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1. BACKGROUND INFORMATION ABOUT THE GROUP

Sopharma Group (the Group) is comprised of the parent company and its fifty two (31 December 2017: fourty eight) subsidiaries. In addition, the Group has investments in one joint venture (31 December 2017: in three joint ventures). At the reporting date of the interim consolidated financial statements, the Group has investments in one associate (31 December 2017: in one associate).

Parent company

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

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

Subsidiaries

The Group subsidiaries as at 31 December 2018 are as follows:

- Sopharma Trading AD – a business entity registered in Bulgaria by Decision No. 3594/16 October 1998 of Varna District Court, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 12;
- Pharmalogistica AD – a business entity registered in Bulgaria by Decision of Sofia City Court dated 12 August 2002, with a seat and address of management: Sofia, 16, Rozhen Blvd.;
- Electroncommerce EOOD – a business entity registered in Bulgaria by Decision of Sofia City Court under Company File No. 24456 of 1991, with a seat and address of management: Sofia, 1, Samokovsko Shousse Str.;
- Biopharm Engineering AD – a business entity registered in Bulgaria by Decision No. 524/1997 of Sliven District Court, with a seat and address of management: Sliven, 75, Trakiya Blvd.;
- Momina Krepost AD – a business entity registered in Bulgaria by Decision No. 3426/1991 of Veliko Tarnovo District Court, with a seat and address of management: Veliko Tarnovo, 23, Magistralna Str.;
- Sopharma Buildings REIT – a business entity registered in Bulgaria by Decision No. 1/14.08.2007 of Sofia City Court, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 20;
- Phyto Palauzovo AD – a business entity registered in Bulgaria by Decision No. 20120924105551/24 September 2012 of the Registry Agency, with a seat and address of management: Kazanluk, 110, 23rd Pehoten Shipchenski Polk Blvd.;
- Sopharmacy EOOD – a business entity registered in Bulgaria by Decision No. 201501191300026/19 January 2015 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 2 EOOD – a business entity registered in Bulgaria by Decision No. 20150617110324/17 June 2015 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 12;

- Sopharmacy 3 EOOD – a business entity registered in Bulgaria by Decision No. 20151202165822/02 December 2015 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 4 EOOD – a business entity registered in Bulgaria by Decision No. 20160229093338/29 February 2016 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 5 EOOD – a business entity registered in Bulgaria by Decision No. 20160301155620/01 March 2016 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 6 EOOD – a business entity registered in Bulgaria by Decision No. 20140127170842/27 January 2014 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 12 (Until 10 July 2017, the name of the company was Pharma Online EOOD);
- Sopharmacy 7 EOOD – a business entity registered in Bulgaria by Decision No. 20170315161212/ 15 March 2017 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 8 EOOD – a business entity registered in Bulgaria by Decision No. 20170627142803/27 June 2017 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 9 EOOD – a business entity registered in Bulgaria by Decision No. 20170911100706/11 September 2017 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 10 EOOD – a business entity registered in Bulgaria by Decision No. 20170911101412/11 September 2017 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 12;
- Veta Pharma AD – business entity registered in Bulgaria under Company File No. 581/05 April 1999 of Veliko Tarnovo District Court, with a seat and address of management: Veliko Tarnovo, 32, Dulga Luka Str.;
- Aromania OOD – a business entity, registered in Bulgaria by decision of the Varna Regional Court 4276/27 June 2005 and with seat and management address – Sofia, Izgrev Region, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 8;
- Sopharmacy 11 EOOD (Until 15.05.2018 the name of the company is Pharmastore 1 EOOD) – a company registered in Bulgaria by decision of the Registry Agency № 20170302125338 dated 02 March 2017 and having its registered office and business address in Sofia, Izgrev district, 5 Lachezar Stanchev Str., Sopharma Business Towers, building A, floor 12;
- Sopharmacy 12 EOOD (Until 15.05.2018 the name of the company is Pharmastore 2 EOOD) - a company registered in Bulgaria by decision of the Registry Agency № 20170306085236 of 06 March 2017 and with headquarters and headquarters - c. Sofia, region Sunrise, str. "Lachezar Stanchev" 5 Sopharma Business Towers, building A, floor 12;

