading AD	From 07.12.2017 and 2018

Sopharmacy 15 EOOD	Subsidiary company through Sopharma Trading AD	From 07.12.2017 and 2018
Sopharmacy 16 EOOD	Subsidiary company through Sopharma Trading AD	From 15.05.2018
Sopharmacy 17 EOOD	Subsidiary company through Sopharma Trading AD	From 15.05.2018
Sopharma Trading OOD - Belgrade	Subsidiary company through Sopharma Trading AD	2017 and 2018
Lekovit D.o.o.	Subsidiary company through Sopharma Trading AD	From 09.08. 2017 and 2018
Medica Zdrave EOOD – in liquidation	Subsidiary company	Until 22.02.2017
SOOO Brititrade	Subsidiary company through Briz OOD	2017 and 2018
OOO Tabina	Subsidiary company through Briz OOD	2017 and 2018
ZAO Interpharm	Joint venture through Briz OOD	Until 25.04. 2017
ZAO Interpharm	Subsidiary company through Briz OOD	From 26.04. 2017 and 2018
SOOO Brizpharm	Subsidiary company through Briz OOD	2017 and 2018
OOO Vivaton Plus	Joint venture through Briz OOD	Until 17.05. 2017
OOO Farmacevt Plus	Subsidiary company through Briz OOD	2017 and 2018
ZAO UAB TBS Pharma	Subsidiary company through Briz OOD	2017 and 2018
ODO Vestpharm	Subsidiary company through Briz OOD	Until 01.08. 2017
ODO Alean	Subsidiary company through Briz OOD	Until 31.08. 2017
ODO BelAgroMed	Subsidiary company through Briz OOD	Until 01.08. 2017
BOOO SpetzApharmacia	Joint venture through Briz OOD	2017 and until 15.08.2018
BOOO SpetzApharmacia	Subsidiary company through Briz OOD	From 16.08.2018
OOO Med-dent	Joint venture through Briz OOD	2017 and until 15.08.2018
OOO Med-dent	Subsidiary company through Briz OOD	From 16.08.2018
OOO Bellerophon	Joint venture through Briz OOD	2017 and 2018
ODO Alenpharm Plus	Subsidiary company through Briz OOD	2017 and 2018
ODO Salyus Line	Subsidiary company through Briz OOD	2017 and 2018
OOO Mobil Line	Subsidiary company through Briz OOD	Until 04.07. 2017
ODO Medjel	Subsidiary company through Briz OOD	2017 and 2018
OOO GalenaPharm	Subsidiary company through Briz OOD	2017 and 2018
OOO Danapharm	Subsidiary company through Briz OOD	Until 01.12. 2017
OOO NPFK Ariens	Joint venture through Briz OOD	Until 15.08. 2017
OOO NPFK Ariens	Subsidiary company through Briz OOD	From 16.08.2017 and 2018
OOO Ivem & K	Joint venture through Briz OOD	Until 15.08. 2017
OOO Ivem & K	Associate company through Briz OOD	From 16.08.2017 and 2018
OOO Zdorovei	Associate company through Briz OOD	Until 15.08. 2017
OOO Zdorovei	Subsidiary company through Briz OOD	From 16.08.2017 and 2018
OOO Farmatea	Subsidiary company through Briz OOD	2017 and 2018
Sopharma Properties REIT	Company related through a main shareholder	2017 and 2018
Sofprint Group AD	Company related through a main shareholder	2017 and 2018
Elpharma AD	Company related through key managing personnel	2017 and 2018
Telecomplect AD	Company related through key managing personnel	2017 and 2018
DOH Group	Company related through key managing personnel	until 20.12.2016

Doverie Obedinen Holding AD	Associated company	2017 and 2018
Bulgarsko Vino OOD	Other related party	2017 and 2018
ZOF Mediko 21 EAD	Other related party	2017 and 2018
STM Doverie OOD	Other related party	2017 and 2018
Doverie – grizha EAD (Veko EOOD)	Other related party	2017 and 2018
Doverie Kapital AD	Other related party	2017 and 2018

The transactions made between Sopharma AD and its related companies as at 30 September are as follows:

Sales to related parties	***2018***	***2017***
	BGN '000	***BGN '000***
Sales of finished products to:		
Subsidiaries	90,703	83,122
Companies related through main shareholder	-	1
	90,703	**83,123**
Sales of goods and materials to:		
Companies related through main shareholder	597	592
Subsidiaries	367	726
	964	**1,318**
Sales of services to:		
Subsidiaries	1,358	1,045
Companies related through a main shareholder	36	36
Other related parties	11	-
Companies related through key managing personnel	9	8
Associated companies	6	6
	1,420	**1,095**
Sales of tangible fixed assets for:		
Other related parties	24	-
Subsidiaries	1	-
	25	**-**
Interest on loans granted to:		
Associates	454	316
Subsidiaries	379	382
Other related parties	140	39
Companies related through key managing personnel	82	451
	1,055	**1,188**

Dividend income from:

Subsidiaries	8,693	7,168
Companies related through main shareholder	70	-
	8,763	**7,168**
Total	**102,930**	**93,892**

Supplies from related parties	***2018***	***2017***
	BGN '000	***BGN '000***
Supply of inventories from:		
Companies related through a main shareholder	6,788	6,913
Subsidiaries	190	120
Other related parties	45	17
Companies related through key managing personnel	7	17
	7,030	**7,067**
Supply of services from:		
Subsidiaries	6,923	2,994
Companies related through key managing personnel	2,070	2,316
Companies related through a main shareholder	1,152	1,318
Other related parties	677	606
Main shareholding companies	267	180
	11,089	**7,414**
Supplies for the acquisition of fixed assets from:		
Companies related through key managing personnel	11	232
Other related parties	1	29
	12	**261**
Supplies for the acquisition of fixed assets from:		
Companies related through key managing personnel	1,551	918
Main shareholding companies	143	6
Subsidiaries	7	-
	1,701	**924**
Other supplies from:	-	3
Main shareholding companies	**-**	**3**
Dividend accrued on:		
Major shareholders	9,859	6,141
Companies related through key managing personnel	2	-
Key management personnel	221	42
	10,082	**6,183**
Total	**29,914**	**21,852**

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 19, 22 and 33.*

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

Remunerations and other short-term benefits of key managing personnel are current and amount to BGN 1,415 thousand (30 September 2017: BGN 1,519 thousand).

- current remunerations - BGN 984 thousand (30 September 2017: BGN 1,117 thousand);
- tantiems - BGN 428 thousand (30 September 2017: BGN 402 thousand);
- payments based on shares - BGN 3 thousand (30 September 2017: none).

41. EVENTS AFTER THE REPORTING PERIOD

As at the date of issue of these financial statements, the procedure for the distribution of the bonus shares of the personnel on the occasion of the 85th anniversary of the company is ongoing. The deadline for the finalization of the procedure is 26 October 2018 (*Note 26*).

The subsidiary Aromania OOD was transformed into a joint stock company on 16 October 2018 (*Note 16*).

There are no other events after the balance sheet date that require disclosure in these separate financial statements.