SOPHARMA AD

PRELIMINARY INDIVIDUAL ANNUAL FINANCIAL STATEMENTS FOR 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 31 December 2018, the structure of Company's joint-stock capital was as follows:

	%
Donev Investments Holding AD	25.40
Telecomplect Invest AD	20.45
Rompharm Company OOD	6.03
Sopharma AD (treasury shares)	6.59
Other companies	33,97
Natural persons	7.56

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

The average number of Company's personnel for 2018 is 2,137 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).

For the current financial year, the Company has adopted all new and / or revised standards and interpretations issued by the International Accounting Standards Board (IASB) and by the IFRS Interpretation Committee, respectively, which were relevant to its operations.

From the adoption of those standards and / or interpretations that are practicable for annual periods beginning on January 1, 2018 for companies in the Republic of Bulgaria, there have been changes in the accounting policy of the Company regarding the principles, rules and criteria for accounting for the following reporting facilities as well as the presentation and disclosure of financial information about them: trade receivables, related party receivables, loans granted, cash and cash equivalents, other long-term equity investments, revenue from contracts with clients, other income and liabilities under contracts with customers.

The changes stem from the application of the following standards and interpretations:

- IFRS 9 Financial Instruments (in force for annual periods beginning on or after 1 January 2018 adopted by the EC). *This standard is a new standard for financial instruments. Its ultimate purpose is to replace IAS 39 entirely. The drafting of the new standard has gone through three phases and has covered the following range of basic methodological issues: <u>1.</u> Classification and evaluation of financial assets and liabilities; <u>2</u>. Accounting for the hedge; and <u>3.</u> Methodology for determining the impairment. At present, IFRS 9 has been issued four times in November 2009, October 2010, November 2013, and finally, again in full, in July 2014. <u>1. Classification and valuation of financial</u>*

assets and liabilities - with the first issues, it replaces those parts of IAS 39 that are relevant to the classification and measurement of financial instruments. It establishes new principles, rules and criteria for classification and assessment approach, hybrid contracts, while retaining almost all the IAS 39 provisions for recognizing and writing off financial assets and liabilities. IFRS 9 introduces a requirement that the classification of financial assets be based on the business model of the entity's management and the characteristics of the contracted cash flows of the assets concerned. On this basis, the two main categories of ex-post valuations are determined - at amortized cost and at fair value. The new rules lead to changes mainly in accounting for financial assets such as debt instruments and financial liabilities adopted at fair value through profit or loss (for credit risk). A specificity in the classification and the fair value model for financial assets is the category "with subsequent fair value measurement over other comprehensive income", which may include certain debt and equity instruments under certain conditions. 2. Accounting for hedge - a new chapter is included in the Standard, which introduces a new, more relaxed approach and resp. a hedge accounting model that allows a consistent and comprehensive coverage of all financial and non-financial risk exposures subject to economic hedge operations and a better presentation of the risk management activities in the financial statements, especially the relationship with hedging transactions and the scope and type of documentation to be used. The requirements for the structure, content and approach of hedge disclosures have also been improved. Additionally, the option to account for changes in the fair value of financial liabilities measured at fair value through profit or loss has been introduced but, due to changes in the quality of the company's own creditworthiness (own credit risk), this effect should be presented in the other comprehensive income rather than in profit or loss. 3. Methodology for determining impairment - the change is a cardinal one and introduces the application of the concept and approach of "expected loss". According to this approach, all expected losses of a financial asset at amortized cost are recognized earlier, typically using the three-step model, depending on the change in credit quality, and not only in the event of a default event, as in current model under IAS 39. The three stages are: a. upon initial recognition of the financial asset - impairment for a 12-month period, b. with increased credit risk - for the life of the asset; and, respectively, c. in the event of default, the actual impairment. This model also defines the rules for measuring the impairment losses and respectively the application of the effective interest rate on the recognition of interest income. Impairment of debt instruments measured at fair value through other comprehensive income is also determined and measured using the methodology for both financial assets at amortized cost. For trade receivables, lease receivables, and assets under contracts with customers, the Standard permits the use of a simplified model to measure impairment, but retains the concept of "expected loss". The management has conducted a study and has determined that changes under the new standard affect the accounting policy and the values and classification of the Company's assets, liabilities, operations and results in respect of: trade receivables, related party receivables, loans granted, cash and cash equivalents, other long-term equity investments. *The effects of its recalculations and reclassifications are disclosed in Note 43.*

- IFRS 7 (revised) Financial Instruments: Disclosures - Relating to the Restatement of Comparative Periods and Related Disclosures in the Application of IFRS 9 (effective for annual periods beginning on or after 1 January 2018 adopted by the EC). *This change is related to the introduction of a relief on the need to restate the comparative financial statements and the ability to provide* *modified disclosures when moving from IAS 39 to IFRS 9 at the date of application of the Standard by the entity and whether it chooses the option to recalculate earlier periods. The management has chosen to apply a modified retrospective application for the first time to IFRS 9 and not to restate the comparative figures. (Annex 43)*

- IFRS 15 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018, adopted by the EC). *This standard is an entirely new standard for recognizing and evaluating the revenues of enterprises of all types. It introduces a new concept and, on that basis, a comprehensive set of new principles, rules and approaches for the recognition, reporting and disclosure of information on the type, amount, period and cash flow uncertainty stemming from customer contracts. The Standard completely replaces the current income recognition standards, mainly IAS 18 and IAS 11, and the related interpretations. The leading concept of the new standard is the creation of a 5-step model whereby the determination of parameters and time of revenue are commensurate with the obligation of each party to execute the transaction between them. The key components are: (a) commercial contracts with customers and an assessment of the probability of the entity collecting the contracted amounts under the terms of that contract; (b) the identification of the individual performance obligations under the contract for goods or services - their severability from the other commitments under the contract from which the client would derive benefits; (c) determining transaction price - the amount the entity expects to receive against the transfer of the relevant good or service to the customer - particular attention is paid to the types of variable components in the price, the financial component as well as the component received in kind; (d) allocation of the transaction price between the individual execution obligations under the contract - normally based on the individual selling price of each component (commodity / service); and (e) the timing or period of recognition of revenue - in the successful performance of a contractual obligation by transferring control over the promised good or service, either at a given time or for a certain period of time. Rules and criteria (a) have been introduced to identify performance obligations based on specific promises for the delivery of goods or services, (b) to identify whether a company is a principal or an agent in the supply of goods or services, and (c) for the transfer of licenses. The introduction of this standard usually leads to more substantial changes: (a) in complex contracts with tied sales of goods and services, a clear distinction will be needed between the goods and services of each component and a condition under the contract; b) the probability of a change in the moment of recognition of the sale; (c) increasing disclosures; and (d) introducing additional rules for the recognition of revenues from a certain type of contract - licenses; consignments; one-off pre-tax charges; guarantees and other similar ones. The Standard permits both full retrospective application and a modified retrospective application from the beginning of the current reporting period (2018) with certain disclosures for prior periods. The management has conducted a study and has determined that changes under the new standard affect the accounting policy and the values and classification of the Company's assets, liabilities, operations and performance in respect of: revenue from contracts with customers, other income, assets under contracts with clients, liabilities under contracts with clients. The effects of its recalculations and reclassifications are disclosed in Note 43 The management has chosen to apply a modified retrospective application for the first time to IFRS 15 and not to restate comparative figures.*

For the other standards and interpretations set out below, the management has investigated their possible effect and has determined that they would have no effect on accounting policies, assets, liabilities, operations and results of the Company because it does not have / operates with such objects and / or does not realize such transactions and transactions:

- IFRS 2 (amended) Share based payment - Classification and measurement of transactions based on share payments (effective for annual periods beginning on or after 1 January 2018 adopted by the EC). *These changes clarify three main issues: (a) the treatment of the conditions and effects associated with the acquisition of unconditional rights in the valuation and reporting of cash-settled share-based payment transactions; (b) approach to classifying share-based payment arrangements with net settlement elements for the purpose of withholding personal personal tax from the entity itself (in the form of equity instruments) - introduction of an exception to the general rule to achieve a practical convenience to classify these transactions as they would have done without the net settlement option; and (c) a new reporting rule for changes to the terms of cash-settled share-based payment transactions for equities treated by equity instruments.*

- IFRS 4 (amended) Insurance Contracts (in force for annual periods beginning on or after 1 January 2018 adopted by the EC). *This change is related to the need to synchronize reporting for companies that issue insurance contracts and which also fall under IFRS 9 but before the introduction of the forthcoming IFRS 17. It establishes two approach options - a cover approach and a temporary deferral approach (under certain conditions) of IFRS 9. Both options are valid until the entry into force of the new IFRS 17.*

- Improvements to IFRS Cycle 2014-2016 (December 2016) - Improvements to IFRS 1 and IAS 28 (effective for annual periods beginning on or after 1 January 2018 adopted by the EC). *These improvements result in partial changes and revisions in the relevant standards, mainly with a view to eliminating existing inconsistencies or ambiguities in the application of the rules and requirements of individual standards, as well as to introduce more precise terminology of concepts. Changes are principally addressed to the following entities or operations: (a) the revocation of some exceptions to IFRS 1 with respect to IFRS 7, IAS 19 and IFRS 10; and (b) the selection of venture capital funds or other similar undertakings for the valuation of their holdings in associates or joint ventures at fair value through profit or loss should be made at the level of an individual investment in an associate or joint venture upon initial recognition (IAS 28).*

- IAS 40 (amended) - Investment property - on transfers of investment property (effective for annual periods beginning on or after 1 January 2018 adopted by the EC). *This change is related to providing further clarification on the conditions and criteria that allow the transfer of property, those under construction and / or reconstruction and redevelopment, to and from the "investment property" category. Such transfers are only admissible if they are fulfilled or resp. where the criteria and the definition of investment property are no longer met and when there is evidence of a change in their use. Changes in management's intentions or plans are not considered evidence of change. The change may be applied prospectively or retrospectively, subject to the rules set out in the change.*

- IFRIC 22 - Transactions in Foreign Currency and Advance Payments (in force for annual periods beginning on or after 1 January 2018, adopted by the EC). *This Interpretation relates to the reporting of transactions or parts of foreign currency transactions upon receipt of advance payments prior to the recognition of the asset itself, expense or income. In these cases, the companies report a non-monetary asset on a prepaid basis (prepayments of assets or services) or a non-monetary obligation on deferred income (sales receivable received from customers). When receiving such foreign currency prepayments, the date of the transaction is used to determine the exchange rate, and if there are multiple payments, the transaction date is determined for each individual payment. The clarification then clarifies that when the initial recognition of the relevant asset, expense or income as a result of a prepayment / receipt transaction or a series of transactions of payments / receipts in a foreign currency, the transaction date is the date of initial recognition of the non-monetary asset or liability (for a single payment / receipt) or the date of each payment / receipt. This interpretation may be applied with full retrospective or perspective, in two versions: (a) from the beginning of the reporting period for which it is first applied; or (b) since the beginning of the previous period prior to the period for which it was first applied.*

As at the date of issue for approval of these financial statements, several new standards and interpretations, as well as revised standards and interpretations that have not been adopted, have been issued but are not yet in force for annual periods beginning on 1 January 2018 for earlier application by the company. Management has determined that the following would have a potential effect in the future for changes in accounting policies and the classification and amounts of reportable items in the entity's financial statements for subsequent periods, namely:

- IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019 adopted by the EC). *This standard has a completely changed concept. It introduces new principles for the recognition, measurement and presentation of leases by imposing a new model in order to provide a more reliable and adequate representation of these transactions, especially with the lessee. The Standard will replace the current lease standard IAS 17. a) In the case of lessees, the guiding principle of the new standard is the introduction of a one-size-fits-all model of leased balance sheet accounting - for all leasing contracts with a real life of more than 12 months, an asset in the form of a "right of use" for the period of the contract and, respectively, a financial liability for the obligation under these contracts will be reported. This is also the essential change from current reporting practice. For short-term or very low-cost leases an exception is allowed and retention of past practice; (b) Lessors will not experience material changes in the accounting practice and they will continue to recognize the leases similar to those of the old Standard IAS 17, both operating and financial. As far as the new standard provides a more complete concept, a more detailed analysis of the terms of the contracts should also be made, and it may be possible for them (the lessors) to create grounds for reclassification of certain leasing transactions. The new standard requires expanding disclosures. The management has conducted a study and has determined that changes under the new standard affect the accounting policy and the values and classification of the Company's assets, liabilities, operations and results in respect of: i*n respect of part of the operating lease contracts for which the company is a lessee. *The effects of its analyzes and preliminary recalculations and reclassifications are disclosed in Note 43. The management has* *chosen to apply a modified retrospective application for the first time to IFRS 16 and not to restate the comparative figures.*

- IFRIC 23 (amended) Uncertainties in the treatment of income taxes (effective for annual periods beginning on or after 1 January 2019 adopted by the EC). *This Interpretation provides guidance on accounting treatment and reporting of income taxes under IAS 12 when certain uncertainties about tax treatment are available. It does not affect taxes and other government receivables and fees beyond IAS 12 nor does it include special requirements for interest and other penalties associated with tax uncertainties. The clarification covers the following questions: (a) whether an entity considers separate uncertainties about tax treatment; (b) assumptions made by an entity for the purpose of verifying and assessing tax treatment by the tax authorities; (c) how the entity determines the taxable profit or loss, tax bases, unused tax losses, tax rates and unused tax credits; (d) how the entity assesses and addresses changes in facts and circumstances; and (e) the entity's approach to assessing the individual uncertainties of tax treatment individually or in combination with others. Management is in the process of exploring, analyzing and evaluating the effects of changes that would affect accounting policies and the classification and presentation of assets, and the liabilities of the company.*

- IFRS 9 (amended) - Financial Instruments - for cases of negative early repayment and modification of financial liabilities (effective for annual periods beginning on or after 1 January 2019 adopted by the EC). *This change covers two issues: a) amend the current requirements of IFRS 9, allowing the classification of certain financial assets at amortized cost and they pass the test SPGL, irrespective of conditions for early repayment with negative compensation. Negative compensation occurs when the terms permit the debtor to pay early instrument before its maturity, and early the amount paid may vary from the remaining outstanding principal and interest, but this negative compensation must be reasonable and relevant for the early termination of the contract. Pre-payment in itself is not a sufficient indicator of judgment, ie. it is important to assess against the prevailing interest rate, and against it - the amount of prepayment may also be in favor of a party that initiates it. It is important that the calculation of the compensation be consistent as an approach in the case of a penalty for early payment and in favor of an earlier payment. Also, the asset should be in the "held for cash flow" category according to the business model of the entity; (b) confirms that when a financial liability measured at amortized cost is modified without being derecognised, the effect of that modification should be recognized in profit or loss. The effect is measured as the difference between the original agreed cash flows and those after the modification discounted at the original effective interest rate. Management is in the process of exploring, analyzing and evaluating the effects of changes that would affect the accounting policy and the classification and presentation of the Company's assets and liabilities.*

- Improvements to IFRS Cycle 2015-2017 (December 2017) - Improvements to IAS 23, IAS 12 and IFRS 3 in relation to IFRS 11 (effective for annual periods beginning on or after 1 January 2019) have not been adopted by the EC). *These improvements make partial amendments and revisions to the relevant standards, mainly with a view to eliminating existing inconsistencies or uncertainties in the application of the rules and requirements of individual standards, as well as to introduce more precise terminology of concepts. Basically, changes are targeted to* *the following objects or operations: (a) clarify that when an entity acquires control over a business that is a joint venture, it should recalculate (previously revaluate) its holdings in that business under IFRS 3. It is also specified that when an entity acquires joint control in a business that is a joint venture, it should not recalculate previously held stakes in it under IFRS 11; (b) clarify that any tax consequences of dividend income taxes (ie, profit distributions) should be reported in profit or loss, regardless of how they occurred - when applying IAS 12; and (c) clarify that if loans with special purposes to finance a qualifying asset remain outstanding after the asset becomes ready for the intended use or sale, these loans become part of the general purpose financing when calculating the capitalization rate on the order of IAS 23. Management is in the process of exploring, analyzing and evaluating the effects of changes that would affect the accounting policy and the classification and presentation of the Company's assets and liabilities.*

- Changes in the Financial Framework Concept (in force for annual periods beginning on or after 1 January 2020 have not been adopted by the EC). *These changes include revised definitions of "asset" and "liability" as well as new guidelines for their measurement, write-off, presentation and disclosure. Changes in the Conceptual Framework are accompanied by amendments to some references to it in International Financial Reporting Standards, incl. IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32. Some of the references point to which version of the Conceptual Framework should be referred to the statements in those standards (the IASC framework adopted by the IASB in 2001, the IASB framework from 2010 or the revised from 2018 framework), others explicitly mentioning , that the definitions in the standard have not been updated in line with the new changes to the framework. Management is in the process of exploring, analyzing and evaluating the effects of changes that would affect the accounting policy and the classification and presentation of the Company's assets and liabilities.*

- IFRS 3 (revised) - Business Combinations (effective for annual periods beginning on or after 1 January 2020, not adopted by the EC). *This change relates to the definition of "business" given in the appendix to the Standard and is related to the difficulties the acquirer encounters in assessing whether a business or pool of assets is acquired. The amendment aims to: (a) clarify that, in order to be defined as a business, the acquired set of activities and assets must include, as a minimum, the inputs and operational processes that together result in the creation of a product; (b) narrowing the definitions of "business" and "product" by focusing on the goods and services provided to the customer and by removing the focus on cost-cutting; (c) to add guidance and illustrative examples to help businesses assess whether an operational process has been acquired; (d) remove the requirement to assess whether market participants are able to replace the missing resources and operational processes in the acquiree to continue to create a product; and (e) add the option to the so- a concentration test that allows a simple assessment of whether a set of activities and assets is business or not. The management is in the process of exploring, analyzing and evaluating the effects of changes that would affect the accounting policy and the classification and presentation of the Company's assets and liabilities.*