- Sopharmacy 13 EOOD (Until 15.05.2018 the name of the company is Pharmastore 3 EOOD) - a company registered in Bulgaria by decision of the Registry Agency № 20170306080850 of 06 March 2017 and with headquarters and headquarters - c. Sofia, region Sunrise, str. "Lachezar Stanchev" 5 Sopharma Business Towers, building A, floor 12;
- Sopharmacy 14 EOOD (Until 15.05.2018 the name of the company is Pharmastore 4 EOOD) – a company registered in Bulgaria by decision of the Registry Agency № 20170306081205 dated 06 March 2017 and having its headquarters and address of management - Sofia, Izgrev district, 5 Lachezar Stanchev Str., Sopharma Business Towers, building A, floor 12;
- Sopharmacy 15 EOOD (Until 15.05.2018 the name of the company is Pharmastore 5 EOOD) - a company registered in Bulgaria by decision of the Registry Agency № 20170302134305 dated 02 March 2017 and having its headquarters and address of management - Sofia, Izgrev district, 5 Lachezar Stanchev Str., Sopharma Business Towers, building A, floor 12;
- Sopharmacy 16 EOOD - a company registered in Bulgaria by decision of the Registry Agency № 20180515105543 dated 15 May 2018 and having its headquarters and address of management - Sofia, Izgrev district, 5 Lachezar Stanchev Str., Sopharma Business Towers, building A, floor 12;
- Sopharmacy 17 EOOD - a company registered in Bulgaria by decision of the Registry Agency № 20180515130642 dated 15 May 2018 and having its headquarters and address of management - Sofia, Izgrev district, 5 Lachezar Stanchev Str., Sopharma Business Towers, building A, floor 12;
- Sopharma Poland Z.O.O., Poland, in liquidation – a business entity registered in Poland by Decision No. KRS 0000178554/04 November 2003 of XX Economic Division of Warsaw Regional Court Register, with a seat and address of management: Poland, Warsaw, 58, Shashkova Str.;
- Sopharma Warsaw SP. Z.O.O., Poland – a business entity registered in Poland by Decision No. DSR 0000372245 of 17 December 2010 by XII Economic Division of the State Court Register of Warsaw, with a seat and address of management: Poland, Warsaw, 8, Halubinskiego Str.;
- OOO Sopharma Ukraine, Ukraine – a business entity registered in Ukraine by Decision No. 10691020000029051/07 August 2012 in the Unified State Register of Legal Entities and Physical Entities-Entrepreneurs, with a seat and address of management: Ukraine, Kiev, Oblonski Region, prospect Moskovskii No. 9, unit 4, floor 2, office 4-203;
- PAO Vitamini, Ukraine – a business entity registered in Ukraine by Decision No. 133/15 April 1994 of Uman City Court, with a seat and address of management: Ukraine, Cherkasy Province, Uman, 31, Leninski Iskri Str.;
- Sopharma Trading d.o.o. Belgrade, Serbia – a business entity registered in Serbia by BD 49136.2015 on 5 June 2015 of the Business Registers Agency in Belgrade with a seat and address of management: Republic of Serbia, Belgrade, 13, Palmoticheva Str.;
- Lekovit D.o.o., Serbia – a business entity, registered in Serbia with decision 07829531/05 February 1992 of the Agency of Business Registers with seat and management address – Serbia, Sabac municipality, Sabac city, 66, Yanka Veselinovna Str.;
- UAB TBS Pharma, Lithuania – a business entity, registered by the Lithuanian Register of Legal Entities on 01 March 2013 / 303011389, with a seat and address of management: Lithuania, Vilnius, 8 Vytauto / 7 Liubarto Str., POB 08118;

- TOO Sopharma Kazakhstan, Kazakhstan – a business entity registered in Kazakhstan by Decision No. 5286-1910-04-TOO / 06 November 2014 of the Ministry of Justice, Auezovski Region, with a seat and registered address: Kazakhstan, Almaty, Auezovski Region, Mamyr Microdistrict - 4, d. 190;
- Rap Pharma International OOD, Moldova – a business entity, registered in Moldova with number 1004601000376 as of 11 February 2004 at the State Regiatration Authority with seat in Modova, Kishinev, 58, Mitropolit Varlaam str. And management address – Moldova, Kishinev, 9/1, Uzinelor str.
- SIA Briz, Latvia – a business entity registered in Latvia by Decision No. 000302737 / 18 September 1991 of the Commercial Registry of the Republic of Latvia, with a seat and address of management: Latvia, Riga, Rasas No. 5, LV – 1057;
- SOOO Brititrade, Belarus – a business entity registered in Belarus by Decision No. 1983 / 24 September 2004 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 118, M. Bogdanovicha Str., office 303 – B;
- OOO Tabina, Belarus – a business entity registered in Belarus by Decision No. 1432 / 29 December 1999 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 57, Kuybisheva Str., ap.1;
- SOOO Brizpharm, Belarus – a business entity registered in the Minsk City Executive Committee in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 800007989 / 07 July 2009, with a seat and address of management: Belarus, Minsk, Esenina Str., d. 16, ap. 1H;
- OOO Farmacevt Plus, Belarus – a business entity registered by the Minsk City Executive Committee on 24 November 2000 / No 1348 in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 190174236, with a seat and address of management: Belarus, Minsk, 1 Tverdiy Pereulok, d. 7;
- OOO Galenapharm, Belarus – a business entity registered in Belarus by Decision dated 12 June 2013 of Brest Regional Executive Committee, with a seat and address of management: Belarus, Brest Region, Pinsk, ul. Bretskaya 118-97;
- ODO Medjel, Belarus – a business entity registered in Belarus by Decision No. 1044 / 14 September 2000 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 60, Soltisa Str.;
- ODO Alenpharm-plus, Belarus – a business entity registered in Belarus by Decision dated 25 September 2008 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 29, Logotskiy Tract;
- ODO Farmatea, Belarus – a business entity registered in Belarus by Decision dated 17 October 2012 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 20, Bakinskaya Str.;
- ODO SalusLine, Belarus – a business entity registered in Belarus by Decision No. 287 / 05 May 2006 of Grodno City Executive Committee, with a seat and address of management: Belarus, Grodno, 6, Vilenskaya St.

- ZAO Interfarm, Belarus – business entity registered in Belarus at the Unified State Register of the legal entities and the entrepreneuers under number 300000556 and with headquarters and management address – Belarus, Vitebsk, Stroitelei Square, building 3, app. 2;
- OOO Zdorovei, Belarus – a business entity registered in Belarus with devision as of 04 June 2014 of the Minsk City Exectuvie Committee with seat and management address – Belarus, Minsk, 20, Bakinskaia Str.;
- OOO Ivem I K, Belarus – a business entity, registered in Belarus with decision as of 27 July 2001 of the Minsk City Exectuvie Committee with seat and management address – Belarus, Minsk, 20, Bakinskaia Str.;
- OOO Ariens, Belarus – a business entity, registered in Belarus with decision 605 as of 31 December 1996 of the Vitebsk City Exectuvie Committee with seat and management address – Belarus, Polotzk, Shkolnaia Str.;
- OOO Zabotlivaya apteka, Belarus - a business entity registered in the Mining City Executive Committee in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 193060383 dated 03.04.2018 and with headquarters and business address in Belarus, Minsk, 1- ii Tverdai pereulok, d. 7;
- OOO Med-dent, Belarus - a trading company registered in Belarus with decision №0018240 of 11.03.2013 by the Management of the Economy of the Boburu City Executive Council with headquarters and business address in Belarus, Mogilev District, Bobruisk, K. Marksa Str. № 120, office 4;
- BOOO SpetsApharmatsiya, Belarus - a trading company registered in Belarus by decision No 22-8 dated 30.10.2000 by Mogilev Regional Executive Committee, with headquarters and business address in Belarus, Mogilev District, Bobruisk, K. Marksa Str. № 120, office 2.

On September 13, 2018, the merger of Unipharm AD (the "transforming company"), a subsidiary for 2017, into the Sopharma AD was registered in the Commercial Register at the Registry Agency in the sense of Art. 262 et seq. from the Commercial Law. The transforming company is terminated without liquidation and all its assets have been transferred to the patrimony of Sopharma AD (the "receiving company"). As at the date of accounting of the merger, the date January 1, 2018 has been adopted.

Joint ventures

The joint ventures of the Group as at 31 December 2018 is as follows:

- OOO Bellerophon, Belarus – a business entity registered in Belarus by Decision No. 1193 / 17 July 2003 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 5-45 Storozhevskaya Str.;

Associates

The associates of the Group as at 31 December 2018 are as follows:

- Doverie Obedinen Holding AD – a business entity registered in Bulgaria by Sofia City Court under Company File No. 13056 of 1996, with a seat and address of management: 1594 Sofia, 82, Knyaz Dondukov Blvd.;

1.1. Ownership and management of the parent company

Sopharma AD is a public company under the Bulgarian Public Offering of Securities Act. Starting from November 2011, the shares of the company are being traded in the Warsaw Stock Exchange.

The shareholding structure of the parent company as at 31 December 2018 is as follows:

	%
Donev Investments Holding AD	25.40
Telecomplect Invest AD	20.45
Sopharma AD (treasury shares)	6.59
Rompharm Company OOD	6.03
Other legal persons	33.97
Natural persons	7.56
	100.00

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
Alexander Chaushev	Member
Ivan Badinski	Member

The parent 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 governance that exercise monitoring and control over the internal control system, risk management and Company's system of financial reporting.

The composition of the Audit Committee is as follows:

Vasil Naidenov	Chairman
Tsvetanka Zlateva	Member
Kristina Atanasova	Member

1.2. Structure of the Group and principal activities

The structure of the Group includes Sopharma AD as a parent company and the subsidiaries stated below:

Subsidiaries	**31.12.2018** %	**31.12.2017** %	***Date of acquisition of control***	***Date of disposal of control/ merger***
Companies in Bulgaria				
Sopharma Trading AD	72.96	72.85	08.06.2006	
Pharmalogistica AD	89.39	89.39	15.08.2002	
Electroncommerce EOOD	100.00	100.00	09.08.2005	
Biopharm Engineering AD	97.15	97.15	10.03.2006	
Sopharma Buildings REIT	40.38	40.38	04.08.2008	
Momina Krepost AD	93.56	93.55	01.01.2008	
Unipharm AD	-	98.77	27.10.2010	13.09.2018
Phyto Palauzovo AD	100.00	95.00	21.09.2012	
Medica AD	-	-	26.10.2015	08.08.2017
Medica-Zdrave EOOD**	-	-	26.10.2015	22.02.2017
Veta Pharma AD	99.98	99.98	11.11.2016	
Aromania OOD	76.00	72.85	19.01.2015	
Sopharmacy EOOD**	72.96	72.85	05.06.2015	
Sopharmacy 2 EOOD**	72.96	72.85	02.12.2015	
Sopharmacy 3 EOOD**	72.96	72.85	29.02.2016	
Sopharmacy 4 EOOD**	72.96	72.85	01.03.2016	
Sopharmacy 5 EOOD**	72.96	72.85	03.12.2015	
Sopharmacy 6 EOOD**	72.96	72.85	15.03.2017	
Sopharmacy 7 EOOD**	72.96	72.85	27.06.2017	
Sopharmacy 8 EOOD**	72.96	72.85	11.09.2017	
Sopharmacy 9 EOOD**	72.96	72.85	11.09.2017	
Sopharmacy 10 EOOD**	72.96	72.85	07.12.2017	
Sopharmacy 11 EOOD** (PharmaStore 1 EOOD)	72.96	72.85	07.12.2017	
Sopharmacy 12 EOOD** (PharmaStore 2 EOOD)	72.96	72.85	07.12.2017	
Sopharmacy 13 EOOD** (PharmaStore 3 EOOD)	72.96	72.85	07.12.2017	
Sopharmacy 14 EOOD** (PharmaStore 4 EOOD)	72.96	72.85	07.12.2017	
Sopharmacy 15 EOOD** (PharmaStore 5 EOOD)	72.96	72.85	07.12.2017	
Sopharmacy 16 EOOD**	72.96	-	15.05.2018	
Sopharmacy 17 EOOD**	72.96	-	15.05.2018	