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Estimates and Errors (in force for annual periods beginning on or after 1 January 2020 - not adopted by the EC). *These changes concern the refinement of the definition of "materiality" in both standards. In their view, the new definition of materiality is that "information is material if a missed, inaccurate or disguised one could reasonably be expected to influence the decisions of the main users of financial statements with a common purpose that provide financial information for a reportable enterprise ". There are three new aspects of the definition that should be noted: (a) "cover-up" - the current definition focuses only on omission and imprecise presentation. The IASB concludes that the concealment of essential information may have the same effect as the omission of essential information; (b) 'reasonable expectation to influence the decisions of the main users' - this definition refers to' could influence ', which according to the IASB can be assumed to require too much information, since almost everything 'could affect' the decisions of some consumers, even the probability of being minimal; and (c) "primary users" - this definition only refers to "users", which, according to the IASB, may be adopted too broadly, take into account all possible users of the financial statements when deciding what information to disclose. Also, five ways of concealing essential information are explicitly mentioned: (a) use of language for an essential element that is evasive or unclear; (b) information about a material item, transaction or event that is scattered in different locations in the financial statements; (c) dissimilar elements, transactions and events, in substance, which are inappropriately presented collectively; (d) similar items, transactions and events that are inappropriately represented on their own*; *and (e) material information is concealed through insignificant information to such an extent that it becomes unclear what information is material. Management is in the process of exploring, analyzing and evaluating the effects of changes that would affect the accounting policy and the classification and presentation of the Company's assets and liabilities.*

Additionally, for the following new standards, revised standards and accepted interpretations that were issued but not yet in force for annual periods beginning on January 1, 2018, management has determined that the following would not have a potential effect on changes in accounting policy and the classification and values of reportable items in the financial statements of the company, namely:

- IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021, not adopted by the EC). *This Standard is an entirely new accounting standard for all types of insurance contracts, incl. for certain guarantees and financial instruments, including rules on recognition and measurement, on presentation and disclosure. The standard will replace the current standard for insurance contracts - IFRS 4. It establishes a new comprehensive model for the reporting of insurance contracts covering all relevant accounting aspects. It is not applicable to the company's activities.*

- IAS 28 (revised) - Investments in Associates and Joint Ventures - Long-term Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019 has not been adopted by the EC). *This amendment specifies that an entity should apply IFRS 9, including impairment requirements, to participations in associates or joint ventures that form the net investment with those companies and which do not apply the equity method of accounting. Changes in management's intentions or plans are not considered evidence of change.*

- IFRS 10 (revised) - Consolidated Financial Statements and IAS 28 (revised) - Investments in Associates and Joint Ventures - on the sale or servicing of assets between an investor and its associates or joint ventures (postponed effective effective date subject to determination by IASB). *These changes are aimed at resolving the accounting treatment of sales or asset backlogs between an investor and its associated or joint ventures. They confirm that the accounting treatment depends on whether the assets sold or the non-monetary assets contributed constitute, or essentially, a "business" within the meaning of IFRS3. If these assets as a whole do not meet the definition of "business", the investor recognizes a gain or loss to the percentage corresponding to that of the other unrelated investors in the associate or joint venture. Where assets are sold or non-monetary assets that are "business" as a whole are sold, the investor recognizes the full profit or loss on the transaction. These changes will be applied prospectively. The CMMS postponed the initial date of application of these changes indefinitely.*

- IAS 19 (revised) - Employee Benefits (effective for annual periods beginning on or after 1 January 2019, not adopted by the EC). *This amendment specifies that, in the event of changes in the defined benefit plans, cuts or settlements, the determination of current service cost and interest expense for the period after the revaluation, the company is required to use the assumptions therein. Additionally, changes in disclosure are included in changes to the defined benefit plans, shortening or settlement in relation to the ceiling of an asset under the plan.*

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 2.31, Note 15, Note 17 and Note 20.*

2.2. Consolidated financial statements of the Company

The Company has started the process of preparation of its consolidated financial statements as at 31 December 2018 in accordance with IFRS for year 2018 whereas these annual individual financial statements will be included therein. In accordance with the planned dates, the management expects that the preliminary consolidated financial statements will be issued not later than 1 March 2019 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 transaction of the two companies was:

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

б) an accounting method of accounting for the merger

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 40*).

2.4. Comparatives

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

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

An exception to this rule is the presentation of the effects of the application for the first time on IFRS 15 *Revenue from contracts with customers* and IFRS 9 *Financial Instruments*. The Company has opted for a modified retrospective application for the first time of IFRS 15 *Revenue from contracts with customers*. When adopting IFRS 9 *Financial Instruments*, the Company applied the exemptions (exemptions) when it was first applied. All adjustments resulting from the initial application of the two new standards are reported in equity ("retained earnings") as at 1 January 2018. The comparative information for 2017 is not restated. It is presented and disclosed in accordance with IAS 39 *Financial Instruments*: *Recognition and Measurement* (repealed), IFRS 7 *Financial Instruments: Disclosure*, IAS 18 *Revenue* (repealed) and IAS 11 *Construction Contracts* (repealed) and related interpretations.

Effects of initial application of new IFRS 15 Revenue from contracts with customers and IFRS 9 Financial instruments are presented in *Note 43*.

The comparative information for the year 2017 presented in the statement of financial position, the statement of comprehensive income and cash flow statement and the equity statement of the company, was prepared on the basis of the combined data from the separate annual financial statements of Sopharma AD and Unipharm AD with the merger under the unified accounting policy and eliminated internal estimates, transactions and payments between them. Two comparable periods are included in the statement of financial position - 31.12.2017 and 01.01.2017, insofar as the aggregation of the data of the two companies' accounts results in indicators that are significantly different from the individual indicators of Sopharma AD itself for these periods.

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

2.6.1. Accounting policy applicable until December 31, 2017

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.

2.6.2. Accounting policy applicable from January 1, 2018

2.6.2.1 Recognition of revenue under contracts with clients

Revenue in the Company is recognized when control over the goods and / or services promised to the customer contract is transferred to the customer. Control is transferred to the client when the obligations to perform the contract are met by transferring the promised goods and / or performing the promised services.

Valuing a contract with a client

A contract with a client is only available when, upon its entry into force, it: (a) has a commercial character and a motive; (b) the parties have approved it (verbally, in writing or on the basis of 'established and generally recognized business practice'), and committed to fulfilling it, (c) the rights of each party; and (d) the payment arrangements can be identified; and (e) there is a likelihood that the remuneration to which the company is entitled in the performance of its execution obligations will be received. When assessing the collection rate, all relevant facts and circumstances of the transaction are taken into account, past experience, common business practices, published rules and statements made by the company, collateral and satisfaction.

A contract for which any of the above criteria has not yet been met is subject to a reassessment of each reporting period. Remuneration received under such a contract is recognized as a liability (*contract liability*) in the statement of financial position until: a. all criteria for recognition of a client contract are not met; b. the company has fulfilled its performance obligations and has received all or almost all (non-refundable) remuneration; and / or c. when the contract is terminated and the remuneration received is not refundable.

In the initial assessment of its client contracts, the company further analyzes and assesses whether two or more contracts are to be considered in their combination and to be reported as one and respectively. whether the promised goods and / or services in each separate and / or combined contract have to be counted as one and / or more performance obligations.

Any promise to transfer goods and / or services that are identifiable (on their own and in the context of the contract) is reported as a performance obligation.

The Company recognizes revenue for each separate performance obligation at the level of an individual contract with a client by analyzing the type, timing and terms of each particular contract. For contracts with similar characteristics, revenues are recognized on a portfolio basis only if their grouping in a portfolio would not have a materially different effect on the financial statements.

When an other (third) party is performing the performance obligations, the company determines whether it acts as a principal or agent by assessing the nature of its promise to the client: to provide the designated goods or services alone (principal) or to arrange for another party to provides them (agent). The company is the principal and recognizes revenue as the gross amount of the consideration if it controls the promised goods and / or services before transferring it to the client. However, if the company does not receive control over the promised goods and / or services and its obligation is only to organize a third party to provide these goods and / or services, then the company is an agent and recognizes the proceeds of the transaction at the amount of the net amount for services provided as agent.

2.6.2.2. Measurement / (evaluation) of revenue under contracts with clients

Revenue is measured on the basis of the transaction price specified for each contract.

The *transaction price* is the amount of the consideration the company expects to be entitled to, except for amounts collected on behalf of third parties. In determining the transaction price, the company takes into account the terms of the contract and its usual business practices, the influence of variable remuneration, the existence of a significant financial component, non-monetary remuneration and remuneration owed to the client (if any). For contracts with more than one execution obligation, the transaction price is allocated to each performance obligation based on the individual sales prices of each commodity and / or service determined by one of the methods accepted in IFRS 15, giving priority to the "observable sales prices ".

The *change in the scope or price* (or both) of the contract is recorded as a separate contract and / or as part of the existing contract depending on whether the change is related to the addition of identifiable goods and / for them price. Depending on this: (a) the modification is recorded as a separate contract if the scope of the contract is expanded due to the addition of distinct goods and / or services and the change in the contract price reflects the individual sales prices of the added goods and / or services; (b) the modification is recognized as a termination of the existing contract and the conclusion of a future contract if the remaining goods and / or services are identifiable from those transferred prior to the modification but the change in the contract price does not reflect the individual sales prices of the added goods and / or services; (c) the modification is accounted for as part of the existing contract (cumulative adjustment) if the remaining goods and / or services are not identifiable from those transferred prior to the modification and are therefore part of a partially settled performance obligation.

2.6.2.3. Performance obligations under contracts with clients

The company's activities are related to the production and wholesale trade of drug substances and pharmaceutical forms.

Sales of produce

The wholesale sales of drug substances and pharmaceutical forms are in the country and abroad, both according to the company's specification (technology) and the customer's specification (technology). In general, the company has come to the conclusion that it acts as a principal in its dealings with customers, unless otherwise explicitly disclosed for certain transactions as the company ordinarily controls the goods and / or services before transferring them to the customer.

Sales of products according to the company's specification

When selling products according to the company's specification, the control is transferred to the client *at a specific time*.

In the case of *sales in the country*, this is usually the case with the transmission of the product and the physical knowledge of it to the customer when the customer can dispose of the goods by managing their use and receiving substantially all other benefits.

For *sales abroad*, the estimate of the moment the customer receives control of the output is made on the basis of the agreed terms of sale under INCOTERMS.

Sales of products according to customer specification

For production produced on a customer specification, the company has a legal and contractual restraint restriction for another use (sale to another party) and it has no alternative use. The way of transferring control in these cases is determined specifically for each contract with a client (at individual contract level). For this purpose, it is determined whether the company is entitled to receive a payment for the work done so far at least to offset it for the costs incurred plus a reasonable margin if the contract is terminated for reasons other than the company's default (legally exercised payment entitlement).

If the company has a *legally enforceable* payment entitlement for the particular contract, revenue is recognized *over time*, using a *method of measuring the progress* of the contract (the stage of completion). This method has been identified as the most appropriate measure to measure progress since the results best described the company's business to full satisfaction of the performance obligation. Progress is measured *on the basis of the* ***units produced****, compared to the total ordered by the customer*. Estimates of revenue, expense and / or progress towards full satisfaction of liabilities are reviewed at the end of each reporting period, incl. in the event of a change in the circumstances and / or the occurrence of new ones. Any subsequent increase or decrease in expected revenue and / or expense is reflected in profit or loss in the period in which the circumstances that led to the review become known to the management.

If *the company does not have a legally enforceable payment entitlement*, revenue is recognized at a *specific tim*e when the control of the marketed output is transferred to the customer: by transferring the output and physical ownership of the product to the customer (domestic sales) and under terms of sale on INCOTERMS (for sales abroad).

Transport of sold products

Normally, when selling abroad, the company has the obligation to transport the goods to an agreed destination, the transport is organized by the company and the value of the transport is included (calculated) at the selling price. Depending on the conditions agreed with the customer, the transport service can also be performed after the control of the sold product has been transferred to the customer. Until the transfer of control over production, the sale of goods and the transport service are reported as a performance obligation as they are part of an integrated service.

The transport service after transfer of production control is reported as a *separate implementation obligation* because the transport can be performed by another supplier (ie the customer can benefit from the sold output with other readily available resources) and the transport service does not modify or modify in any way the product sold. In this case, the remuneration the company expects to be entitled to (the transaction price) is allocated among the individual performance obligations based on their individual sales prices. The individual sales price of the sold output is determined according to the price list in effect at the date of the transaction, and for the transport service, the individual sales price is estimated approximately using the cost plus margin method.

Transport companies use subcontractors to carry out the transport service. The Company has determined that it controls the specific services before they are provided to the client and therefore acts as a principal, as: a) it has the primary responsibility that the services are performed and are acceptable to the client (ie the company be responsible for the performance of the promise in the contract, whether the company itself provides the services or engages a third-party service provider to execute the contract, and (b) it negotiates the price of the services on its own and without any intervention on the part of the client.

Revenue from the sale of a transport service is recognized *over time* since it is unnecessary to repeat the work so far if another party has to carry out the remaining part of the work and therefore the client receives and consumes the benefits simultaneously with the service. To measure progress on the contract (stage of completion) an *input-based method* is used, this method is considered the most appropriate measure to measure progress as it best describes the company's activity of transferring control and meeting the obligations and the most accurately reflects the level of performance of the obligations, as there is a direct link between the company's efforts (the costs incurred) and the transfer of the service to the customer. Progress is measured *on the basis of the costs incurred in relation to the total expenditure planned for the implementation of the contract*.

Payment terms

Sales prices are fixed on a general or customer price list and are determined individually for each specific product. The usual credit period is 30 to 180 days. In certain cases, the company collects short-term advances from clients that do not have a significant component of funding. The collected prepaid payments by the client are presented in the statement of financial position as liabilities under contracts with clients.

Variable remuneration

Variable remuneration is included in the transaction price only to the extent that it is highly probable that no material adjustment will occur to the amount of the cumulative gain recognized. The forms of variable remuneration applicable to the company include:

- <u>Volume discounts:</u> Retrospective trade rebates that are provided to the customer to reach a predetermined monthly, quarterly, and / or annual turnover defined as a single threshold and / or as a progressive bonus scheme. In estimating the variable remuneration, the company determines what is the customer's expected turnover using the most probable value method. The rebates granted are offset against the amounts due by the client.

- <u>Price protection</u>: For sales on the Bulgarian market, the company has a commitment in the event of a price reduction imposed by a state regulator to compensate the buyer and / or its customers for the price of the product purchased at a higher price than the company that is not sold to end customers. The payment of this remuneration depends on the state policy of regulating the prices of medicinal products and is outside the control of the company.

- Compensation for hidden defects: The customer can make claims for hidden defects (quality claims) throughout the shelf life of the goods sold, which may vary from one to five years. Claims for quality claims are settled by providing a new good or refunding the amount paid by the customer. In determining the due compensation for hidden defects at the end of the reporting period, account is taken of the company's quality assurance system and the experience gained.

- Neutralizing, due to the client: in case of improper performance of the contractual obligations by the company, usually in connection with non-observance of the agreed delivery time. They are included in a reduction in the transaction price only if their payment is highly likely. The company's experience shows that historically agreed deadlines are respected and the company has not charged any defaults.

- Neutralizing to be paid by the client: variable remuneration in the form of penalties due to late payment by the client. The receipt of these fees depends on the client's actions and is beyond the control of the company. They are included as part of the transaction price only when the uncertainty about their receipt is permitted. The inclusion of penalties (payable by and to the customer) as part of the transaction price is assessed for each individual contract and is reviewed at the end of each reporting period.

The expected variable remuneration in the form of various discounts, penalties and compensation is determined on the basis of past experience and is recognized as a correction of the transaction price and respectively of the revenue (such as an increase or decrease) only to the extent that it is highly probable that it will not there has been a material reverse change in the amount of cumulatively recognized revenue, including due to the existence of rating restrictions. Any subsequent changes in the amount of variable remuneration are recognized as income adjustments (such as an increase or decrease) at the date of change and / or settlement of uncertainty. At the end of each reporting period, the company updates the transaction price, incl. whether the estimate contains limitations so as to present faithfully the circumstances and circumstances that occurred during the reporting period. In estimating variable remuneration, the company uses the most probable method. Contingent but not settled at the end of the reporting period, for which the customer does not yet have an unconditional right to receive, is presented as a reimbursement obligation in the statement of financial position.

2.6.2.4. Costs from contracts with customers

As contract costs with customers, the Company recognizes:

- the additional and directly related costs that it assumes when signing a contract with a client and which would not have arisen if the contract was not concluded and expects that costs to be reimbursed over a period of more than 12 months (*costs of obtaining a contract with a client)* and

- The costs incurred in executing a contract with a client and directly related to the specific contract help to generate resources for use in the actual execution of the contract and are expected to be reimbursed over a period of more than twelve months (*performance of such contracts*).

The Company does not incur any costs of obtaining contracts with clients and costs for the performance of such contracts that are eligible for and subject to capitalization.

2.6.2.5. Balances on contracts with customers

Trade receivables and assets under contracts

The contract asset is the right of the company to receive remuneration in return for the goods or services it has transferred to the client but which is not unconditional (the charge for the receivable). If, through the transfer of the goods and / or the provision of the services, the company fulfills its obligation before the client pays the relevant remuneration and / or before the payment becomes due, a contract asset is recognized for the earned remuneration (which is conditional). Recognized contract assets are reclassified as a trade receivable when the right to remuneration becomes unconditional. The right to remuneration is considered to be unconditional if the only condition for payment of the remuneration to be due is the expiration of a certain period of time.

Liabilities under contracts

As a liability under a contract, the company presents the payments received by the client and / or an unconditional right to receive a payment before fulfilling its contractual obligations. Contract liabilities are recognized as income when (or as) it has been settled.

Assets and liabilities under contract are presented to other receivables and payables in the statement of financial position. They are included in the group of current assets when their maturity is within 12 months or in a normal operating cycle of the company and the rest are non-current. Assets and liabilities arising from a contract are presented net in the statement of financial position even if they are the result of different contractual obligations for performance of the contract.

After initial recognition, trade receivables and contract assets are reviewed for impairment in accordance with the IFRS 9 *Financial Instruments*.

2.6.2.6. Customer repayment obligations

The reimbursement obligation includes the company's obligation to reimburse part or all of the consideration received (or to be received) by the customer under contracts for the expected retrospective volume and / or quality compensation discounts. Initially, the reimbursement obligation is assessed at the amount that the company does not expect to have the right and which the company expects to repay to the customer. At the end of each reporting period, the Company updates the assessment of the reimbursement obligations, respectively, of the transaction price and the recognized revenue.

Repayment commitments under customer contracts are presented under "Other current liabilities" in the statement of financial position.

Financial income is included in the statement of comprehensive income (in profit or loss for the year) when incurred and consists of: interest income on loans granted and term deposits, interest income on receivables under special contracts, interest receivable overdue receivables, income / gains from transactions in available-for-sale securities, incl. dividends, net exchange rate gains on foreign currency borrowings, income from debt settlement operations, gains from fair value measurement of available-for-sale investments that are part of the phased acquisition of a subsidiary.

Financial income is presented separately from the financial expenses on the face of a statement of comprehensive income (in profit or loss for the year).

Recognition of interest income

Accounting policy applicable from 1 January 2018

Interest income is calculated by applying the effective interest rate on the gross carrying amount of financial assets excluding financial assets that are impaired (Stage 3) for which interest income is calculated by applying the effective interest rate on their amortized value (ie the gross book value adjusted for the loss provision).

Accounting policy applicable until 31 December 2017

Interest income is calculated by applying the effective interest rate on the gross carrying amount of financial assets.

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 included in the statement of comprehensive income (within profit or loss for the year) when they arise, separately from financial income 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. Gains or losses on sales of individual assets of the "property, plant and equipment" group a are determined by comparing the remuneration the entity expects to be entitled to (the proceeds from the sale) and the carrying amount of the asset as at the date the payee receives control over it. 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 current location and condition based on a quoted market price. Gains or losses arising on the initial recognition of a biological asset at fair value less estimated cost of sales and changes in its fair value less estimated cost of sale are recognized in the statement of comprehensive income or loss for the year) in the period in which they arise and are presented as "other income / (loss) on operations, net". When the fair value of a particular biological asset can not be measured reliably, it is measured at its cost less accumulated amortization or impairment losses. Subsequently, when it becomes possible for the fair value of that biological asset to be measured reliably, the company changes its approach and starts valuing the asset at fair value less estimated cost of sale.

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. Gains or losses on sales of individual assets in the "intangible assets" group are determined by comparing the remuneration the company expects to be entitled to (the proceeds from the sale) and the carrying amount of the asset as at the date on which the recipient receives control over it. 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 2.30).* 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 on sales of individual assets in the “investment property” group are determined by comparing the remuneration the company expects to be entitled to (the proceeds from the sale) and the carrying amount of the asset at the date when the recipient receives control over it. 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. Other long - term equity investments

Other long - term equity investments are non-derivative financial assets representing shares in the capital of other companies (minority interest), held for a long term.

Initial measurement

Initially, capital investments are recognized at cost, which is the fair value of the consideration that has been paid, including the direct costs of acquiring the investment (the financial asset) *(Note 2.24)*.

All purchases and sales of equity investments are recognized on the "trading date" of the transaction; the date on which the company commits to purchase or sell the asset.

Subsequent measurement

Accounting policy applicable from 1 January 2018

The equity investments held by the Company are subsequently measured at fair value (*Note 2.30*) with the assistance of an independent licensed valuer.

The effects of the subsequent revaluation to fair value are presented in a separate component of the statement of comprehensive income (in other comprehensive income components) and respectively. in a financial asset reserve at fair value through other comprehensive income.

These effects are transferred to the undistributed profit on disposal (sale) of the respective investment.

Accounting policy applicable until 31 December 2017

The effects of the subsequent revaluation of equity investments to their fair value are presented in a separate component of the statement of comprehensive income (in other comprehensive income components) and respectively. in a financial asset reserve at fair value through other comprehensive income. They are recognized (recycled) in the statement of comprehensive income (in profit or loss for the year) on disposal (sale) of the investment in question, with the words "financial income" or "financial expense".

Equity investments held are reviewed at each reporting date and, in determining the conditions for continued impairment, are recognized in the statement of comprehensive income (in profit or loss for the year) in the item "financial expenses". When determining the conditions for impairment, the difference is recognized as the difference between the carrying amount and the recoverable amount of the investment and is recognized in the statement of comprehensive income (in profit or loss for the year) unless in the prior periods there is a positive reserve for those investments impairment is covered at the expense of this reserve and is presented net in the statement of comprehensive income (in other components of comprehensive income).

Dividend income

Dividend income related to long-term investments representing shares in other companies (non-controlling interest) is recognized as current income and presented in the statement of comprehensive income (in profit or loss for the year of the year) to the item "financial income".

The write-off of shares due to sale uses the weighted average method, determined at the end of the month in which the write-off is performed.

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 2.31).*

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 receivables

Trade receivables are the unconditional right of the company to receive remuneration under contracts with customers and other counterparties (ie it is only time-out before the payment of the remuneration).

Initial evaluation

Trade receivables are initially reported and reported at fair value based on the price of the transaction, which is normally equal to their invoice value, unless they contain a significant financing component that is not accrued additionally. In that case, they are recognized at their current value , determined at a discount rate in the amount of an interest rate deemed to be inherent to the debtor.

Subsequent assessment

The Company holds trade receivables solely for the purpose of collecting contractual cash flows and then evaluates them at amortized cost less the amount of accumulated impairment for expected credit losses. (*Note 2.24*).

Impairment

Accounting policy applicable from 1 January 2018

The Company applies the pattern of expected credit losses for the entire duration of all trade receivables using the simplified approach assumed by IFRS9 and based on a matrix model for the percentage of loss (*Notes 24 and 25*).

Impairment of receivables is accrued through a corresponding Correction Account for each type of receivable to the item "Impairment of financial assets at the face of the statement of comprehensive income (in profit or loss for the year).

Accounting policy applicable until 31 December 2017

Impairment of trade receivables is estimated based on the pattern of losses incurred. Estimates of losses on doubtful and uncollectible receivables are estimated when there is high uncertainty about the collection of all or part of the amount.

Uncollectible claims are written when the legal grounds for that occur.

2.16. Interest-bearing loans and other financial resources granted

All loans and other financial resources are initially presented at cost (nominal amount), which is considered as the fair value of the transaction, net of the direct costs associated with these loans and resources. After initial recognition, interest-bearing loans and other available resources are subsequently measured and presented in the statement of financial position at amortized cost determined using the effective interest method. Amortized cost is calculated by taking into account all types of fees, commissions and other amounts associated with these loans. Gains and losses are recognized in the statement of comprehensive income (in profit or loss for the year) as financial income (interest) or expense over the amortization period or when the receivables are extinguished, written off or reduced.

Interest income is recognized in accordance with the stage of classification of the relevant loan or other receivable from financial resources granted on the basis of the effective interest method.

Interest-bearing loans and other available financial resources are classified as current except for the part of them for which the Company has the unconditional right to settle its liability within 12 months from the end of the reporting period (*Note 2.24*).

2.17. Cash and cash equivalents

Cash includes cash and cash on hand, and cash equivalents - deposits with banks with original maturity of up to three months and deposits with longer maturity which are freely available to the Company under the terms of the arrangements with banks during the deposit.

Subsequent assessment

Accounting policy applicable from 1 January 2018
Cash and cash equivalents in banks are subsequently presented at amortized cost less accumulated impairment for expected credit losses.

Accounting policy applicable until 31 December 2017
Cash and cash equivalents at banks are subsequently presented at amortized cost less accumulated impairment for actual credit losses.

For the purpose 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 credits are included as payments for financial activity, and interest on loans serving the current activity (for working capital) is included in operating activities;
- interest received on deposits with banks is included in the cash flows from investing activities;

- the VAT paid on purchases of fixed assets by foreign suppliers is indicated in the line "taxes paid" and in the case of delivery of fixed assets from the country is indicated in line "payments to suppliers" to the cash flows from operating activity, in so far as it participates and is reimbursed together and in the operating flows of the company for the relevant period (month).
- receipts and payments from and overdrafts are shown net of the company.
- permanently blocked cash over 3 months is not treated as cash and cash equivalents.
- receipts from factoring contracts are presented in cash flows from financing activities.

2.18. Trade and other payables

Trade and other current liabilities in the statement of financial position are presented at the cost of the original invoices (cost), which is considered as the fair value of the transaction and will be paid in the future against the goods and services received. In the case of deferred payments over the normal credit term, where no additional interest payment is provided, or the interest differs significantly from the usual market rate, the liabilities are initially measured at their fair value on the basis of their current value at a discount rate inherent in the company , and subsequently - at amortized cost *(Note 2.24*).

2.19. Interest-bearing loans and other borrowings

In the statement of financial position, all loans and other borrowed financial assets are initially stated at cost (nominal amount), which is taken as the fair value of the transaction received net of the direct costs associated with these loans and borrowed funds. After initial recognition, interest-bearing loans and other borrowed funds are subsequently measured and presented in the statement of financial position at amortized cost determined using the effective interest method. Amortized cost is calculated by taking into account all types of charges, commissions and other costs, incl. discount or premium associated with these loans. Gains and losses are recognized in the statement of comprehensive income (profit or loss for the year) as financial income or expense (interest) over the amortization period or when the liabilities are derecognized or reduced (*Note 2.24*).

Interest expense is recognized for the period of the financial instrument on the basis of the effective interest method.

Interest-bearing borrowings and other borrowed financial resources are classified as current except for the portion for which the Company has an unconditional right to settle its liability within 12 months of 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 (in profit or loss for the year) as "financial expenses" - interest on the basis of the effective interest method (*Note № 2.24*).

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

Lessor

The finance lease, in which the significant part of all risks and economic benefits arising from the ownership of the asset under a finance lease is transferred out of the company, is written off from the lessor's assets and presented in the statement of financial position as a receivable with a value equal to the net investment from 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 of assets.

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

Operating lease
Lessee

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

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

Lessor

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

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

2.22. 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.

The fair value reserve on other comprehensive income is formed by the effects of fair value measurement of other long-term equity investments. When these investments are derecognised, the formed reserve is not recycled through the statement of comprehensive income (through the profit or loss for the year). Prior to the application of IFRS 9, the name of this reserve was a Reserve on available-for-sale financial assets and when the investment was written off, it was subject to reporting (recycling) in the statement of comprehensive income (through the profit or loss for the year).

2.24. Financial instruments

2.24.1. Accounting policy applicable from 1 January 2018

A financial instrument is any contract that generates both a financial asset in an enterprise and a financial liability or equity instrument in another entity.

Financial assets

Initial Recognition, Classification, and Valuation

Upon initial recognition, financial assets are classified into three groups, where they are subsequently measured at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss.

The Company initially estimates financial assets at fair value and, in the case of financial assets not reported at fair value through profit or loss, the direct transaction costs are added. Exceptions are trade receivables that do not contain a significant component of finance - they are valued on the basis of the transaction price determined in accordance with IFRS 15 and the invoice issued (*Note 2.6.2.1*).

Purchases or sales of financial assets the terms of which require delivery of assets over a period of time normally established by a statutory provision or practice in the relevant market (regular purchases) are recognized on the trade date (transaction) . on the date that the company is committed to purchase or sell the asset.

Classification of financial assets upon initial recognition depends on the characteristics of the contractual cash flows of the respective financial asset and the business model of the company for its management. In order to be classified and measured at amortized cost or at fair value in other comprehensive income, the terms of a financial asset must generate cash flows that represent "principal and interest payments only PIPO" on the outstanding amount of the principal. For this purpose, an PIPO test is performed at the level of the instrument.

The business model of a financial asset management company reflects the way the company manages its financial assets to generate cash flows. The business model determines whether cash flows are the result of the collection of contractual cash flows, the sale of financial assets, or both.

Subsequent assessment

For the purposes of ex-post evaluation, financial assets are classified into four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through other comprehensive income with the "recycling" of cumulative gains or losses (debt instruments)
- Financial assets at fair value through other comprehensive income without "recycling" of cumulative gains and losses (equity instruments)
- Financial assets at fair value through profit or loss (debt and equity instruments)

<u>*Classification groups*</u>

Financial assets at amortized cost (debt instruments)

The Company measures financial assets at amortized cost when both of the following conditions are met:

- the financial asset is held and used within a business model that is designed to hold it in order to obtain the contractual cash flows from it, and
- the terms of the contract for the financial asset give rise to cash flows at specific dates that represent only principal payments and interest on the outstanding amount of the principal.

Financial assets at amortized cost are subsequently measured using the Effective Interest Rate Method (EAP). They are subject to impairment. Gains and losses are recognized in the statement of comprehensive income (in profit or loss for the year) when the asset is derecognized, modified or impaired.

Financial assets at amortized cost of the company include: cash and cash equivalents in banks, trade receivables, incl. from related parties granted loans to affiliated enterprises and loans to third parties (*Notes 21, 22, 24, 26 (a) and 27*).

Financial assets at fair value in other comprehensive income (equity instruments)

Upon initial recognition, the Company may make an irrevocable choice to classify certain equity instruments as designated at fair value in other comprehensive income but only when they meet the definition of equity in accordance with IAS 32 *Financial Instruments: Presentation* and are not held for trading purpose. Classification is determined on an individual level, instrument by instrument.

When these assets are derecognised, the gains and losses from fair value measurement recognized in other comprehensive income are not recycled through profit or loss. Dividends are recognized as "financial income" in the statement of comprehensive income (in profit or loss for the year) when the payment entitlement is established, except when the company benefits from such proceeds as a reimbursement of part of the cost of acquisition the financial asset, in which case the gains are reported in the other comprehensive income. Equity instruments designated as such at fair value in other comprehensive income are not subject to impairment testing.

The Company has made an irrevocable choice to classify in its category its minority equity investments that it holds in the long term and in relation to its business interests in these companies. Some of them are traded on capital markets and another - they are not presented in the statement of financial position under the article "Other long-term equity investments".

Write-off

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised from the statement of financial position of the company when:

• the rights to receive cash flows from the asset have expired, or

• the rights to receive cash flows from the asset are transferred or the company has undertaken to pay the fully received cash flows without significant delay to a third party through a transfer agreement; wherein: or (a) the company has transferred substantially all the risks and rewards of ownership of the asset; or (b) the company has neither transferred nor retained substantially all the risks and rewards of ownership of the asset but has not retained control of it.

When the company has transferred its rights to receive cash flows from the asset or has entered into a transfer agreement, it assesses whether and to what extent it retains the risks and rewards of ownership. When the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, it continues to recognize the transferred asset to the extent of its continuing involvement in the asset. In this case, the company also recognizes the related obligation. The transferred asset and the related liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continued interest in the form of a guarantee on the transferred asset is measured at the lower of: the initial carrying amount of the asset and the maximum amount of remuneration that the company may be required to pay.

Impairment of financial assets

The Company recognizes a write-down (provision for impairment) for expected credit losses for all debt instruments that are not carried at fair value through profit or loss. Expected credit losses are calculated as the difference between the contractual cash flows due under the terms of the contract and all cash flows that the company expects to receive discounted at the original effective interest rate. Expected cash flows also include the cash flows from the sale of the collateral held or other credit enhancements that form an integral part of the terms of the contract.

For the calculation of the expected credit losses on *loans granted to related parties and third parties incl. cash and cash equivalents in banks*, the Company applies the general approach for impairment set by IFRS 9. Under this approach, the Company applies a "three step" depreciation model based on changes to the initial recognition of the credit quality of the financial asset.

Expected credit losses are recognized in two stages:

a. A financial asset that is not impaired at its initial origination / acquisition is classified in Stage 1. From its initial recognition, its credit risk and qualities are subject to continuous monitoring and analysis. Expected credit losses on financial assets classified in Phase 1 are determined on the basis of credit losses that arise from possible events of default that could occur within the next 12 months of the life of the asset (12-month expected credit loss for the instrument).

b. In the event that its credit risk increases significantly after the initial recognition of a financial asset and as a result its performance deteriorates, it is classified in Stage 2. The expected credit losses of the financial assets classified in Stage 2 are determined for the total remaining life of the asset, regardless of the time of the default (expected credit losses over the lifetime of the instrument). The management of the company has developed a policy and a set of criteria for analyzing, identifying and assessing the occurrence of a state of "significant increase in credit risk" In the event that the credit risk of a financial asset increases to a level indicative of a occurrence of a default event, the financial asset is considered impaired and classified in Stage 3. At this stage, the loss incurred under the respective asset for its entire remaining life (term).

The management of the company has performed relevant analyzes, on the basis of which it has defined a set of criteria for non-performing events. One of these is arrears of contractual payments due for more than 90 days, unless for a particular instrument there are no circumstances that render this claim rebuttable. Along with it, other events are also observed, based on internal and external information indicating that the debtor is not in a position to pay (repay) all outstanding amounts under contract, incl. taking into account all the credit facilities provided by the company.

The Company corrects the expected credit losses, based on historical data, with estimated macroeconomic indicators that are found to be correlated and are expected to affect the amount of expected credit losses in the future.

To calculate the expected credit losses of trade receivables and assets under contracts with customers, the Company has selected and applied a matrix-based approach for calculating expected credit losses and does not monitor subsequent changes in credit risk. Under this approach, it recognizes a write-down (provision for impairment) based on the expected credit loss for the entire maturity of the receivables at each reporting date. The Company has developed and implements a provisioning matrix based on historical experience of credit losses adjusted by predictors specific to debtors and the business environment and for which a correlation with the percentage of credit losses is established (*Note 41*).

Financial assets are derecognized when there is no reasonable expectation that the cash flows of the contract will be collected.

Financial liabilities

Initial Recognition, Classification, and Valuation

Upon initial recognition, financial liabilities are classified as at fair value through profit or loss or as loans and borrowings, trade or other payables.

Initially, all financial liabilities are recognized at fair value and, in the case of loans and borrowings and trade and other payables, net of directly related transaction costs.

The financial liabilities of the Company include trade and other payables, loans and other borrowed funds, including bank overdrafts, derivative financial instruments

Subsequent assessment

Subsequent valuation of financial liabilities depends on their classification.

<u>Classification groups</u>

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of re-purchase in the near future. This category includes derivative financial instruments owned by the Company that are not designated as hedging instruments in a hedge relationship as defined in IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of comprehensive income (in profit or loss for the year) in the item.