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

Subsidiaries	**31.12.2018**	***Date of acquisition***	***Date of disposal***

Companies abroad	***Interest %***	**31.12.2017** ***Interest %***	***of control***	***of control***
SIA Briz	66.13	66.13	10.11.2009	
SOOO Brititrade **	52.90	52.90	10.11.2009	
PAO Vitamini	99.56	99.56	18.01.2008	
Sopharma Warsaw SP. Z.O.O.	100.00	100.00	23.11.2010	
Sopharma Trading d.o.o. Belgrade**	72.96	72.85	05.06.2015	
Sopharma Poland Z.O.O. – in liquidation	60.00	60.00	16.10.2003	
OOO Tabina **	53.05	54.37	08.04.2011	
SOOO Brizpharm **	35.85	31.45	20.12.2012	
ODO Alean **	-	-	07.02.2013	31.08.2017
OOO Sopharma Ukraine	100.00	100.00	07.08.2012	
OOO Farmacevt Plus **	40.72	35.60	31.05.2013	
UAB TBS Pharma**	33.73	33.73	01.03.2013	
ODO Vestpharm **	-	-	04.07.2013	01.08.2017
ODO BelAgroMed **	-	-	30.07.2013	01.08.2017
TOO Sopharma Kazakhstan	100.00	100.00	06.11.2014	
OOO Danapharm**	-	-	28.02.2015	01.12.2017
OOO Galenapharm**	59.91	54.62	28.02.2015	
ODO Medjel**	54.23	55.55	28.02.2015	
ODO Alenpharm-plus**	55.54	52.24	30.09.2015	
OOO Farmatea**	35.80	38.18	30.11.2015	
OOO Mobil Line**	-	-	16.02.2016	04.07.2017
ODO SalusLine**	50.92	52.24	18.11.2016	
Rap Pharma International OOD	51.00	51.00	14.04.2017	
ZAO Interfarm**	59.52	59.52	26.04.2017	
Lekovit D.o.o.**	51.07	50.96	09.08.2017	
OOO Zdorovei **	38.94	35.00	16.08.2017	
OOO Ivem I K**	29.65	39.62	16.08.2017	
OOO Ariens**	39.83	35.30	16.08.2017	
OOO Zabotlivaya apteka**	34.74	-	03.04.2018	
OOO Med-dent**	46.29	-	16.08.2018	
BOOO SpetsApharmatsiya	46.29	-	16.08.2018	

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

- Sopharma Buildings REIT is a subsidiary by virtue of a written agreement for control concluded between Sopharma AD and other shareholders;
- Sopharmacy EOOD is a subsidiary of Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy EOOD;

- Sopharmacy 2 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 2 EOOD;
- Sopharmacy 3 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 3 EOOD;
- Sopharmacy 4 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 4 EOOD;
- Sopharmacy 5 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 5 EOOD;
- Sopharmacy 6 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Farma OnlineEOOD;
- Sopharmacy 7 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital Sopharmacy 7 EOOD;
- Sopharmacy 8 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital Sopharmacy 8 EOOD;
- Sopharmacy 9 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital Sopharmacy 9 EOOD;
- Sopharmacy 10 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital Sopharmacy 10 EOOD;
- Sopharmacy 11 EOOD is a subsidiary of Sopharma Trading AD - Sopharma Trading AD owns 100% of the capital of Sopharmacy 11 EOOD;
- Sopharmacy 12 EOOD is a subsidiary of Sopharma Trading AD - Sopharma Trading AD owns 100% of the capital of Sopharmacy 12 EOOD;
- Sopharmacy 13 EOOD is a subsidiary of Sopharma Trading AD - Sopharma Trading AD owns 100% of the capital of Sopharmacy 13 EOOD;
- Sopharmacy 14 EOOD is a subsidiary of Sopharma Trading AD - Sopharma Trading AD owns 100% of the capital of Sopharmacy 14 EOOD;
- Sopharmacy 15 EOOD is a subsidiary of Sopharma Trading AD - Sopharma Trading AD owns 100% of the capital of Sopharmacy 15 EOOD;
- Sopharmacy 16 EOOD is a subsidiary of Sopharmacy EOOD - Sopharmacy EOOD owns 100% of the capital of Sopharmacy 16 EOOD;
- Sopharmacy 17 EOOD is a subsidiary of Sopharmacy EOOD - Sopharmacy EOOD owns 100% of the capital of Sopharmacy 17 EOOD;
- Sopharma Trading d.o.o. Belgrade is a subsidiary of Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharma Trading d.o.o. Belgrade;
- Lekovit D.o.o. is a subisidiary through Sopharma Trading AD – Sopharma Trading AD owns 70% of the capital of Lekovit D.o.o.;
- SOOO Brititrade, Belarus, is a subsidiary of SIA Briz, Latvia, whereas the latter holds 80% of the capital of SOOO Brititrade;