Financial liabilities designated at initial recognition as such at fair value through profit or loss are determined as such at the date of initial recognition only if the IFRS 9 criteria have been met. The Company has not classified any of its financial liabilities as such at fair value in profit or loss.

Borrowings received and other borrowed funds

Following initial recognition, the Company measures interest-bearing borrowings and borrowings at amortized cost using the effective interest method. Gains and losses are recognized in the statement of comprehensive income (in profit or loss for the year) when the relevant financial liability is derecognized, as well as through amortization on an effective interest basis.

Amortized cost is calculated by taking into account any discounts or bonuses on acquisition, as well as fees or charges that are an integral part of the effective interest rate. Depreciation is included as "finance expense" in the statement of comprehensive income (in profit or loss for the year).

Write-off

Financial liabilities are derecognized when the liability is extinguished or terminated or expires. Where an existing financial liability is replaced by another of the same creditor under substantially different terms or the terms of an existing liability are substantially altered, such exchange or modification is treated as a write-off of the original liability and recognition of a new liability. The difference in the relevant carrying amounts is recognized in the statement of comprehensive income (in profit or loss for the year).

Compensation of financial instruments

Financial assets and financial liabilities are offset and the net amount is recognized in the statement of financial position if there is a legally enforceable right to offset the amounts recognized and if there is an intention to settle on a net basis or to realize the assets simultaneously and to settle the liabilities.

This requirement stems from the idea of the real economic substance of a company's relationship with a counterparty that, in the coexistence of these two requirements, the expected actual cash flow and the benefits of these estimates for the enterprise are the net flow, the net amount reflects the actual right or obligation of the company from these financial instruments - in all circumstances to receive or pay only the net amount. If both conditions are not met, it is assumed that the company's rights and obligations in respect of such counterparts (financial instruments) are not exhausted in all situations solely and solely by the receipt or payment of the net amount.

The netting policy also relates to the assessment, presentation and management of the actual credit and liquidity risk associated with these counterparts.

The criteria that apply to establishing the "existence of a current and legally enforceable right to netting" are:

- not depend on a future event, ie not applicable only at the occurrence of any future event;
- be practicable and legally enforceable in the course of (cumulative):

  - the usual activity,

  - in case of default / default, and

  - in the event of insolvency or insolvency.

The applicability of the criteria is assessed against the requirements of the Bulgarian legislation and the established agreements between the parties. The condition of "the existence of a current and legally enforceable right to netting" is always and necessarily assessed together with a second condition - a "mandatory intent to settle these estimates on a net basis".

2.24.2. Accounting policy applicable until December 31, 2017

2.24.2.1. Financial assets

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

Typically, the Company recognizes in the statement of financial position the financial assets of the "trading date", the date on which it commits to purchase the relevant financial assets. All financial assets are measured at their fair value plus the direct transaction costs.

Financial assets are derecognised from the statement of financial position of the company when the rights to receive cash from these assets have expired or are transferred and the company has transferred the material portion of the risks and rewards of ownership of the asset to another entity. If the company retains the significant portion of the risks and rewards associated with the ownership of a transferred financial asset, it continues to recognize the asset in the statement of financial position, but it also recognizes a secured liability (loan) for the received funds.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or identifiable payments that are not quoted in an active market. They are measured in the statement of financial position at their amortized cost using the effective interest method less impairment. These assets are included in the group of current assets when their maturity is within 12 months or in a normal operating cycle of the company and the rest are non-current.

This group of financial assets includes: loans granted, trade receivables, other receivables from counterparties and third parties and 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 recognized on an effective interest basis, except for short-term receivables of less than 3 months, where the recognition of such interest is unreasonably negligible and within the normal credit terms. It is presented in the statement of comprehensive income (in profit or loss for the year) to the item "financial income".

On the date of each statement of financial position, the Company assesses whether events and circumstances have occurred that indicate the existence of objective evidence implying impairment of loans and receivables (*Note 2.31*).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative assets that are acquired for that purpose or not classified in another group. Typically, they represent shares in other investment companies (available-for-sale) and are included in non-current assets unless the intention of the company is to sell them within the next 12 months and actively seeks a buyer (*Note 2.13*).

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

Ex-post evaluation of available-for-sale financial assets is at fair value except for shares / units of closed non-listed companies (*Note 2.13*).

The effects of revaluation to fair value, gains or losses of available-for-sale investments held are reported in the statement of comprehensive income (to other components of comprehensive income) under the item "Net change in the fair value of available-for-sale financial assets "And accrue to a separate component of equity -" reserve for available-for-sale financial assets ".

In the event of a subsequent impairment loss or disposal of an available-for-sale investment, the amount of the impairment and any previously accumulated (net) losses in the reserve are recognized in the statement of comprehensive income (in profit or loss for the year) costs ". Similarly, any sale of this kind of investment is accounted for in the statement of comprehensive income (in profit or loss for the year) in the item "financial income".

The effects of recycling the accumulated effects of a change in the fair value of held and available-for-sale investments are presented in other comprehensive income (under "net change in the fair value of available-for-sale financial assets") net of these of the new revaluations for the period.

Dividends on shares and units classified as available-for-sale financial assets are recognized and reported in the statement of comprehensive income (in profit or loss for the year) when it is established that the company has acquired the right to such dividends.

Investments held and available for sale are reviewed at each balance sheet date when events and circumstances have occurred that indicate the existence of objective evidence that impairment is attributable to a separate financial asset or group of assets. They are depreciated if the carrying amount is higher than their estimated recoverable amount. The amount of the recognized impairment loss is equal to the difference between the cost less the payments and the recoverable amount that is assumed to be equal to the present value of expected future cash flows discounted at current market interest rate or through the rate of return for similar financial assets.

2.24.2.2. Financial liabilities and equity instruments

The Company classifies debt and equity instruments either as financial liabilities or as equity, depending on the nature and terms of a contract with the respective counterparty regarding those instruments.

Financial liabilities

Financial liabilities include loans (loans), liabilities to suppliers and other counterparties. Initially, they are recognized in the statement of financial position at fair value, net of direct transaction costs, and subsequently measured at amortized cost using the effective interest method (*Notes 2.18, 2.19 and 2.21*).

2.25. Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make certain payments to reimburse the holder for the loss he has suffered as a debtor has not made a payment when it was due in accordance with the original or changed terms of the debt instrument

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the following:

• the amount determined in accordance with the pattern of expected credit losses; and

• the initially recognized amount minus, where applicable, the cumulative amount of revenue recognized under the principles of IFRS 15 Revenue from contracts with customers.

The fair value of the financial guarantees is determined on the basis of the present value of the cash flow difference between the contractual payments required under the debt instrument and the payments that would be required without the guarantee or the estimated amount that would be payable to a third party for assuming obligations.

2.26. 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 31.12.2018 the deferred taxes on the profit of the company were assessed at a rate valid for 2019, which is 10% (31.12.2017: 10%).

2.27. 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, other forms and other earnings.

Information by operating segments

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

Segment assets, liabilities, respective revenue, expenses and results include those that are and can be directly attributable to the respective segment as well as such that can be allocated on a reasonable basis. Usually they include: (a) for revenue - sales of finished products; (b) for expenses - raw materials and consumables used, depreciation and amortisation and production staff remuneration; (c) for assets - property, plant and equipment and inventories; (d) for liabilities - payables to personnel and for social security. Capital expenditures (investments) by business segments are differentiated expenses incurred in the period of acquisition or construction of segment non-current assets, which are expected to be used for more than one period.

The Company manages its investments in securities, trade accounts and financial resources granted/received as well as taxes at entity's level and they are not allocated at segment level.

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

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

2.29. Fair value measurement

Some of Company's assets and liabilities are measured and presented and/or just disclosed at fair value for financial reporting purposes. Such are: *a) on a recurring (annual) basis - financial assets at fair value through other comprehensive income (prior period - Available-for-sale financial assets), investment property, bank loans and borrowings from third parties, certain trade and other receivables and liabilities, receivables and payables under finance leases; and other b) non-recurring (periodic) facilities - 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 statement 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 defined 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 statement 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: *financial assets at fair value through other comprehensive income (prior period - Available-for-sale financial assets)* Level 2 and Level 3, *investment property, 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, and / or chief accountant, 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 of the company 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 defined the respective assets and liabilities on the basis of their nature, basic characteristics and risks as well as of the fair value hierarchical level.

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

Fair value measurement of financial instruments

When the fair value of financial assets and financial liabilities reported in the statement of financial position can not be derived from quoted prices in active markets, their fair value is determined using other valuation models and techniques, including the discounted cash flow model . The input information used in these models is collected from monitored markets wherever possible, but when this can not be done, the determination of fair values implies the application of a certain degree of judgment. Such an assessment includes the consideration, analysis and assessment of incoming data such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors may affect the reported fair value of financial instruments (*Note 20).*

Calculation of expected credit losses for granted loans and guarantees, trade receivables and assets under contracts with clients

Measuring the expected credit loss for financial assets measured at amortized cost (loans, receivables and assets under contracts with customers) as well as financial guarantees provided is an area that requires the use of complex models and material assumptions about future economic conditions and credit the behavior of customers and debtors (for example, the probability that counterparties will not meet their obligations and the resulting losses).

For the application of these requirements, the Company's management makes a number of material judgments, such as: (a) setting criteria to identify and assess a significant increase in credit risk; (b) selecting appropriate models and assumptions to measure expected credit losses;

(c) establishing and assessing the relationship between historical past due rates and the behavior of certain macro indicators in order to reflect the effects of the forecasts for these macro indicators, (d) the formation of groups of similar financial assets (portfolios) for the purposes of measuring the expected credit losses; future in the calculation of expected credit losses. (*Note 43*).

Approximate estimates to 31 December 2017

Estimates of losses on doubtful and uncollectible claims are made at the date of each statement, on an individual basis. Receivables that have difficulty in collecting them are subject to analysis to determine the portion of them that is actually recoverable, and the remainder to the nominal of the respective receivable is recognized in the statement of comprehensive income (in profit or loss for the year) impairment loss on financial assets (*Note 9).*

After 180 days of delay, it is considered that there may be indicators of impairment. When assessing the collection of receivables, the management analyzes the entire exposure of each counterparty in order to establish the real possibility of collecting them, not only at the level of overdue individual receivables from the counterparty, including the potential options for collecting any interest on offsetting arrears. In case of high uncertainty about the collection of a receivable (group of receivables), it is assessed how much of it is secured (pledge, mortgage, collateral, bank guarantee) and thus their collectability is guaranteed (by future realization of collateral or payment by a guarantor). Receivables or portion thereof, for which management estimates that there is a very high uncertainty for their collection and are not secured, are depreciated at 100%.

Revenue from contracts with customers

When recognizing revenue and preparing the annual financial statements, management makes various judgments, estimates and assumptions that affect the reported revenue, expense, assets and liabilities under contracts and their corresponding disclosures. As a result of the uncertainty regarding these assumptions and estimates, material adjustments may be made to the carrying amount of the assets and liabilities concerned in the future and, respectively, reported costs and revenues.

The key judgments and assumptions that have a material impact on the amount and timing of recognizing revenue from contracts with customers are disclosed in Note 2.6.1.3. Performance obligations under contracts with clients.

Inventories

Normal capacity

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

When the actually achieved volume for individual articles is below the volume at the normal production capacity, set by the Company, the relevant recalculation are made for the fixed overheads, included in the cost of stocks of finished products and work in progress.

Allowance for impairment

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

As a result of the tests and analysis made in 2018 an impairment of inventories was reported amounting to BGN 2,189 thousand (2017: BGN 2,578 thousand) (*Notes 6 and 10*).

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.

As a result of the calculations, the liability for long-term employee benefits amounted to BGN 4,100 thousand. (31 December 2017: BGN 3,890 thousand) *(Note 32).*

Operating lease

The Company has classified a building, partially leased to related parties under operating lease terms, in the group of 'property, plant and equipment'. Since a significant part of the building is used thereby in its own operations as well, the management has decided that the building shall not be treated as investment property. From 01.01.2018 the building and the joining equipment to it has been classified as investment property because it is not used by the company for its activities.

Impairment of investments in subsidiaries

At each reporting date, the management assesses whether there are indicators of impairment of its investments in subsidiaries. The calculations were made by the management with the assistance of independent licensed assessors.

As a result of the calculations made in 2018 it was established the need to recognize impairment of certain investments in subsidiaries amounting to BGN 76 thousand. (2017: BGN 3,913 thousand) (*Note 11*).

Deferred tax assets

No deferred tax assets are recognized at the amount of BGN 3,527 thousand (31 December 2017: BGN 3,520 thousand) related to the impairment of investments in subsidiaries, as the management does not intend to exempt them from these investments and consequently considered that the temporary difference is unlikely to occur in the foreseeable future future. The amount of time difference on which no tax asset is recognized is BGN 35,273 thousand (31.12.2017: 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 31 December 2018.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	2018	***2017***
	BGN '000	***BGN '000***
Export	118,905	128,139
Domestic market	91,871	89,346
Total	**210,776**	**217,485**

Sales by product – export

	2018	*2017*
	BGN '000	*BGN '000*
Tablet dosage forms	91,539	98,289
Ampoule dosage forms	12,182	12,968
Ointments	5,826	7,022
Syrup dosage forms	5,566	6,127
Lyophilic products	1,135	1,405
Medicinal cosmetics	1,024	691
Suppositories	562	555
Bandages	454	217
Plasters	338	421
Drops	271	234
Sanitary-hygene products	8	142
Other	-	68
Total	**118,905**	**128,139**

Sales by product – domestic market

	2018	*2017*
	BGN '000	*BGN '000*
Tablet dosage forms	47,648	49,192
Ampoule dosage forms	20,813	17,376
Bandages	5,885	4,979
Lyophilic products	5,146	4,186
Plasters	2,736	2,672
Ointments	2,069	1,923
Syrup dosage forms	2,029	1,887
Concentrates for hemodialysis	1,945	1,824
Inhalation products	1,121	2,161
Drops	801	1,132
Sanitary-hygene products	738	1,465
Suppositories	393	424
Saches	327	29
Medicinal cosmetics	220	95
Other	-	1
Total	**91,871**	**89,346**

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

	2018 BGN ‘000	***Relative share***	***2017 BGN ‘000***	***Relative share***
Europe	97,580	46%	104,995	48%
Bulgaria	91,871	44%	89,346	41%
Other countries	21,325	10%	23,144	11%
Total	**210,776**	**100%**	**217,485**	**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	90,298	43%	80,158	37%
Client 2	57,050	27%	65,841	30%
Client 3	20,442	10%	20,301	9%

4. OTHER REVENUE

The *other revenues* amounted to BGN 1,634 thousand. and are rental income from fixed assets.

5. OTHER OPERATING INCOME AND LOSSES

	2018 BGN '000	***2017 BGN '000***
Services rendered	2,611	3,471
Derecognition of liabilities	1,327	213
Income from government grants under under European projects	588	847
Income from sale of fixed assets	*526*	*475*
Carrying amount of sold fixed assets	*(378)*	*(253)*
Profit from sale of fixed assets	148	222
Sales of goods	*1,480*	*1,366*
Cost of goods sold	*(1,366)*	*(1,313)*
Profit from sale of goods	114	53
Profit from sale of materials	*1,009*	*971*
Balance sheet value of materials sold	*(937)*	*(898)*
Gain from sale of materials	72	73
Profit / (Loss) from revaluation of investment property to fair value (*Note 17*)	58	(34)

Net loss on exchange differences under trade receivables and payables and current accounts	(231)	(335)
(Loss) / Profit from the revaluation of biological assets to fair value	(29)	13
Other income	175	151
Total	**4,833**	**4,674**

The derecognised liabilities are mainly from derecognized tantiemes in 2018 at the amount of BGN 1,137 thousand.

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

Services rendered include:

	2018	***2017***
	BGN '000	***BGN '000***
Manufacturing services	1,069	432
Social activities	910	897
Gamma irradiation	195	145
Laboratory analyses	99	107
Regulatory services	63	98
Transport organisation	28	24
Rentals	-	1,594
Other	247	174
Total	**2,611**	**3,471**

Sales of goods include:

	2018	***2017***
	BGN '000	***BGN '000***
Edibles	1,211	1,037
Cosmetics	205	274
Goods with a technical purpose	55	34
Medical supplies	9	-
Food supplements	-	21
Total	**1,480**	**1,366**

The *cost of goods sold* is as follows:

	2018	*2017*
	BGN '000	***BGN '000***
Edibles	1,129	962
Cosmetics	185	287
Goods with a technical purpose	44	47
Medical supplies	8	-
Food supplements	-	17
Total	**1,366**	**1,313**

6. RAW MATERIALS AND CONSUMABLES

The *raw materials and consumables used* include:

	2018	*2017*
	BGN '000	***BGN '000***
Basic materials	56,241	57,429
Electric energy	5,671	5,087
Heat power	3,638	3,237
Laboratory materials	3,100	2,568
Auxiliary materials	1,702	2,448
Technical materials	1,625	1,432
Spare parts	1,274	1,629
Working clothes and personal protective equipment for labour	838	726
Water	646	644
Fuels and lubricating materials	621	857
Impairment of materials (*Note 10*)	348	601
Scrapping of materials	192	248
Total	**75,896**	**76,906**

Expenses on basic materials include:

	2018	*2017*
	BGN '000	***BGN '000***
Substances	23,651	25,571
Packaging materials	11,469	10,703
Liquid and solid chemicals	8,530	8,651
Herbs	3,476	3,837

Sanitary-hygene materials	2,778	2,610
Ampoules	2,010	2,175
Tubes	1,924	1,508
Aluminium and PVC foil	1,298	1,563
Vials	1,105	811
Total	**56,241**	**57,429**

7. HIRED SERVICES EXPENSE

Hired services expense includes:

	2018	*2017*
	BGN '000	*BGN '000*
Advertising and marketing	9,046	4,949
Maintenance of buildings and equipment	4,424	3,707
Manufacture of medicines	3,798	3,464
Transport and forwarding services	3,136	3,603
Rentals	2,346	2,036
Consulting services	2,282	2,336
Logistic services (domestic market)	1,619	1,706
Local taxes and charges	1,402	1,433
State and regulatory charges	1,373	1,199
Subscription fees	1,194	1,035
Security	1,149	1,175
Services under civil contracts	943	930
Medical services	842	792
Insurance	578	577
Taxes on expenses	572	514
Vehicles repair and maintenance	439	541
Licence fees and charges	399	444
Announcements and communications	372	402
Documents translation	364	263
Logistic services (export)	334	507
Services on registration of medicines	296	716
Destruction of pharmaceuticals	228	342
Fees and charges on current bank accounts	171	207
Courier services	141	130
Commission fees	58	106
Other	1,294	807
Total	**38,800**	**33,921**

8. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense includes:

	2018	*2017*
	BGN '000	*BGN '000*
Current wages and salaries	36,217	36,266
Social security/health insurance contributions	6,834	6,528
Social benefits and payments	2,656	3,766
Tantiems	1,276	778
Share-based Payment (*Note 28*)	1,224	-
Accruals for unused paid leaves	1,193	1,219
Social security/health insurance contributions on leaves	187	202
Accruals for long-term retirement benefit obligations *(Note 32)*	516	474
Total	**50,103**	**49,233**

9. OTHER OPERATING EXPENSES

Other expenses include:

	2018	*2017*
	BGN '000	*BGN '000*
Representative events	2 813	2 385
Accrued impairment of finished goods and work in progress (*Note 10*)	1 809	1 919
Accrued / (recovered) impairment on financial assets, net (*Note 10*)	1 146	-
Accrued / (recovered) impairment of receivables, net (*Note 10*)	-	251
Business trip costs	837	969
Scrapping of finished products and work in progress	489	516
Donations	321	386
Scrapping of fixed assets	321	128
Other taxes and payments to the state budget	287	56
Training courses	269	268
Unrecognized VAT tax credit	223	113
Accrued impairment of goods (*Note 10*)	32	58
Scrapping of goods	40	5
Written - off receivables	6	36
Other	265	135
Total	**8 858**	**7 225**

10. IMPARIMENT OF CURRENT ASSETS

	2018	*2017*
	BGN '000	***BGN '000***
Impairment of finished goods and work in progress *(Note 9)*	1,809	1,919
Impairment of financial assets	3,788	-
Impairment of receivables	-	*1,431*
Recovered impairment of financial assets	*(2,642)*	-
Recovered impairment of receivables	-	*(1,180)*
Net change in impairment (*Note 9*)	1,146	251
Impairment of materials (*Note 6*)	348	601
Impairment of goods (*Note 9*)	32	58
Total	**3,335**	**2,829**

11. IMPAIRMENT OF NON-CURRENT ASSETS

Impairments of non-current assets include*:*

	2018	*2017*
	BGN '000	***BGN '000***
Impairment of investments in subsidiaries (*Note 18*)	76	3,913
Impairment of tangible fixed assets (*Note 15*)	-	43
	76	**3,956**

12. FINANCE INCOME

Finance income includes:

	2018	*2017*
	BGN'000	***BGN'000***
Revenue from shareholding	8,789	7,314
Income from interest on loans granted	1,642	1,699
Net gain on exchange differences on the disposal of a subsidiary	394	152
Impairment on receivables on commercial loans granted	115	-
Recovered impairment on receivables on commercial loans granted	-	*1,929*
Net change of the impairment on commercial loans granted	-	1,425
Net gains on securities and equity investments	-	1,239

Revenue from liquidation of subsidiaries	-	7
Total	**10,583**	**11,684**

13. FINANCE COSTS

Finance costs include:

	2018	*2017*
	BGN'000	*BGN'000*
Interest expense on loans received	1 264	1 358
Net loss on investments in securities and equity investments	666	-
Bank fees and charges on loans and guarantees	217	217
Provision for expected loan losses on loans granted	152	-
Effects from derivatives	47	74
Impairment of available-for-sale investments	37	4
Interest expense on finance leases	1	6
Net loss on exchange differences on the disposal of a subsidiary	-	443
Total	**2 384**	**2 102**

14. OTHER COMPREHENSIVE INCOME

Other comprehensive income includes:

	2018	*2017*
	BGN '000	*BGN '000*
Subsequent revaluation of property, plant and equipment	341	(42)
Net change in the fair value of equity investments designated at fair value through other comprehensive income	(288)	-
Subsequent evaluations of defined benefit plans	(30)	(564)
Net change in the fair value of available-for-sale financial assets:		
Profits incurred during the year	-	*1,310*
Reduced by: Reclassification adjustments of (gains) / losses included in profit or loss for the current year	-	*(12)*
	23	**692**
Income tax related to components of other comprehensive income	(34)	4
Other total comprehensive income for the period	**(11)**	**696**

15. 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	930	2,368	402	606	11,856	11,872	13,570	15,098
Transfer to property, plant and equipment	3,376	4,643	7,078	5,136	952	224	(11,406)	(10,003)	-	-
Effect of revaluation to fair value	-	-		-	(29)	13	-	-	(29)	13
Disposals	(11,296)	(127)	(3,847)	(1,364)	(3,648)	(2,391)		(58)	(18,791)	(3,940)
Balance at 31 December	**165,305**	**172,843**	**190,190**	**186,029**	**21,950**	**24,273**	**4,732**	**4,282**	**382,177**	**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	4,645	4,832	10,351	10,378	1,456	2,156	-	-	16,452	17,366
Impairment	-	-		42	-	-	-	-	-	42
Depreciation written-off	(3,195)	(55)	(2,710)	(1,172)	(2,989)	(2,126)	-	-	(8,894)	(3,353)
Balance at 31 December	**31,988**	**30,538**	**106,498**	**98,857**	**16,778**	**18,311**	**-**	**-**	**155,264**	**147,706**
Carrying amount at 31 December	**133,317**	**142,305**	**83,692**	**87,172**	**5,172**	**5,962**	**4,732**	**4,282**	**226,913**	**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**

The lands and buildings of the company as at 31 December are as follows:

- Land of BGN 43,627 thousand (31.12.2017: BGN 45,060 thousand);
- Buildings with carrying amount of BGN 89,690 thousand (31.12.2017: BGN 97,245 thousand).

The other fixed assets of the Company as at 31 December include:

- Vehicles with carrying amount of BGN 1,713 thousand (31.12.2017: BGN 2,905 thousand);
- Inventory with carrying amount of BGN 2,522 thousand (31 December 2017: BGN 2,918 thousand);

- Biological assets - plantations of yellow acacia amounting to BGN 937 thousand. (31.12.2017: BGN 139 thousand).

The cost of acquisition of tangible fixed assets as of December 31 includes:

- expenses on new buildings construction **-** BGN 2,327 thousand (31 December 2017: BGN 1,012 thousand);
- advances for the purchase of machinery and equipment – BGN 1,022 thousand (31 December 2017: BGN 2,511 thousand);
- buildings reconstruction – BGN 191 thousand (31 December 2017: BGN 262 thousand);
- other **–** BGN 1,192 thousand (31 December 2017: BGN 497 thousand).

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

- for tablet production facility at the amount of BGN 7,558 thousand (31 December 2017: BGN 7,627 thousand);
- for ampoule production at the amount of BGN 4,648 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 715 thousand (31 December 2017: BGN 776 thousand);
- for the production of innovative tear drops worth BGN 238 thousand (31.12.2017: BGN 264 thousand).

The amount of other assets as at 31 December 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 1,065 thousand as at 31 December 2018 to related parties (31 December 2017: BGN 6,184 thousand). In addition, tangible fixed assets at carrying amount of BGN 224 thousand are leased to third parties as at 31 December 2018 (31 December 2017: BGN 234 thousand).

Financial leasing

As at 31 December 2018 assets with carrying amount of BGN 124 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 722 thousand (31 December 2017: BGN 449 thousand);
- Property, plant and equipment – BGN 52,119 thousand (31 December 2017: BGN 42,590 thousand);
- Other – BGN 11,331 thousand (31.2017: BGN 13,286 thousand).

The following encumbrances were constituted on Company's tangible fixed assets as at 31 December 2018 in relation to received loans:

- Land and buildings with a carrying amount of BGN 21,594 thousand and BGN 46,328 thousand (31.12.2017: respectively BGN 22,316 thousand and BGN 54,363 thousand) (Note *29, Note 33 and Note 39);*
- Pledges on equipment – BGN 33,328 thouand (31.12.2017: BGN 39,234 thousand) (*Note 29, Note 33 and Note 39)*.

Periodical fair value remeasurement

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

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 31 December 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*).

16. 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	58	33	187	740	809	1,009
Transfer	-	-	31	140	52	479	(83)	(619)	-	-
Written - off	-	-	(43)	(76)	(29)	(11)	(206)	(84)	(278)	(171)
Balance at 31 December	**6,698**	**6,698**	**11,697**	**11,145**	**4,501**	**4,420**	**7**	**109**	**22,903**	**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	-	-	858	1,072	322	219	-	-	1,180	1,291
Amortisation written-off	-	-	(41)	(74)	(32)	(11)	-	-	(73)	(85)
Balance at 31 December	-	-	**7,940**	**7,123**	**3,082**	**2,792**	-	-	**11,022**	**9,915**
Carrying amount at 31 December	**6,698**	**6,698**	**3,757**	**4,022**	**1,419**	**1,628**	**7**	**109**	**11,881**	**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 31 December includes:

- expenses for the acquisition of licenses and authorizations for the use of medicinal products amounting to BGN 7 thousand (31 December 2017: BGN 109 thousand);

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

- rights on intellectual property – BGN 4,596 thousand (31 December 2017: BGN 1,923 thousand);
- software – BGN 1,765 thousand (31 December 2017: BGN 1,818 thousand);

17. INVESTMENT PROPERTY

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*

Balance at 1 January	**24,799**	**22,840**
Additions	3,276	1,993
Transfer from property, plant and equipment	9,101	-
Fair value measurement recognized in other components of comprehensive income	341	-
Net gains (losses) from adjustment to fair value measurement included in profit or loss	58	(34)
Written-off	(153)	-
Balance at 31 December	**37,422**	**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	***31.12.2018 BGN '000***	***31.12.2017 BGN '000***
Warehouse premises	29,208	19,450
Offices	2,786	2,403
Production buildings	1,005	1,065
Social objects	546	410
Expenses for acquisition of investment properties	3,877	1,471
Total	**37,422**	**24,799**

There are established encumbrances as at 31 December 2018 on investment property as follows:

- mortgage of warehouse premises – BGN 13,007 thousand (31 December 2017: BGN 8,286 thousand) *(Notes 33 and 39);*
- pledges on attached equipment – BGN 5,132 thousand (31 December 2017: BGN 5,476 thousand) *(Note 33).*

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**
Acquired	9,101	-	-	-	3,276	12,377
Transfer	792	-	78	-	(870)	-
Written-off	(13)	-	(140)	-	-	(153)
Revaluation to fair value through profit or loss - unrealized	(463	383	2	136	-	58
Fair value measurement recognized in other components of comprehensive income	341	-	-	-	-	341
Balance at 31 December 2018	**29,208**	**2,786**	**1,005**	**546**	**3,877**	**37,422**

Evaluation technique and significant non-observable incoming data

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

Asset Groups Level 2	**Approaches and evaluation techniques**	**Significant unobservable incoming data**
Warehouses	*a. Income Approach* Valuation Technique: A capitalized rental income method as a discounted cash flow scheme (basic valuation technique)	a. Recommended rate of return c. Time of realization of rental transactions

	b.Cost method Valuation Technique: Cost-based creation or replacement cost method - depreciated recoverable amount (as an estimate evaluation)	* Adjusted cost of building identical objects and delivery prices of analogs of machines and equipment
Offices, production buildings and social sites	*Income Approach* Valuation Technique: Capitalized rental income method as a discounted cash flow scheme (basic valuation technique)	a. Recommended rate of return c. Time of realization of rental transactions

As a result of the calculations made in 2018, there was a need to recognize profits net of revaluation losses to fair value of BGN 58 thousand. (2017: net loss of BGN 34 thousand) (*Note* 5).

18. INVESTMENTS IN SUBSIDIARIES

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

		31.12.2018 BGN '000	***Interest %***	***31.12.2017 BGN '000***	***Interest %***
Sopharma Trading AD	Bulgaria	30,792	72.96	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 Kazakhstan EOOD	Kazakhstan	502	100.00	502	100.00
Sopharma Buildings REIT	Bulgaria	492	40.38	567	40.38
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	104	95.00	57	95.00
Total		**89,946**		**89,729**	

As at 31 December 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.

	Investments in subsidiaries	
Acquisition cost	***31.12.2018 BGN '000***	***31.12.2017 BGN '000***
Balance at 1 January	**124,965**	**120,074**
Additional interest acquired	245	8,946
Acquired through an increase in equity	48	-
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)
Sold participations with loss of control	-	(1)
Balance at 31 December	**125,258**	**124,965**
Impairment charged		
Balance at 1 January	**35,236**	**31,323**
Impairment charged	76	3,913
Balance at 31 December	**35,312**	**35,236**
Carrying amount at 31 December	**89,946**	**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. The calculations were made by the management with the assistance of independent licensed assessors. As a basis for the pre-tax cash flow projections, the financial budgets developed by the respective companies covering the three to five year period as well as other medium - and long-term plans and intentions for their development, forecasts for key economic indicators at national and EU / Balkan level. The key assumptions used in the recoverable amount calculations as of December 31, 2018 are:

- growth rate - from 1.2% to 13%;
- increase in the post-forecast period when calculating a terminal value of 0% to 5%;
- interest rate / debt / - from 2.1% to 22.4%;
- Discount rate (based on WACC) - from 5.3% to 25.2%.

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

Testing and assessment of the investment impairment guidance is made in the light of its projections and intentions regarding future economic benefits expected from subsidiaries, including commercial and industrial experience, securing positions in Bulgarian and foreign markets, expectations for future sales, etc.

The calculations are made with the assistance of an independent licensed appraiser. As a result of the calculations made in 2018 it was established the need to recognize impairment of certain investments in subsidiaries amounting to BGN 76 thousand (2017: BGN 3,913 thousand) (*Note 11*).

19. INVESTMENTS IN ASSOCIATES

	31.12.2018 BGN '000	***Share %***	***31.12.2017 BGN '000***	***Share %***
Doverie Obedinen Holding AD	7,962	33.24	7,740	32.57

As at 31 December 2018 the book value of the investments in associates amounts to BGN 7,962 thousand and includes a participation of 33.24% 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:

	31.12.2018 BGN '000	***31.12.2017 BGN '000***
Balance on 1 January	**7,740**	**5,219**
Acquisition of shares	227	4,053
Sales of shares	(5)	(1,532)
Balance on 31 December	**7,962**	**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.

20. OTHER LONG-TERM EQUITY INVESTMENTS

The other long-term equity investments include the interest (shares) in the following companies:

	31.12.2018 BGN '000	*Interest %*	*31.12.2017 BGN '000*	*Interest %*
Securities traded				
Lavena AD	3,427	10.89	3,519	11.30
Sopharma properties REIT	2,078	1.55	663	0.50
Olainfarm AD - Latvia	1,484	0.77	1,826	0.77
Todorov AD	181	10.94	155	10.56
Achieve Life Sciences Inc. – USA	83	1.30	770	3.01
BTF Expat Bulgaria	59	0.17	78	0.19
Elana Agrocredit AD	31	0.07	13	0.05
Aroma AD	3	0.02	-	-
Gradus AD	2	0.0004	-	-
Sirma Group Holding AD	-	-	2	0.003
Chimimport AD	-	-	26	0.01
Hydroizomat AD	-	-	489	13.81
	7,348		**7,541**	
Securities not traded				
ImVenchar 1 KDA	50	0.014	-	-
Ecobulpack AD	7	1.48	7	1.48
UniCredit Bulbank AD	3	0.001	3	0.001
Expo Group AD	1	0.05	1	0.05
	61		**11**	
Total	**7,409**		**7,552**	

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

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

		31.12.2018			***31.12.2017***	
Equity investments	***Number of shares***	***Fair value per share BGN***	***Fair value as per the statement of financial position BGN '000***	***Number of shares***	***Fair value per share BGN***	***Fair value as per the statement of financial position BGN '000***
Lavena AD	905,639	3.78	3,427	36,170	97.29	3,519
Sopharma properties REIT	324,772	6.40	2,078	101,237	6.55	663
Olainfarm AD - Latvia	108,500	13.68	1,484	108,500	16.83	1,826

Todorov AD	372,081	0.49	181	359,001	0.43	155
Achieve Life Sciences Inc. – USA	35,930	2.31	83	359,305	2.14	770
BTF Expat Bulgaria	56,604	1.04	59	64,316	1.21	78
Elana Agrocredit AD	26,800	1.16	31	10,000	1.30	13
Aroma AD	2,371	1.27	3	-	-	-
Gradus AD	900	2.22	2	-	-	-
Chimimport AD	-	-	-	15,093	1.72	26
Hydroizomat AD	-	-	-	412,936	1.18	489
Sirma Group Holding AD	-	-	-	2,000	1.00	2
Total			**7,348**			**7,541**

The investments in Ecobulpack AD, UniCredit Bulbank AD, Expo group AD and ImVenchar 1 KDA are valued and presented at acquisition price.