- OOO Tabina, Belarus, is a subsidiary through SIA Briz, Latvia, and its subisidiary SOOO Brititrade, Belarus - whereas SIA Briz holds 1.10% of the capital of OOO Tabina and SOOO Britirade – 98.9% of the capital of OOO Tabina;
- SOOO Brizpharm, Belarus, is a subsidiary through SIA Briz, Latvia and its subsidiary OOO Pharmacevt plus, Belarus – SIA Briz holds 1.27% of the capital of SOOO Brizpharm and OOO Pharmacevt Plus – 85.98% of the capital of SOOO Brizpharm;
- OOO Farmacevt Plus, Belarus, is a subsidiary through SIA Briz, Latvia, whereas the latter holds 61.58% of the capital of OOO Farmacevt Plus;
- UAB TBS Pharma, Lithuania, is a subsidiary through SIA Briz, Latvia, whereas the latter holds 51% of the capital of UAB TBS Pharma;
- OOO Galenapharm, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 53% and SOOO Brititrade holds 47% of the capital of OOO Galenapharm;
- ODO Medjel, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 50% and SOOO Brititrade holds 40% of the capital of ODO Medjel;
- ODO Alenpharm-plus, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 59.90% and SOOO Brititrade holds 30.10% of the capital of ODO Alenpharm-plus;
- ODO Farmatea, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary OOO Farmacevt Plus, Belarus,and their subsidiary OOO Ivem I K, Belarus - whereas SIA Briz holds 2%, OOO Farmacevt Plus holds 49% and OOO Ivem I K – 49% of the capital of ODO Farmatea;
- ODO SalusLine, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus - SIA Briz holds 25%, SOOO Brititrade holds 65%.
- ZAO Interfarm, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus - SIA Briz holds 50%, SOOO Brititrade holds 50%.
- OOO Zdorovei, Belarus is a subisidiary through SIA Briz, Latvia and its subsidiary OOO Farmacevt Plus, Belarus – SIA Briz owns 9% and OOO Farmacevt Plus – 81% of the capital of OOO Zdorovei;
- OOO Ivem i K, Belarus is a subsidiary through SIA Briz, Latvia and its subsidiary OOO Farmacevt Plus, Belarus and OOO Zdorovei, Belarus – OOO Farmacevt Plus owns 25% of the capital of OOO Ivem i K and OOO Zdorovei owns 50% of the cpiatal of OOO Ivem i K.
- OOO Ariens, Belarus is a subsidiary through OOO Farmacevt Plus, Belarus and OOO Zdorovei, Belarus – OOO Framacevt Plus and OOO Zdorovei own each 50% of the capital of OOO Ariens.
- OOO Zabotlivaya apteka, Belarus is a subsidiary through OOO Ivem i K, Belarus amd OOO Ariens, Belarus - OOO Ivem i K and OOO Ariens own 50% of the capital of OOO Zabotlivaya apteka.
- OOO Med-dend, Belarus is a subsidiary of SIA Briz, Latvia and its subsidiary SOOO Brititrade, Belarus - SIA Briz owns 50%, and SOOO Brititrade - 25% of the capital of OOO Med-dent.
- BOOO SpetsApharmatsiya, Belarus is a subsidiary through SIA Briz, Latvia and its subsidiary SOOO Brititrade, Belarus - SIA Briz owns 50%, and SOOO Brititrade - 25% of the capital of BOOO SpetsApharmatsiya.

The principal activities of the Group companies are focused on the pharmaceutical sector except for separate companies having principal activities also in the field of investment in real estate and securities.

The parent company holds a permit for production/import of pharmaceuticals No P-I-10-14/B-I-21-002 / 28 October 2015, issued by the Bulgarian Drug Agency (BDA).

The principal activities of the companies within the Group are as follows:

- Sopharma AD – production and trade in medicinal substances (active ingredients) and finished drug forms; research and development activities in the field of medicinal products;
- Sopharma Trading AD – trade in pharmaceutical products;
- Biopharm Engineering AD – production and trade in infusion solutions;
- Pharmalogistica AD – secondary packaging of pharmaceutical products and real estate leases;
- Electroncommerce EOOD – trade, transportation and packaging of radioactive materials and nuclear equipment for medicinal use, household electronics and electrical equipment;
- Sopharma Buildings REIT – investment of funds, accumulated by issuance of securities, in real estate (securitisation of real estate) through purchase of title and other real rights over real estate, rent-out, lease, and/or sale;
- Momina Krepost AD – development, implementation and production of medical goods for human and veterinary medicine;
- Phyto Palauzovo AD – production, collection, purchase, growing and trade in herbs and medicinal plants;
- Veta Pharma AD – production of medicinal, non-medicinal and other products;
- Sopharmacy EOOD – franchising, know-how, renting of property, trade and other;
- Sopharmacy 2 EOOD – retail trade in medicinal products;
- Sopharmacy 3 EOOD – retail trade in medicinal products;
- Sopharmacy 4 EOOD – retail trade in medicinal products;
- Sopharmacy 5 EOOD – retail trade in medicinal products;
- Sopharmacy 6 EOOD – online and off-line retail trade in medicinal products;
- Sopharmacy 7 EOOD – retail trade in medicinal products;
- Sopharmacy 8 EOOD – retail trade in medicinal products;
- Sopharmacy 9 EOOD – retail trade in medicinal products;
- Sopharmacy 10 EOOD – retail trade in medicinal products;
- Sopharmacy 11 EOOD - retail of medicinal products;
- Sopharmacy 12 EOOD - retail of medicinal products;
- Sopharmacy 13 EOOD - retail of medicinal products;
- Sopharmacy 14 EOOD - retail of medicinal products;
- Sopharmacy 15 EOOD - retail of medicinal products;
- Sopharmacy 16 EOOD - retail of medicinal products;
- Sopharmacy 17 EOOD - retail of medicinal products;
- Aromania OOD – development and marketing of food supplements;
- PAO Vitamini, Ukraine – production and trade in pharmaceuticals;