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

Equity investments	***Fair value 31.12.2018***	***Level 1***	***Level 2***
	BGN '000	***BGN '000***	***BGN '000***
Lavena AD	3,427	-	3,427
Sopharma properties REIT	2,078	2,078	-
Olainfarm AD - Latvia	1,484	1,484	-
Todorov AD	181	-	181
Achieve Life Sciences Inc. – USA	83	83	-
BTF Expat Bulgaria	59	59	-
Elana Agrocredit AD	31	31	-
Aroma AD	3	3	-
Gradus AD	2	2	-
Total	**7,348**	**3,740**	**3,608**

Equity investments	***Fair value 31.12.2017***	***Level 1***	***Level 2***
	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**	**7,386**	**3,674**

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

Equity investments	***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 13*)	(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	621	30	651
Emissions of shares	1,043	-	1,043
Sales	(622)	(274)	(896)
Realised gain/(loss) included in the current profit and loss for the year in the item Finance income – *Net gain on transactions with securitie*	(774)	108	(666)
Unrealized loss included in current profit and loss for the year (*Note 13*)	(37)	-	(37)
Unrealized gain / (loss), net included in other comprehensive income (*Note 14*)	(358)	70	(288)
Balance at 31 December 2018	**3,740**	**3,608**	**7,348**

Techniques and approaches for evaluation

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

21. LONG-TERM RECEIVABLES FROM RELATED PARTIES

The long-term receivables from related parties include:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Long-term loans granted	22 977	21 340
Provision for expected credit losses	*(219)*	-
	22 758	21 340
Long-term rental deposit granted	194	243
Total	**22 952**	**21 583**

The outstanding balances of provisions for impairment of trade receivables as at 1 January 2018 are equal to the opening balances of trade receivables as follows:

	2018	*2017*
	BGN '000	*BGN '000*
Balance on January 1, calculated under IAS 39	**-**	**-**
Amounts recognized in the opening balance of retained earnings from the restatement of the modified IFRS 9 for the first time	119	-
Initial balance of loss adjustment as of 1 January 2018, calculated according to IFRS	**119**	**-**
Increase in the allowance for impairment recognized in profit or loss during the year	100	-
Balance at 31 December	**219**	**-**

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

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Associated companies	17 464	16 538
Other related parties	5 294	3 818
Subsidiary companies	-	984
Total	**22 758**	**21 340**

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

Currency	*Contracted amount*	*Maturity*	*Interest %*	*31.12.2018*	*31.12.2017*

	'000			BGN'000	BGN'000 в т.ч. лихва	BGN'000	BGN'000 в т.ч. лихва
To associated companies							
EUR	31,091	31.12.2021	3.50%	*17,680*	-	*16,538*	*17*
To other related parties							
BGN	29,900	31.12.2021	3.00%	*3,908*	*93*	*3,818*	*3*
EUR	700	31.12.2021	3.00%	*1,386*	*17*	-	-
To subsidiaries							
EUR	500	01.03.2019	6.60%	-	-	*984*	*21*
				22,758	***110***	***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 194 thousand (31 December 2017: BGN 243 thousand).

22. OTHER LONG-TERM RECEIVABLES

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

	31.12.2018 BGN '000	***31.12.2017 BGN '000***
Receivables under transactions in securities	3 094	2 940
Long-term loans provided	2 412	945
Provision for expected credit losses	*(8)*	-
	2 404	945
Receivables on sales of LTA	325	325
Total	**5 823**	**4 210**

The outstanding balances of provisions for impairment of trade receivables as at 1 January 2018 are equal to the opening balances of trade receivables as follows:

	2018	***2017***

	BGN '000	*BGN '000*
Balance on January 1, calculated under IAS 39	**-**	**-**
Amounts recognized in the opening balance of retained earnings from the restatement of the modified IFRS 9 for the first time	6	-
Initial balance of loss adjustment as of 1 January 2018, calculated according to IFRS	**6**	**-**
Increase in the allowance for impairment recognized in profit or loss during the year	2	-
Balance at 31 December	**8**	**-**

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 3,094 thousand and expected maturity on 31 December 2020 (31 December 2017: BGN 2,940 thousand).

Sales receivables with deferred payment of fixed assets amounting to BGN 325 thousand and have maturity date 10.04.2021 (31.12.2017: BGN 325 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*	*BGN'000*	*BGN'000*
					including interest		*including interest*
EUR	695	12.10.2022	3.05%	*1,394*	*43*	*945*	*6*
EUR	1,000	29.06.2023	3.05%	*989*	*11*	*-*	*-*
BGN	24	14.03.2023	5.00%	*21*	*-*	*-*	*-*
				2,404	**54**	**945**	**6**

23. INVENTORIES

Company's *inventories* include:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Materials	29,737	29,238
Finished products	23,802	22,924
Semi-finished products	10,104	10,680
Work in progress	4,719	6,073
Goods	66	103

Total	**68,428**	**69,018**

Materials by type are as follows:

	31.12.2018 *BGN '000*	*31.12.2017* *BGN '000*
Basic materials	28,081	26,201
Materials in transit	737	2,114
Technical materials	427	490
Spare parts	238	180
Auxiliary materials	189	159
Other	65	94
Total	**29,737**	**29,238**

Basic materials by type are as follows:

	31.12.2018 *BGN '000*	*31.12.2017* *BGN '000*
Substances	15,177	12,925
Chemicals	4,091	3,765
Ampoules	2,245	2,156
PVC and aluminium foil	1,918	1,346
Packaging materials	1,515	1,976
Herbs	1,469	2,632
Sanitary-hygiene and dressing materials	1,353	929
Vials	261	235
Tubes	52	237
Total	**28,081**	**26,201**

Finished products by type are as follows:

	31.12.2018 *BGN '000*	*31.12.2017* *BGN '000*
Tablet dosage forms	15,008	13,907
Ampoule dosage forms	3,165	4,304
Ointments	2,078	989
Bandages	1,190	779
Syrups	855	996
Plasters	352	297
Lyophilic products	331	533
Sanitary-hygene materials	206	142
Suppositories	158	195
Inhalation products	152	394
Drops	117	191
Medicinal cosmetics	97	45
Concentrates for hemodialysis	85	130

Sachets	8	22
Total	**23,802**	**22,924**

Goods by type are as follows:

	31.12.2018 *BGN '000*	*31.12.2017* *BGN '000*
Food	65	51
Medical supplies	1	10
Food additives	-	42
Total	**66**	**103**

Pledges were established on Company's inventories with carrying amount of BGN 32,302 thousand as at 31 December 2018 as collateral to bank loans received (31 December 2017: BGN 30,442 thousand) *(Notes 33 and 39).*

24. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:

	31.12.2018 *BGN '000*	*31.12.2017* *BGN '000*
Receivables from subsidiaries	*85 716*	*75 540*
Provision for expected credit losses	*(2 632)*	-
Impairment of uncollectable receivables	-	*(1 648)*
	83 084	73 892
Receivables from companies related through key managing personnel	5 376	2 956
Receivables from other related parties	3 264	370
Total	**91 724**	**77 218**

The receivables from related parties by type are as follows:

	31.12.2018 *BGN '000*	*31.12.2017* *BGN '000*
Receivables on sales of finished products and materials	73 672	65 624
Provision for expected credit losses	*(1 722)*	-
Impairment of uncollectable receivables	-	*(848)*
	71 950	64 776
Trade loans granted	20 684	13 242
Provision for expected credit losses	*(910)*	-
Impairment of uncollectable receivables	-	*(800)*
	19 774	12 442

Total	**91 724**	**77 218**

The receivables on sales are interest-free and BGN 60,057 thousand of them are denominated in BGN (31 December 2017: BGN 40,640 thousand) and in EUR – BGN 11,893 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 59,851 thousand as at 31 December 2018 or 83.18 % of all receivables on sales of finished products and materials to related parties (31 December 2017: BGN 40,524 thousand – 62,56%).

Typically, the company negotiates with its subsidiaries a payment term for sales receivables from 180 days to 270 days and for sales receivables of materials (including substances) up to 90 days.

The management assesses on an individual basis the collectability by analyzing the specific receivables and the circumstances of the delay for the accrual of impairment.

The outstanding balances of provisions for impairment of trade receivables as at 1 January 2018 are equal to the opening balances of trade receivables as follows:

	2018	*2017*
	BGN '000	***BGN '000***
Balance on January 1, calculated under IAS 39	**848**	**1 134**
Amounts recognized in the opening balance of retained earnings from the restatement of the modified IFRS 9 for the first time	305	-
Initial balance of loss adjustment as of 1 January 2018, calculated according to IFRS	**1 153**	**1 134**
Increase in the allowance for impairment recognized in profit or loss during the year	1 893	847
Decrease in the allowance for impairment recognized in profit or loss during the year	(1 324)	(1 136)
Transfer from correction of trade receivables	-	3
Balance at 31 December	**1 722**	**848**

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

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
up to 30 days	17 808	10 868
from 31 to 90 days	19 843	26 539
from 91 to 180 days	23 493	17 059
from 181 to 240 days	1 325	1 789

Total	**62 469**	**56 255**

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

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
from 31 to 90 days	854	2 096
from 91 to 180 days	430	3 629
from 181 to 365 days	8 798	3 644
over 365 days	1 121	-
impairment	(1 722)	(848)
Total	**9 481**	**8 521**

Until December 31, 2017, the company applied the loss-at-cost loss approach on an individual (portfolio) basis. For the year 2018, the company applies the simplified approach of IFRS 9 to measure expected credit losses on trade receivables from related parties, recognizing expected loss for the full term of the instrument for all trade receivables from related parties (*Note 2.15*). On this basis, the corrective for losses at 31 December 2018 and 1 January 2018 is determined as follows:

December 31, 2018		***Current***	***Overdue over 30 days***	***Overdue over 90 days***	***Overdue over 180 days***	***Overdue over 365 days***	***Total***
Expected % of credit losses		1%	3%	16%	44%	97%	
Trade receivables (gross carrying amount)	***BGN '000***	62 544	9 395	376	895	462	73 672
Expected Credit Loss (Impairment Allowance)	***BGN '000***	(586)	(236)	(60)	(393)	(447)	(1 722)

January 1, 2018		***Current***	***Overdue over 30 days***	***Overdue over 90 days***	***Overdue over 180 days***	***Overdue over 365 days***	***Total***
Expected % of credit losses		1%	2%	10%	23%		
Trade receivables (gross carrying amount)	***BGN '000***	56 239	6 415	890	2 080	-	65 624
Expected Credit Loss (Impairment Allowance)	***BGN '000***	(441)	(151)	(92)	(469)	-	(1 153)

As at 31.12.2018 special pledges were established as collateral for received bank loans on receivables from related parties amounting to BGN 66,351 thousand (31 December 2017: BGN 44,726 thousand) (*Note 33*).

The loans granted to affiliated enterprises by type of related companies are as follows:

	31.12.2018 ***BGN '000***	***31.12.2017*** ***BGN '000***
Subsidiaries	*12 088*	*9 919*
Provision for expected credit losses	*(910)*	-
Impairment of trade loans	-	*(800)*
	11 178	9 119
Companies related through key management personnel	5 376	2 956
Other related parties	3 220	367
Total	**19 774**	**12 442**

The outstanding balances of provisions for impairment of trade receivables as at 1 January 2018 are equal to the opening balances of trade receivables as follows:

	2018 ***BGN '000***	***2017*** ***BGN '000***
Balance on January 1, calculated under IAS 39	**800**	**2 378**
Amounts recognized in the opening balance of retained earnings from the restatement of the modified IFRS 9 for the first time	80	-
Initial balance of loss adjustment as of 1 January 2018, calculated according to IFRS	**880**	**2 378**
Increase in the allowance for impairment recognized in profit or loss during the year	30	340
Decrease in the allowance for impairment recognized in profit or loss during the year	-	(1 909)
Written - off as uncollectible	-	(9)
Balance at 31 December	**910**	**800**

The conditions under which loans to affiliated undertakings are granted are as follows:

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

Currency	***Contracted amount***	***Maturity***	***Interest %***	***31.12.2018***	***31.12.2017***

	'000			BGN '000	BGN '000 including interest	BGN '000	BGN '000 including interest
to subsidiaries							
EUR	2,770	31.12.2019	4.70%	*4,847*	*-*	*4,702*	*-*
BGN	12,229	31.12.2019	4.10%	*3,602*	*-*	*3,369*	*9*
EUR	500	01.03.2019	6.60%	*985*	*7*	*-*	*-*
EUR	390	10.05.2019	3.95%	*807*	*44*	*748*	*15*
BGN	1,550	31.12.2019	3.50%	*937*	*-*	*300*	*-*
to companies related through key managing personnel							
EUR	2,735	31.12.2019	2.81%	*5,376*	*27*	*-*	*-*
BGN	67,450	31.12.2018	2.81%	*-*	*-*	*2,956*	*4*
to other related parties							
BGN	3,130	31.12.2019	3.10%	*3,165*	*34*	*305*	*5*
BGN	190	31.12.2019	3.50%	*55*	*-*	*62*	*-*
				19,774	**112**	**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).

25. TRADE RECEIVABLES

Trade receivables include:

	31.12.2018 ***BGN '000***	***31.12.2017*** ***BGN '000***
Receivables from clients	20,789	22,831
Provision for expected credit losses	*(1,893)*	-
Impairment of uncollectable receivables	-	*(756)*
	18,896	22,075
Advances granted	728	1,183
Total	**19,624**	**23,258**

The *receivables from clients* are interest-free and BGN 869 thousand of them are denominated in BGN (31 December 2017: BGN 2,972 thousand), in EUR – BGN 16,234 thousand (31 December 2017: BGN 18,014 thousand), in USD – BGN 1,739 thousand (31 December 2017: BGN 1,089 thousand).

One main counterpart of the Company is accountable for about 74.80 % 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 outstanding balances of provisions for impairment of trade receivables as at 1 January 2018 are equal to the opening balances of trade receivables as follows:

	2018	*2017*
	BGN '000	*BGN '000*
Balance on January 1, calculated under IAS 39	**756**	**286**
Amounts recognized in the opening balance of retained earnings from the restatement of the modified IFRS 9 for the first time	575	-
Initial balance of loss adjustment as of 1 January 2018, calculated according to IFRS	**1 331**	**286**
Increase in the allowance for impairment recognized in profit or loss during the year	1 893	573
Decrease in the allowance for impairment recognized in profit or loss during the year	(1 318)	(35)
Transfer of correction to court and receivables	(13)	(65)
Transfer of correction to related companies	-	(3)
Balance at 31 December	**1 893**	**756**

As at 31.12.2018 special pledges were established as collateral for received bank loans on trade receivables amounting to BGN 18,896 thousand. (31.12.2017: BGN 21,393 thousand) (*Notes 33 and 39*).

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

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
up to 30 days	6 591	5 767
from 31 to 90 days	5 797	6 774
from 91 to 180 days	686	936
Total	**13 074**	**13 477**

The *age structure* of arrears of trade receivables is as follows:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
from 31 to 90 days	4 995	7 758
from 91 to 180 days	519	102
from 181 to 365 days	1 062	663
over 365 days	1 139	831
Allowance for impairment	(1 893)	(756)

Total	**5 822**	**8 598**

Until December 31, 2017, the company applied the loss-at-cost loss approach on an individual (portfolio) basis. For the year 2018, the company applies the simplified approach of IFRS 9 to measure expected credit losses on trade receivables, recognizing expected loss for the entire duration of the instrument for all trade receivables (*Note 2.15*). On this basis, the loss adjustment for the year ended 31 December 2018 and 1 January 2018 is defined as follows:

December 31, 2018		***Current***	***Overdue over 30 days***	***Overdue over 90 days***	***Overdue over 180 days***	***Overdue over 365 days***	***Total***
December 31, 2018							
Expected % of credit losses		2%	3%	31%	50%	98%	
Trade receivables (gross carrying amount)	***BGN '000***	12 969	5 547	902	229	1 142	20 789
Expected Credit Loss (Impairment Allowance)	***BGN '000***	(196)	(184)	(280)	(114)	(1 119)	(1 893)

		Current	***Overdue over 30 days***	***Overdue over 90 days***	***Overdue over 180 days***	***Overdue over 365 days***	***Total***
January 1, 2018		1%	3%	25%	46%	94%	
Expected % of credit losses	***BGN '000***	13 585	7 628	447	588	583	22 831
Trade receivables (gross carrying amount)	***BGN '000***	(185)	(214)	(112	(273)	(547)	(1 331)

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

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Inventories	495	896
Services	233	287
Total	**728**	**1,183**

The *advances granted* are current. They include: in BGN – BGN 521 thousand (31 December 2017: BGN 506 thousand), in EUR – BGN 33 thousand (31 December 2017: BGN 135 thousand), in USD – BGN 174 thousand (31.12.2017: BGN 541 thousand) and in other currency – BGN none (31 December 2017: BGN 1 thousand).

26(A). LOANS GRANTED TO THIRD PARTIES

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

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Commercial loans granted	*3 837*	*3 639*
Provision for expected credit losses	*(533)*	*-*
Impairment of commercial loans	*-*	*(438)*
Total	**3 304**	**3 201**

The outstanding balances of provisions for impairment of trade receivables as at 1 January 2018 are equal to the opening balances of trade receivables as follows:

	2018	***2017***
	BGN '000	***BGN '000***
Balance on January 1, calculated under IAS 39	**438**	**273**
Amounts recognized in the opening balance of retained earnings from the restatement of the modified IFRS 9 for the first time	75	-
Initial balance of loss adjustment as of 1 January 2018, calculated according to IFRS	**513**	**273**
Increase in the allowance for impairment recognized in profit or loss during the year	20	165
Balance at 31 December	**533**	**438**

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

Currency	***Contracted amount***	***Maturity***	***Interest %***	***31.12.2018***		***31.12.2017***	
	'000			***BGN'000***	***BGN'000 including interest***	***BGN'000***	***BGN'000 including interest***
BGN	4 184	31.12.2019	4.30%	*2 789*	*-*	*2 846*	*-*
BGN	732	31.12.2019	4.50%	*409*	*8*	*251*	*1*
BGN	949	31.12.2019	4.70%	*106*	*6*	*104*	*1*
				3 304	**14**	**3 201**	**2**

26(B). OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	31.12.2018 BGN '000	31.12.2017 BGN '000
Taxes refundable	4,423	3,463
Prepayments	839	849
Receivables on reclamation	160	175
Receivables on deposits placed as guarantees	166	172
Amounts granted to an investment intermediary	11	125
Court and awarded receivables	*137*	*2,223*
Impairment of court receivables	*(137)*	*(2,223)*
	-	-
Other	150	117
Total	**5,749**	**4,901**

Taxes refundable include:

	31.12.2018 BGN '000	31.12.2017 BGN '000
Excise duties	4,423	3,136
Value added tax	-	327
Total	**4,423**	**3,463**

Prepayments include:

	31.12.2018 BGN '000	31.12.2017 BGN '000
Subscriptions	407	319
Insurance	292	297
Licence and patent fees	91	53
Rentals	9	38
Vouchers	4	53
Other	36	89
Total	**839**	**849**

Deposits placed as guarantees include:

	31.12.2018	31.12.2017

	BGN '000	*BGN '000*
Guarantees under contracts for fuel supply	89	106
Guarantees under contracts for supply of LTA	25	-
Guarantees under construction contracts	22	44
Guarantees under contracts for delivery of medicines	13	2
Guarantees under contracts for the supply of electricity	3	-
Guarantees under rental contracts	1	2
Other	13	18
Total	**166**	**172**

27. CASH AND CASH EQUIVALENTS

Cash includes:

	31.12.2018 BGN '000	*31.12.2017 BGN '000*
Cash at current bank accounts	*9,091*	*5,797*
Impairment of cash at current bank accounts	*(166)*	*(166)*
Net change of cash in current accounts	8,925	5,631
Cash in hand	29	122
Blocked cash under issued bank guarantees	12	11
Total	**8,966**	**5,764**

Cash structure at current bank accounts is as follows: in BGN: BGN 5,964 thousand (31 December 2017: BGN 3,679 thousand), in EUR – BGN 2,365 thousand (31 December 2017: BGN 640 thousand), in USD – BGN 512 thousand (31 December 2017: BGN 1,245 thousand) and in other currency – BGN 84 thousand (31 December 2017: BGN 67 thousand).