- OOO Sopharma Ukraine, Ukraine - trade in pharmaceuticals and market and public opinion research;
- Sopharma Trading d.o.o. Belgrade, Serbia – consulting activities;
- Lekovit D.o.o. – wholesale with medicinal products;
- Sopharma Poland Z.O.O., Poland, in liquidation – market and public opinion research;
- Sopharma Warsaw SP. Z.O.O., Poland – wholesale trade in pharmaceutical and medicinal products and market and public opinion research;
- Briz SIA, Latvia – trade in pharmaceuticals;
- UAB TBS Pharma, Lithuania – trade in pharmaceuticals, production of finished drug forms and pharmaceutical products, research and development activities in the field of biotechnology;
- TOO Sopharma Kazakhstan, Kazakhstan – trade in pharmaceuticals;
- Rap Pharma International OOD, Moldova – trade with pharmaceuticals.
- SOOO Brititrade, Belarus – trade in pharmaceuticals;
- OOO Tabina, Belarus – trade in pharmaceuticals;
- SOOO Brizpharm, Belarus – trade in pharmaceuticals;
- OOO Farmacevt Plus, Belarus – trade in pharmaceuticals;
- OOO Galenapharm, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- ODO Medjel, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- ODO Alenpharm-plus, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- OOO Farmatea, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- ODO SalusLine, Belarus – retail trade in pharmaceuticals and medical equipment.
- ZAO Interfarm, Belarus – trade with pharmaceuticals and food additives.
- OOO Zdorovei, Belarus – wholesale of pharmaceuticals.
- OOO Ivem i K, Blearus - retail trade in medicinal products, pharmaceuticals and medical equipment.
- OOO Ariens, Belarus - retail trade in medicinal products, pharmaceuticals and medical equipment.
- OOO Zabotlivaya apteka - consultancy related to organizational and management services.
- OOO Med-dent - trade in pharmaceutical products and food supplements;
- BOOO SpetsApharmatsiya - trade in pharmaceutical products and food additives;

The parent company and the subsidiaries Sopharma Trading AD, Pharmalogistica AD, Electroncommerce EOOD, Biopharm Engineering AD, Sopharma Buildings REIT, Momina Krepost AD, Unipharm AD, Phyto Palauzovo AD, Sopharmacy EOOD, Sopharmacy 2 EOOD, Sopharmacy 3 EOOD, Sopharmacy 4 EOOD, Sopharmacy 5 EOOD, Sopharmacy 6 EOOD, Sopharmacy 7 EOOD, Sopharmacy 8 EOOD, Sopharmacy 9 EOOD, Sopharmacy 10 EOOD, Veta Pharma AD, Sopharmacy 11 EOOD (Until 15.05.2018 - PharmaStore 1 EOOD), Sopharmacy 12 EOOD (Until 15.05.2018 - PharmaStore 2 EOOD), Sopharmacy 13 EOOD (Until 15.05.2018 - PharmaStore 3 EOOD), Sopharmacy 14 EOOD (Until 15.05.2018 - PharmaStore 4 EOOD), Sopharmacy 15 EOOD (Until 15.05.2018 - PharmaStore 5 EOOD), Sopharmacy 16 EOOD, Sopharmacy 17 EOOD and Aromania OOD perform their activities in Bulgaria.

Sopharma Poland Z.O.O. (in liquidation) and Sopharma Warsaw SP. Z.O.O. operate in Poland; PAO Vitamini, OOO Sopharma Ukraine – in Ukraine; Sopharma Trading d.o.o. Belgrade and Lekovit D.o.o. – in Serbia; SIA Briz – in Latvia; SOOO Brititrade, OOO Tabina, SOOO Brizpharm, OOO Farmacevt Plus, OOO Galenapharm, ODO Medjel, ODO Alenpharm-plus, OOO Farmatea, ODO SalusLine and ZAO Interfarm, OOO Zdorovei, OOO Ivem i K and OOO Ariens – in Belarus; OOO Zabotlivaya apteka, OOO Med-dent and BOOO SpetsApharmatsiya – in Belarus, UAB TBS Pharma – in Lithuania, TOO Sopharma Kazakhstan – in Kazakhstan, Rap Pharma International OOD – in Moldova.

As at 31 December 2018, the interest of the Group in ***joint ventures*** is as follows:

- OOO Bellerophon, Belarus, a joint venture through SIA Briz – 50% interest jointly with a natural person. The principal activities of the joint venture include retail trade in pharmaceuticals, medical equipment and food supplements. The company has been a joint venture for the Group since 27 November 2014.

As at 31 December 2018, the interest of the Group in ***associates*** is as follows:

- Doverie Obedinen Holding AD – 33.24% interest of Sopharma AD. The principal activities of the company include acquisition, management, assessment and sale of shares in Bulgarian and foreign companies – legal entities. The company has been an associate for the Group since 21 December 2016.

At the date of these preliminary consolidated financial statements, the average number of Group's personnel was 5,073 workers and employees (2017: 4,895 workers and employees).

1.3. Main indicators of the economic environment

The main economic indicators of the business environment that have affected the activities of the Group companies throughout the period 2016 – 2018, are presented in the table below:

Indicator	**2016**	**2017**	**2018**
USD/BGN average for the year/period	1.76833	1.71916	1.65770
USD/BGN at end of the year/period	1.85545	1.63081	1.70815
PLN/BGN average for the year/period	0.44846	0.45956	0.45907
PLN/BGN at end of the year/period	0.44347	0.46824	0.45470
RSD/BGN average for the year/period	0.01589	0.01612	0.01654
RSD/BGN at end of the year/period	0.01584	0.01651	0.01655
UAH/BGN average for the year/period	0.06916	0.06528	0.06094
UAH/BGN at end of the year/period	0.06881	0.05839	0.06167
EUR/BGN average for the year/period	1.95583	1.95583	1.95583
EUR/BGN at end of the year/period	1.95583	1.95583	1.95583
1 BYN/BGN average for the year/period	0.89057	0.89931	0.81357
1 BYN/BGN at end of the year/period	0.95429	0.83112	0.79145

KZT/BGN average for the year/period	0.00518	0.00533	0.00481
KZT/BGN at end of the year/period	0.00555	0.00491	0.00445
MDL/BGN average for the year/period	-	0.09393	0.09862
MDL/BGN at end of the year/period	-	0.09583	0.10019

Source: BNB, National Banks of Ukraine, Poland, Serbia, Belarus, Kazakhstan and Moldova.

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE GROUP

2.1. Basis for the preparation of the consolidated financial statements

The consolidated financial statement of Sopharma Group have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force 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" (IAS).

For the current financial year, the Group has adopted all new and / or revised standards and interpretations issued by the International Accounting Standards Board (IASB) and 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 Group 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: 1. Classification and evaluation of financial assets and liabilities; 2. Accounting for the hedge; and 3. 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. 1. Classification and valuation of financial 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 Group'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. (Note 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 Group'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 Group 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 Group.

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 Group's assets, liabilities, operations and results in respect of: the operating lease contracts for which the Group is a lessee, except for short-term lease contracts (up to 12 months) and low-value lease payments (up to US $ 5000) that will continue to be recognized in a straight-line method as a current expense in profit or loss. The effects of its analyzes and preliminary recalculations and reclassifications are disclosed in Note 44. 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 Group.*

- 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 Group'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 Group'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 Group'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 Group'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 Group's assets and liabilities.*

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

- 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.*

- 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.*

- IAS 19 (revised) - Changes in defined benefit plans, staff cuts or settlements (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 recalculation, the Group is required to use the assumptions therein, used in the recalculation. Additionally, changes in disclosure are included in changes to the defined benefit plans, shortening or settlement in relation to the ceiling of the assets.*

The consolidated financial statements have been prepared on a historical cost basis except for: a/ property, plant and equipment, which are measured at revalued amount; and b/ investment property and other long-term equity investments (prior period - available-for-sale financial assets), which are measured at their fair value at the date of the consolidated statement of financial position.

The Bulgarian subsidiaries of the Group and the associate Doverie Obedinen Holding AD maintain their accounting books in Bulgarian Lev (BGN), which is accepted as being their functional and presentation currency. The subsidiaries, associates and joint ventures abroad organise their accounting and reporting in accordance with the requirements of the respective local legislation: OOO Sopharma Ukraine and PAO Vitamini – the Ukrainian legislation; Sopharma Trading d.o.o. Belgrade and Lekovit D.o.o. – the Serbian legislation; SIA Briz – the Latvian legislation; UAB TBS Pharma – the Lithuanian legislation; SOOO

Brititrade, OOO Tabina, SOOO Brizpharm, OOO Farmacevt Plus, OOO Galenapharm, ODO Medjel, ODO Alenpharm-plus, OOO Farmatea, ODO SalusLine, ZAO Interfarm, OOO Ivem i K, OOO Ariens and OOO Zdorovei, OOO Zabotlivaya apteka, OOO Med-dent, BOOO SpetzApharmatsiya – Belarus, Sopharma Poland Z.O.O. (in liquidation), Sopharma Warsaw SP. Z.O.O. – the Polish legislation; and TOO Sopharma Kazakhstan – the legislation of Kazakhstan and Rap Pharma International OOD – legislation of Moldova. The companies hold their accounting registers in the respective local currencies Belarus ruble (BYN), hryvnia (UAH), Serbian dinar (RSD), euro (EUR), Polish zloty (PLN), Kazakhstan tenge (KZT) and Moldovian leu (MDL).

The data in the consolidated financial statements and the notes thereto are presented in thousand Bulgarian Levs (BGN'000), unless explicitly stated otherwise, and the Bulgarian Lev is accepted as the reporting and presentation currency of the Group. According to the policies of the Group, the financial statements of the Group companies abroad are restated from the local currency to Bulgarian Levs for the purposes of the consolidated financial statements *(Note 2.5).*

The presentation of the consolidated financial statements in accordance with IFRS requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities and the disclosure of contingent receivables and payables as at the date of the financial statements, and respectively, on the reported amounts of income and expenses for the reporting year.

These estimates, accruals and assumptions are based on the information, which is available at the date of the consolidated financial statements, and therefore, the future actual results might be different from them (whereas in a situation of financial crisis the uncertainties are much more significant). The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the consolidated financial statements, are disclosed in *Note 2.31 and Notes 16, 17, 18, 19, 20, 23, 24 and 40.*

2.2. Definitions

Parent company

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

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

Subsidiary company

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

The subsidiary companies are consolidated as from the date on which the effective control over them has been acquired by the Group and are de-consolidated as from the date when the control over them ceases and is transferred outside the Group. The full consolidation method is applied for their consolidation.

The subsidiary companies are presented in *Note 1.2.*

Joint venture

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

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

The joint venture is: OOO Bellerophon *(Note 1.2)*.

Associate

An associate is a company in which the investor (the parent company) exercises significant influence but is neither a subsidiary nor a joint venture with the investor.

Significant influence is the right of participation in decision-taking with regard to financial and operating policies of the investee but is not control or joint control over these policies. Usually it exists in case of: (a) possession by the investor, directly or indirectly, of 20% to 50% of the shares in the capital of the investee company (including by virtue of an agreement between shareholders), and (b) in addition, the investor is represented in the managing body of the investee and/or participates in the decision-taking process with regard to the policy and strategy of the investee, and/or significant transactions exist between the investor and the investee.