The funds in cash are in BGN.

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

28. EQUITY

Share capital

As at 31 December 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	**128,984,319**	**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	**125,764,919**	**100,964**
Balance at 1 January 2018	**125,764,919**	**100,964**
Payments based on shares	288,500	1,082
Effects from merger of a subsidiary	70,606	265
Treasury shares sold	3,000	11
Treasury shares	(210,462)	(857)
	-	
Expense on treasury shares		(4)
Balance at 31 December 2018	**125,916,563**	**101,461**

On 1 January 2017, under a signed agreement, a transformation was made through the merger of 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 December:

	31.12.2018	***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 8,881,336 at the amount of BGN 33,337 thousand as at 31 December 2018 (31 December 2017: 9,032,980 shares at the amount of BGN 33,834 thousand). 210,462 shares were purchased in the current year (2017: 3,971,799 shares) and 3,000 shares 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 288,500 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 1,808 persons on a step scale, according to the years employed by the Company (*Note 8*).

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

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

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Statutory reserves	55,967	51,666
Property, plant and equipment revaluation reserve	22,433	23,839
Reserve of financial assets at fair value through other comprehensive income	2,743	4,089
Additional reserves	275,977	251,089
Total	**357,120**	**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 31 December	**55,967**	**51,666**

The ***property, plant and equipment revaluation reserve***, amounting to BGN 22,433 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	(3,457)	(294)
Revaluation of property, plant and equipment	341	(42)
Deferred tax relating to revaluations	(34)	4
Balance at 31 December	**22,433**	**23,839**

The reserve for financial assets at fair value through other comprehensive income amounting to BGN 2,743 thousand. (31.12.2017: BGN 4,089 thousand) is formed by the effects of fair value measurement of other long-term equity investments.
The *movement of financial assets at fair value through other comprehensive income* is 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	(288)	1,296
Effects of merging a subsidiary	20	-
Transfer to undistributed earnings	(1,078)	
Cumulative (gains)/losses reclassified to current profit or loss upon sale/realisation of available-for-sale financial assets	-	(12)
Balance at 31 December	**2,743**	**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 31 December	**275,977**	**251,089**

Retained earnings amount to BGN 30,217 thousand as at 31 December 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**
Amounts recognized in the opening balance of retained earnings from the restatement of the modified IFRS 9 for the first time	(1 385)	-
Balance on 1 January (recalculated) **	**44 446**	**45 358**
Net profit for the year	32 449	44 228
Effect from treasury shares	(1)	479
Transfer from property, plant and equipment revaluation reserve	3 457	294
Transfer from a reserve of financial assets at fair value through other comprehensive income	1 078	-
Payments based on shares	142	-
Distribution of profit for reserves	(29 189)	(25 328)
Distribution of profit from 2017 for dividends	(13 822)	(12 921)
Distribution of 6-month dividends of profit from 2018	(6 284)	-
Actuarial losses from subsequent assessments	(30)	(497)
Effects from merger of a subsidiary	(2 029)	(5 729)
Effects of merging a subsidiary from a net change in the fair value of available-for-sale financial assets	-	14
Effects of merging a subsidiary from actuarial losses from subsequent estimates		(67)
Balance at 31 December	**30 217**	**45 831**

Net earnings per share

	31.12.2018	*31.12.2017*
Weighted average number of shares	125,798,842	129,483,060
Net profit for the year (BGN '000)		44,228

	32,449	
Basic earnings per share (BGN)	**0,26**	**0,34**

29. LONG-TERM BANK LOANS

Currency	*Contracted loan amount*	*Maturity*	*31.12.2018* Non-current portion	*31.12.2018* Current portion	*31.12.2018* 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	9,538	7,164	**16,691**	16,691	7,172	**23,863**
AZN	35	16.03.2021	17	11	**28**	-	-	**-**
EUR	565	25.10.2018	-	-	**-**	-	220	**220**
			9,555	**7,175**	**16,719**	**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 a fixed interest rate of 24.10% (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 following collateral was established under the loans in favour of the creditor bank:

- Mortgages of real estate with a carrying amount of BGN 39,200 thousand as at 31 December 2018 (31 December 2017: BGN 42,387 thousand) (*Note 15*);
- Special pledges on machinery and equipment with a carrying amount of BGN 16,076 thousand as at 31 December 2018 (31 December 2017: BGN 17,390 thousand) *(Note 15).*

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

30. DEFERRED TAX LIABILITIES

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

Deferred tax (liabilities)/ assets	*temporary difference*	*tax*	*temporary difference*	*tax*
	31.12.2018	***31.12.2018***	***31.12.2017***	***31.12.2017***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Property, plant and equipment	77,774	7,777	80,755	8,076
including revaluation reserve	*20,747*	*2,075*	*24,589*	*2,459*
Intangible assets	2,296	230	2,309	231

Investment property	7,373	737	6,026	603
including revaluation reserve	*516*	*52*	*187*	*19*
Biological assets	-	-	26	3
Total deferred tax liabilities	**87,443**	**8,744**	**89,116**	**8,912**
Payables to personnel	(7,394)	(739)	(7,708)	(771)
Receivables	(5,836)	(584)	(5,334)	(533)
Inventories	(3,715)	(372)	(3,969)	(397)
Accrued liabilities	(436)	(44)	(410)	(41)
Cash	(166)	(17)	(166)	(17)
Total deferred tax assets	**(17,547)**	**(1,755)**	**(17,587)**	**(1,759)**
Deferred income tax liabilities, net	**69,889**	**6,698**	**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 31 December 2018*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(8,076)	268	-	31	(7,434)
Intangible assets	(231)	1	-	-	(230)
Investment property	(603)	(134)	-	-	(737)
Biological assets	(3)	3	-	-	-
Payables to personnel	771	(32)	-	-	739
Receivables	533	51	-	-	584
Inventories	397	(25)	-	-	372
Accrued liabilities	41	3	-	-	44
Cash	17	-	-	-	17
Total	**(7,153)**	**135**	**-**	**31**	**(6,988)**

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)**

31. GOVERNMENT GRANTS

The government grants are under concluded contracts with the Bulgarian Small and Medium Enterprises Promotion Agency for gratuitous financial aid under Operational Programme "Development of the Competitiveness of the Bulgarian Economy 2007-2013" and Operational Program "Energy Efficiency". The table below presents the non-current and the current portion of the grants received by type:

	31.12.2018			***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	2,638	179	**2,817**	2,817	179	**2,996**
Implementation of innovative products in the production of ampoule dosage forms	2,100	200	**2,300**	2,300	200	**2,500**
Acquisition of fixed assets and reconstruction of buildings	320	8	**328**	326	41	**367**
Acquisition of machinery and equipment for technological renovation and modernisation of tablet production	130	120	**250**	250	120	**370**
Deployment in the production of innovative eye drops of the type "artificial tears"	108	24	**132**	126	47	**173**

Acquisition of ventilation and climatization equipment	101	9	**110**	111	9	**120**
	5,397	**540**	**5,937**	**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 38).*

32. RETIREMENT BENEFIT OBLIGATIONS

Long-term payables to personnel include:

	31.12.2018 ***BGN '000***	***31.12.2017*** ***BGN '000***
Long-term retirement benefit obligations	4,100	3,890
Long-term benefit obligations for tantieme	317	249
Total	**4,417**	**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*).

For determining these liabilities, the Company has performed an actuarial valuation as at 31 December 2018, using the services of a certified actuary.

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

	2018 ***BGN '000***	***2017*** ***BGN '000***
Present value of the obligation at 1 January	**3,890**	**3,145**
Current service cost	438	356
Interest cost	63	86
Net actuarial loss recognised for the period	15	32
Payments made in the year	(336)	(293)
Remeasurement gains or losses on the retirement benefit obligations, incl. from:	30	564
Actuarial gains / losses from changes in demographic assumptions	11	12
Actuarial losses from changes in financial assumptions	108	293

Actuarial losses / (gains) on adjustments due to past experience	(89)	259
Present value of the obligation at 31 December	**4,100**	**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	438	356
Interest cost	63	86
Net actuarial loss recognized during the period	15	32
Components of expenses on plans with defined income, acknowledged in the profit or loss *(Note 8)*	**516**	**474**
Effects of subsequent reassessment of payables to retirement personnel, incl. from:		
Actuarial (gains) / losses from changes in demographic assumptions	11	12
Actuarial losses from changes in financial assumptions	108	293
Actuarial losses / (gains) on adjustments due to past experience	(89)	259
Components of defined benefit plan expense recognized in other components of comprehensive income (Note 14)	**30**	**564**
Total	**546**	**1,038**

In determining the present value as at 31 December 2018 the following actuarial assumptions were made:

- for the determination of the discount factor, the rate is based on an annual interest rate of 1.0% (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 5% 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%).

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

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

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

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

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

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

The effects of the change (increase or decrease) by 1% on:

a. wage growth

b. discount rate

c. Turnover

on the present value of the defined benefit obligation upon retirement, are assessed as follows:

	2018		***2017***	
	Increase	***Decrease***	***Increase***	***Decrease***
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Change in wage growth	343	(299)	315	(274)
Modification of the discount rate	(306)	361	(279)	328
Change in turnover	(324)	378	(296)	335

The average weighted duration of the employee defined benefit obligations is 8 years (31.12.2017: for Sopharma AD) is 8.2 years and for Unipharm AD (the merging company) is 4.6 years.

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

Estimated Payments	*Retirement by age and length of service*	*Retirement for sickness*	*Total*
	BGN '000	*BGN '000*	*BGN '000*
Payments in 2019	794	13	807
Payments in 2020	369	13	382
Payments in 2021	384	13	397
Payments in 2022	282	13	295
Payments in 2023	420	13	433
	2,249	**65**	**2,314**

Long-term income for tantiems is as follows:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Long - term income obligations for tantiems with maturity 2021	166	-
Long - term income obligations for tangibles with maturity 2020	151	152
Long - term income obligations for tantiems with maturity 2019	-	97
	317	**249**

33. SHORT-TERM BANK LOANS

Currency	*Contracted amount*	*Maturity*	*31.12.2018*	*31.12.2017*
	'000		*BGN '000*	*BGN '000*
Bank loans (overdrafts)				
BGN	20,000	21.05.2019	12,947	11,775
BGN	10,000	31.05.2019	10,002	2,860
BGN	10,000	31.01.2019	10,001	10,001
EUR	10,000	31.01.2019	9,817	13,614
BGN	9,779	01.06.2019	3,637	-
			46,404	**38,250**
Extended credit lines				
BGN	20,000	30.11.2019	19,264	9,244
EUR	5,000	31.08.2019	-	5,594
			19,264	**14,838**
Total			**65,668**	**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, one-month EURIBOR plus margin to 1.7

points, but not less than 1.7 points and a one-month EURIBOR plus a margin of 1.5 points, and for those in BGN – from 1.3% to 1.45% and average deposit index plus 1 point (2017: 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 31,716 thousand as at 31 December 2018 (31 December 2017: BGN 32,347 thousand) *(Note 15 and Note 17*);
- Special pledges on:
  - machinery and equipment with a carrying amount of BGN 12,649 thousand as at 31 December 2018 (31 December 2017: BGN 16,950 thousand) *(Note 15 and Note 17*);
  - inventories with a carrying amount of BGN 32,302 thousand as at 31 December 2018 (31 December 2017: BGN 30,442 thousand) *(Note 23)*;
  - receivables from related parties with a carrying amount of BGN 66,351 thousand as at 31 December 2018 BGN (31 December 2017: BGN 44,726 thousand) *(Note 24*);
  - trade receivables with a carrying amount of BGN 19,547 thousand as at 31 December 2018 (31 December 2017: BGN 21,393 thousand) *(Note 25*);
  - trade receivables from third parties of a subsidiary with a carrying amount of BGN 7,823 thousand as at 31 December 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.

34. TRADE PAYABLES

Trade payables include:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Payables to suppliers	8,420	7,650
Advances received	148	63
Total	**8,568**	**7,713**

Payables to suppliers are as follows:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***

Payables to foreign suppliers	5,931	5,435
Payables to local suppliers	2,489	2,215
Total	**8,420**	**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 2,489 thousand (31 December 2017: BGN 2,120 thousand), in EUR – BGN 3,163 thousand (31 December 2017: BGN 3,283 thousand), in USD – BGN 2,720 thousand (31 December 2017: BGN 2,243 thousand), in Polish zloty – BGN 1 thousand (31.12.2017: BGN 1 thousand), in other currency – BGN 47 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 274 thousand (31 December 2017: BGN 688 thousand) *(Note 26 b and Note 33*).

35. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Payables to subsidiaries	283	125
Payables to companies related through a main shareholder	20	403
Payables to companies related through key managing personnel	181	269
Payables to main shareholding companies	58	21
Total	**542**	**818**

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

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Supply of services	363	350
Liabilities on advances	123	-
Obligations to raise of equity in a subsidiary	36	-
Liabilities for supply of inventories	17	431
Liabilities for the supply of fixed assets	3	37
Total	**542**	**818**

The trade payables to related parties are regular and interest-free. The payables in BGN amount to BGN 418 thousand (31 December 2017: BGN 719 thousand), in EUR - BGN 97 thousand (31.12.2017:BGN 78 thousand), in PLN – BGN 27 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 194 thousand (31 December 2017: BGN 243 thousand) *(Note 21*).

36. TAX PAYABLES

Tax payables include:

	31.12.2018 BGN '000	***31.12.2017 BGN '000***
Taxes on expenses	554	515
Individual income taxes	500	558
Value added tax	426	2
Corporate tax	323	450
Total	**1,803**	**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 31 December 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 P-29002918008030-020-001/20.12.2018 was assigned a tax audit of Unipharm AD (the merging company) as follows:

• VAT - from 1 December 2012 to 31 August 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.

37. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security are as follows:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Payables to personnel, including:	5,905	6,443
tantieme	*3,030*	*3,328*
current liabilities	*1,452*	*1,587*
accruals on unused compensated leaves	*1,423*	*1,528*
Payables for social security/health insurance, including:	1,191	1,385
current liabilities	*968*	*1,129*
accruals on unused compensated leaves	*223*	*256*
Total	**7,096**	**7,828**

38. OTHER CURRENT LIABILITIES

Other current liabilities include:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Government grants *(Note 29)*	540	596
Financial guarantee provision	380	-
Awarded amounts under litigations	323	303
Obligations to recover	322	-
Dividend liabilities	297	196
Deductions from work salaries	210	206
Financial leasing liability	-	71
Liabilities on deposits received as guarantees	24	24
Total	**2 096**	**1 396**

39. 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 31 and Note 38*), 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 15*). The Company undertook a commitment that for a period of 5 years after the completion of the respective projects they shall not be subject to significant modifications affecting the essence and the terms and conditions for their execution or giving rise to unjustified benefits to the company, neither modifications resulting from a change in the nature of ownership over the assets acquired in relation to the grants. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the financial statements, all contractual requirements were being fulfilled.

Issued and granted guarantees

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

Company	**Maturity**	**Currency**	**Contracted amount**		**Guarantee amount as at**
			Original currency	**BGN '000**	**31.12.2018 BGN '000**
Sopharma Trading AD	2019 - 2024.	EUR	73,394	143,546	124,507
Sopharma Trading AD	2019 - 2024	BGN	30,732	30,732	27,842
Sopharma Properties REIT	2024	EUR	22,619	44,239	16,864
OAO Vitamini	2019	EUR	7,000	13,691	9,212
Biopharm Engineering AD	2019 - 2020	BGN	8,550	8,550	2,028
Energoinvestments AD	2020	BGN	2,000	2,000	1,552
Mineralcommerce AD	2019 - 2021	BGN	726	726	493
Momina krepost AD	2019	BGN	500	500	440
Pharmaplant AD	2023	EUR	235	460	323
Veta Pharma AD	2019	BGN	1,000	1,000	128
Total					**183,389**

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 10,013 thousand as at 31 December 2018 (31 December 2017: BGN 10,231 thousand) *(Note 15*);
- Special pledges on:
  - machinery and equipment with a carrying amount of BGN 9,735 thousand as at 31 December 2018 (31 December 2017: BGN 10,370 thousand) *(Note 15*);
  - inventories with a carrying amount of BGN 17,000 thousand as at 31 December 2018 (31 December 2017: BGN 17,000 thousand) *(Note 21*);
  - trade receivables with a carrying amount of BGN 11,735 thousand as at 31 December 2018 (31 December 2017: BGN 11,735 thousand) *(Note 25*).

40. 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:

40.1. 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

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.

40.2. 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 40.1*).

(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	Uniphar m AD	Merger adjustment s	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)**
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.

41. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Company can be exposed to a variety of financial risks the most important of which are market risk (including currency risk, risk of a change in the fair value and price risk), credit risk, liquidity risk and risk of interest-bearing cash flows. The general risk management is focused on the difficulty to forecast the financial markets and to achieve minimizing the potential negative effects that might affect the financial results and position of the Company.

The financial risks are currently identified, measured and monitored through various control mechanisms in order to establish adequate prices for the Company's finished products and services and the borrowed thereby capital, as well as to assess adequately the market circumstance of its investments and the forms for maintenance of free liquid funds through preventing undue risk concentrations.

Risk management is currently performed by Company's management following the policy adopted by the Board of Directors. The latter has approved the basic principles of general financial risk management, on the basis of which specific procedures have been established for management of the different types of specific risk such as currency, price, interest, credit and liquidity risk and the risk in using non-derivative instruments.

Categories of financial instruments:

Financial assets	***31.12.2018***	***31.12.2017***
	BGN '000	***BGN '000***
Available-for-sale financial assets	***7 409***	***7 552***
Available-for-sale investments (in shares)	*7 409*	*7 552*
Loans and receivables	***142 865***	***128 459***
Long-term receivables from related parties	*22 952*	*21 583*
Other long-term receivables	*5 823*	*4 210*

Short-term receivables from related parties	*91 724*	*77 218*
Commercial receivables	*18 896*	*22 075*
Other receivables	*3 470*	*3 373*
Cash and cash equivalents	8 966	5 764
Total financial assets	***159 240***	***141 775***

Financial liabilities	***31.12.2018 BGN '000***	***31.12.2017 BGN '000***
Bank loans	***82 398***	***77 171***
Long-term bank loans	9 555	16 691
Short-term bank loans	*65 668*	*53 088*
Current portion of long-term bank loans	*7 175*	*7 392*
Other liabilities	***9 483***	***9 062***
Commercial payables to related parties	*419*	*818*
Commercial payables	*8 420*	*7 650*
Finance lease liabilities	**-**	*71*
Other liabilities	*644*	*523*
Total financial liabilities at amortised cost	***91 881***	***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:

31 December 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	83	1 484	5 842	-	7 409
Receivables and loans granted	4 887	65 477	72 498	3	142 865
Cash and cash equivalents	512	2 365	6 005	84	8 966
Total financial assets	**5 482**	**69 326**	**84 345**	**87**	**159 240**
Bank loans	-	26 519	55 851	28	82 398
Other liabilities	3 025	3 283	3 100	75	9 483
Total financial liabilities	**3 025**	**29 802**	**58 951**	**103**	**91 881**

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	
	31.12.2018	**31.12.2017**
	BGN '000	**BGN '000**

Financial result	+	221	219
Accumulated profits	+	221	219
Financial result	-	(221)	(219)
Accumulated profits	-	(221)	(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 221 thousand (0.68%) (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 68 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

The credit is the risk that the clients of the company will not be able to pay fully and within the usual time limits the amounts they owe.

The Company's credit risk arises both from its core business through its trade receivables and from its financial activities, including lending to related parties and third parties, commitments on loans and guarantees, and deposits with banks. The company has developed policies, procedures and rules for controlling and monitoring the behavior of credit risk.

Trade receivables and assets under contracts with customers

The latter are presented in the statement of financial position in net amount after deducting the accrued impairment on doubtful and bad debts. Such impairments are made where and when there are events identifying loss of uncollectability under previous experience.

In its commercial practice, the company has implemented different distribution schemes until it achieves the current effective approach tailored to the market situation of business, the various forms of payment, and the inclusion of commercial rebates. The company works with contractors with a history of relationships in its core markets, partnering with more than 70 Bulgarian and foreign licensed drug dealers.

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's credit policy provides for each new customer to be considered for creditworthiness before offering the standard terms of delivery and payment.

Expected credit losses are calculated on the date of each reporting period. For the first time, they are calculated at 1.01. 2018, and resp. as at 31.12.2018.

Loans and financial guarantees provided

Credit risk exposure assessment is a process that requires the use of models that reflect the impact on exposure to changes in market conditions, expected cash flows and time to maturity. The credit risk assessment of the loans granted leads to further judgments about the likelihood of default, the loss rates associated with these estimates and the counterparties' correlations. The Company measures credit risk by using PD, EAD and LGD.

For determining credit risk, the entity's management uses internal ratings that reflect the default probability for individual counterparties and an internal rating model that is consistent with the different categories of counterparty. The specificity of the activity, the borrower's financial position, the value of the collateral received, is included in this rating model. It is supplemented by external data, such as rating information for the particular borrowing company or companies with similar activities, as determined by international and Bulgarian rating agencies.

The Company considers that a financial instrument has undergone a significant increase in *credit risk* when one or more of the following qualitative or quantitative criteria are met (describe the specific used by the company, for example):

Quantitative criteria:

• Increase of probability of default (PD) for the life of the financial asset at the reporting date against the probability of default over the life of the asset at the date when the asset is first recognized in the amount of % times

• The Borrower is in arrears over 10 days

Qualitative criteria:

• Significant adverse business, financial and / or economic changes in which the borrower operates
•Actual or expected significant adverse changes in the borrower's operating results
• Significant change in the value of the collateral, which is expected to increase the risk of default
• Early signs of cash flow / liquidity problems, such as delays in servicing commercial creditors / credits

Criteria used to determine a significant increase in Cedar risk are monitored and reviewed periodically for expedience by the CFO of the company.

The Company determines a defaulted financial instrument and a credit loss when it meets one or more of the following criteria:

Quantitative criteria

• The borrower has over 10 days past due on his contractual payments

Qualitative criteria

The borrower is unable to pay due to significant financial difficulties. These are cases where:

• Borrower reports losses and negative net assets,

• The borrower is in breach of the financial contract, eg. interest payments, collateral

• Negative changes in the borrower's business

• Discounts made in connection with financial difficulties of the borrower

• The borrower is likely to be bankrupt

The default definition is applied sequentially for PDs, EADs and LGDs in the Company's estimated loss. Estimated credit losses are calculated by discounting the resulting value of the product of PD, EAD and LGD as follows:

• PD presents the probability that the borrower will not meet its financial obligation either over the next 12 months or throughout the life of the financial asset (PD over Life).

• EAD is the amount payable to the company by the borrower at the time of default, over the next 12 months, or during the remainder of the instrument. For example, for a revolving commitment, the company includes the current balance sheet plus an additional amount that is expected to be used up to the time of the default if this occurs.

• LGD represents the company's expected loss amount for non-performing exposures. LGD varies depending on the type of counterparty, the type and seniority of the claim, and the availability of collateral or other credit support. LGD is measured as the loss rate per unit of exposure at the time of default. It is calculated over a 12-month period or life-cycle, where the 12-month LGD is the expected loss percentage if a default occurs in the next 12 months and the LGD for the entire period is the percentage of the expected loss if the default is expected to occurs throughout the life of the loan.

The discount rate used in calculating the expected credit loss (ECL) is the initial effective interest rate on the instrument.

Depending on the 12-month and lifetime of the PD, EAD and LGD, forecasting information is also used. The management of the company has conducted a historical analysis and identified the main economic variables affecting credit risk and the expected credit losses for each loan (portfolio). This process uses expert judgment from financial model consultants.

The Company applies a number of policies and practices to reduce credit risk from loans. The most common is the receipt of collateral. The company assigns an assessment from external experts - independent assessors of the collateral received as part of the lending process. This assessment shall be reviewed periodically, but at least once a year.

Under the accounting policy applicable until 31 December 2017, loans and trade receivables are presented in the statement of financial position at net amount, net of accrued impairment losses on doubtful and bad debts. Such impairments are made where and when there are events identifying loss of uncollectability under previous experience.

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

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Client 1	52%	41%
Client 2	23%	21%
Client 3	9%	12%

The Company is currently managing the concentration of receivables from related parties by applying credit limits and collateral in the form of a pledge of securities and other assets and applying promissory notes.

The Company has concentration of trade receivable from a single client, other than related parties, which is accountable for 74.80% of all trade receivables (31 December 2017: 73.11 %).

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.

31 December 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	20,537	1,356	28,574	23,110	7,309	2,408	**83,294**
Other loans and payables	6,850	1,989	347	297	-	-	**9,483**
Total liabilities	**27,387**	**3,345**	**28,921**	**23,407**	**7,309**	**2,408**	**92,777**

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.

31 December 2018	**interest-free**	**with floating interest %**	**with fixed interest %**	**Total**
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Available-for-sale financial assets	7 409	-	-	7 409
Loans and receivables	95 039	-	47 826	142 865
Cash and cash equivalents	29	8 937	-	8 966
Total financial assets	**102 477**	**8 937**	**47 826**	**159 240**
Bank loans	-	82 370	28	82 398
Other loans and liabilities	9 483	-	-	9 483
Total financial liabilities	**9 483**	**82 370**	**28.00**	**91 881**

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 31 December / 31 December and with the assumption that the influence of all other variables is ignored. The effect is measured and presented as impact on the financial result after taxes and on equity.

2018

	Increase/ decrease in interest rate	***Impact on post-tax financial result profit/(loss)***	***Impact on equity increase/(decrease)***
EUR	Increase	(119)	(119)
BGN	Increase	(251)	(251)
EUR	Decrease	119	119
BGN	Decrease	251	251

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	***2017***
	BGN '000	***BGN '000***
Total debt, including:	**82 398**	**77 242**
bank loans	*82 398*	*77 171*
financial leasing liabilities	-	*71*
Less: Cash and cash equivalents	**(8966)**	**(5 764)**
Net debt	**73 432**	**71 478**
Total equity	**488 798**	**476 093**
Total capital	**562 230**	**547 571**
Gearing ratio	**0.13**	**0.13**

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

Fair value measurement

The fair value concept presumes realisation of financial assets through a sale based on the position, assumptions and judgments of independent market participants in a principal or most advantageous market for a particular asset or liability. The Company acknowledges as a principal market for its financial assets and liabilities the financial market in Bulgaria – the Bulgarian Stock Exchange, the large commercial banks – dealers, and for some specific instruments – direct transactions between the parties. However, in most cases especially in regard of trade receivables and payables as well as loans and deposits, the Company expects to realise these financial assets also through their total refund or respectively, settlement over time. Therefore, they are presented at amortised cost.

In addition, a large part of the financial assets and liabilities are either short-term in their nature (trade receivables and payables, short-term loans) or are presented in the statement of financial position at market value determined by applying a particular valuation method (investments in securities, loans with floating interest rate) and therefore, their fair value is almost equal to their carrying amount. Part of the investments in other companies as minority interests represent an exception to this rule, since neither market nor objective conditions exist so that their fair value could be reliably determined. Therefore, they are presented at acquisition cost (cost). With regard to loans, extended with fixed interest rate, the method used for setting this rate uses as a staring point for the calculations the current observations of the Company with regard to the market interest levels.

As far as the Bulgarian market of various financial instruments is still not sufficiently active – with stability, satisfactory volumes and liquidity for purchases and sales of certain financial assets and liabilities – there are no sufficient and reliable market price quotations for them, and for this reason, the Company uses other alternative valuation methods and techniques.

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

42. RELATED PARTY TRANSACTIONS

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

Related parties	*Relation type*	*Relation period*
Telecomplect Invest AD	Main shareholding company	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 31 December are as follows:

Sales to related parties	***2018***	***2017***
	BGN '000	***BGN '000***
Sales of finished products to:		
Subsidiaries	128,852	117,622
Companies related through main shareholder	-	7
	128,852	**117,629**
Sales of goods and materials to:		
Subsidiaries	3,328	539
Companies related through main shareholder	740	777
Other related parties	2	-
Companies related through key managing personnel	1	-
	4,071	**1,316**
Sales of services to:		
Subsidiaries	2,310	1,398
Companies related through a main shareholder	51	48
Other related parties	20	4
Companies related through key managing personnel	16	11
Associated companies	7	7
	2,404	**1,468**

Sales of tangible fixed assets for:		
Other related parties	24	-
Subsidiaries	1	53
	25	**53**
Interest on loans granted to:		
Associates	602	411
Subsidiaries	513	522
Other related parties	199	76
Companies related through key managing personnel	108	541
	1,422	**1,550**
Dividend income from:		
Subsidiaries	8,693	7,168
Companies related through a main shareholder	49	-
	8,742	**7,168**
Total	**145,516**	**129,184**

Supplies from related parties	***2018***	***2017***
	BGN '000	***BGN '000***
Supply of inventories from:		
Companies related through a main shareholder	9,235	9,197
Subsidiaries	271	149
Other related parties	112	84
Companies related through key managing personnel	13	36
	9,631	**9,466**
Supply of services from:		
Subsidiaries	13,960	5,187
Companies related through key managing personnel	2,828	3,119
Companies related through a main shareholder	1,504	1,745
Other related parties	910	817
Main shareholding companies	341	229
	19,543	**11,097**
Supplies for the acquisition of fixed assets from:		
Companies related through key managing personnel	72	344
Other related parties	1	29
	73	**373**
Supplies for the acquisition of fixed assets from:		
Companies related through key managing personnel	2,313	1,222
Other related parties	198	-
Subsidiaries	12	-
Main shareholding companies	-	6

	2,523	**1,228**
Acquired investments from:		
Increase in capital in companies related through a main shareholder	-	425
	-	**425**
Other supplies from:	6	3
Main shareholding companies	**6**	**3**
Dividend accrued on:		
Main shareholding companies	6,777	6,141
Key management personnel	221	42
	6,998	**6,183**
Total	**38,774**	**28,775**

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

The accounts and balances with related parties are presented in *Notes 21, 24 and 35.*

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

Remunerations and other short-term benefits of key managing personnel are current and amount to BGN 1,415 thousand (31 December 2017: BGN 1,279 thousand).

- current remunerations - BGN 851 thousand (31 December 2017: BGN 1,357 thousand);
- tantiems - BGN 426 thousand (31 December 2017: BGN 402 thousand);
- payments based on shares - BGN 2 thousand (31 December 2017: none).

43. EFFECTS FROM THE INITIAL APPLICATION OF IFRS 9 AND IFRS 15

This note presents the effects on the Company's financial statement for the year 2018 from the first-time application of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from contracts with customers* as at 01.01.2018.

IFRS 9 *Financial Instruments* replaces the provisions of IAS 39 *Financial Instruments: Recognition and Measurement* in relation to the Recognition, Classification and Valuation of Financial Assets and Financial Liabilities, Derecognition of Financial Instruments, Impairment of Financial Assets and Hedge Accounting. New classification criteria and groups of financial assets, respectively, are introduced. new rules for their subsequent valuation and the recognition of interest income. The other major difference is the adoption of a new approach to measuring impairment - based on expected credit losses. When the IFRS 9 *Financial Instruments* were introduced, the Company first applied the exemptions when it was first applied, imposing the requirements of the Standard on the financial instruments contracts opened on 01.01.2018.

FRS 15 *Revenue from contracts with customers* replaces IAS 18 *Revenue*, which includes contracts for goods and services, as well as IASs *Construction Contracts*, which encompasses construction contracts, and the related SIC and IFRIC. The new standard establishes a five-step model for reporting revenue from customer contracts. This model is based on the principle that revenue is recognized when the control of the good or service is transferred to the client in an amount that reflects the remuneration the entity expects to have in return for the transfer of goods or services to the customer. Adoption of the new IFRS 15 *Revenue* *from contracts with clients* significantly increases the use of judgments on revenue recognition and provides guidance on recognizing contract costs. Presentation and disclosures under IFRS 15 *Revenue from contracts with customers* is to a certain extent different and more detailed than the abolished accounting standards. The Company has applied the requirements of IFRS 15 for all outstanding contracts on 01.01.2018, using the practical benefit of modified customer contracts.

The application of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from contracts with customers* has led to changes in accounting policies and djustments to the amounts in the relevant items that reflect the reportable items recognized in the financial statements. The new accounting policies are presented in *Note 2*.

The effects on the retained earnings of the Company on 1 January 2018 from the application of IFRS 9 and IFRS 15 are as follows:

	Notes	BGN'000
Final balance of retained earnings as at 31 December 2017 (recalculated by combined figures (*Note 40*))		**45 831**
Accrual provision for impairment of expected credit losses on trade receivables from related parties	24	(305)
Accrual provision for impairment for expected credit losses on trade receivables	25	(575)
Accrual of provision for impairment of expected credit losses on long-term loans granted to related parties	21	(119)
Accrual of provision for impairment of expected credit losses on short-term loans granted to related parties	24	(80)
Accrual provision for impairment of expected credit losses on long-term loans granted to third parties	22	(6)
Accrual provision for impairment of expected credit losses on short-term loans granted to third parties	26 (a)	(75)
Accrual of provisions on financial guarantees	38	(380)
Increase in deferred tax assets related to accrued provisions for expected credit losses		155
		(1 385)
Opening balance of retained earnings on 1 January 2018, after recalculation from the application of IFRS 9 and IFRS 15 for the first time		**44 446**

44. POTENTIAL EFFECTS OF THE APPLICATION OF NEW IFRS

The management's assessment of the effect of this new standard is presented below.

IFRS 16 establishes principles and rules for the recognition, measurement, presentation and disclosure of the lease. As a result of its application, lessees are accounted for all leases under a single model that imposes balance sheet recognition, similar to accounting for the finance lease under IAS17 (eliminates the distinction between operating and finance leases).

Potential effect of the application of IFRS 16

The Standard will affect mainly the operating leases of the Company as a lessee. As at the date of these financial statements, the Company has commitments under operating lease contracts, the amount of which is estimated to be BGN 5,483 thousand.

However, the Company continues to carry out its analyzes, assessments and clarifications regarding changes in its accounting policies, including due to a change in the definition of the lease term and the different treatment of variable lease payments or the options for extension and termination. Therefore, the final amounts of "right of use" assets and liabilities under the lease obligation, which will have to be recognized when applying the new standard for the first time and respectively, are not yet calculated. of the effects on the "retained earnings" reserve.

Date of application by the company

IFRS 16 is mandatory for application for the financial year beginning on 1 January 2019. The Company has decided not to apply it earlier. It chose a modified retrospective application of the new rules of the Standard from 1 January 2019. Comparative data for the year (2018) preceding the original application will not be recalculated.

45. EVENTS AFTER THE REPORTING PERIOD

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