The associate is included in the consolidated financial statements of the Group by applying the equity method – from the date on which the investor (the parent company) acquires significant influence and its consolidation under this method is ceased when associate is transformed into a subsidiary or when it is accepted that the significant influence is transferred from the investor to third parties.

The associated company is: Doverie Obedinen Holding AD. *(Note 1.2).*

2.3. Consolidation principles

The consolidated financial statements include the financial statements of the parent company and the subsidiaries, the joint ventures and the associates, prepared as at 31 December, which is the end date of the Group's financial year. The 'economic entity' assumption has been applied in the consolidation whereas for the measurement of non-controlling interest in business combinations and other forms of acquisition of subsidiaries for which the 'proportionate share of net assets' method has been chosen.

For the purposes of consolidation, the financial statements of the subsidiaries, the joint ventures and the associates have been prepared for the same reporting period as the parent company using uniform accounting policies.

2.3.1. Consolidation of subsidiaries

In the consolidated financial statements, the financial statements of the included subsidiaries are consolidated under the 'full consolidation' method, line-by-line, by applying accounting policies that are uniform with regard to the significant reporting items. The investments of the parent company are eliminated against its share in the equity of the subsidiaries at the date of acquisition. Intra-group transactions and balances, including unrealised intra-group gains and losses, are eliminated in full. The effect of deferred taxes has been taken into account in these eliminating consolidation entries.

The shares of shareholders – third parties in the subsidiaries other than these of the shareholders of the parent company are presented separately in the consolidated statement of financial position, the consolidated statement of comprehensive income and the statement of changes in equity as 'non-controlling interest'. The non-controlling interest includes: (a) the combined share of the shareholders – third parties at the date of initial consolidation in the fair value (deemed cost) of all identifiable assets acquired, liabilities and contingent (crystallised) liabilities of the respective subsidiaries assumed, determined (based on the share) through the proportionate method, and (b) the change in the share of these third parties in the equity of each respective subsidiary from their initial consolidation to the end of the reporting period.

2.3.2. Acquisition of subsidiaries

The acquisition (purchase) method of accounting is used on the acquisition of a subsidiary (entity) by the Group in business combinations. The consideration transferred includes the fair value at the date of exchange of the assets transferred, the incurred or assumed liabilities and the equity instruments issued by the acquirer in exchange of the control over the acquiree. It includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related direct costs are recognised as current expenses when incurred except for the issue costs of debt or equity instruments, which are recognised as equity components.

All identifiable assets acquired, liabilities and contingent (crystallised) liabilities assumed in the business combination are measured initially at their fair values at the date of exchange. Any excess of the aggregate consideration transferred (measured at fair value), the amount of non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the acquiree's previously held equity, over the acquired identifiable assets and assumed liabilities of the acquirer, is treated and recognised as goodwill. If acquirer's share in the fair value of acquired net identifiable assets exceeds the cost of acquisition of the business combination, this excess is recognised immediately in the consolidated statement of comprehensive income of the Group in the item 'gains/(losses) on acquisition/(disposal) of subsidiaries'. Any non-controlling interest in a business combination is measured based on the method of the 'proportionate share of the net assets' of the acquiree.

When a business combination for the acquisition of a subsidiary is achieved in stages, all previous investments held by the acquirer at the acquisition date are revalued to fair value and the effects of this revaluation are recognised in the current profit or loss of the Group, respectively in 'finance income' and 'finance costs' or 'gains/(losses) from associates and joint ventures', and all previously recorded effects in other comprehensive income are recycled.

2.3.3. Disposal of subsidiaries

On sale or other form of loss (transfer) of control over a subsidiary:

- The carrying amounts of the assets and liabilities (including any attributable goodwill) of the subsidiary are derecognised at the date when control is lost;
- The non-controlling interest in the subsidiary is derecognised at carrying amount in the consolidated statement of financial position at the loss of control date, including all components of other comprehensive income related thereto;
- The fair value of the consideration received from the transaction, event or operation that resulted in the lost of control is recognised;
- All components of equity, representing unrealised gains or losses in accordance with the respective IFRS under the provisions of which these components fall, are reclassified to 'profit or loss for the year' or are transferred directly to retained earnings;
- Any resulting difference as a 'gain or loss from a disposal (sale) of a subsidiary' attributable to the parent is recognised in the consolidated statement of comprehensive income.
- The remaining shares held that form investments in associates, joint ventures or available-for-sale investments are initially measured at fair value at the date of sale and subsequently – following the accounting policy adopted by the Group *(Note 2.13 and Note 2.14).*

The acquisition (purchase-and-sale) method is applied also in transactions of uniting and/or restructuring of entities under a common control with companies of the Group, provided that they represent direct acquisitions from the perspective of the parent company.

2.3.4. Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with holders of the common equity of the Group. The effects from sales of parent company's shares, without loss of control, to holders of non-controlling interests are not treated as components of the current profit or loss of the Group but as movements directly in its equity components, usually to the 'retained earnings' reserve. And vice versa, when the parent company purchases additional shares from holders of non-controlling interest, without acquisition of control, the difference between the consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is also directly recognised in the consolidated statement of changes in equity, usually to the 'retained earnings' reserve. When the Group ceases to have control, joint control and significant influence, any retained minority investment as interest in the capital of the respective entity, is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. Respectively, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of all components related to the initial investment (in a subsidiary, joint venture or associate).

2.3.5. Consolidation of associates and joint ventures

Associates and joint ventures are included in the consolidated financial statements by applying the equity method whereby the investment of the parent company is initially stated at cost and is subsequently recalculated to reflect the changes in investor's (the parent company) share in the post-acquisition net assets of the associate or joint venture. Group's investment in an associate or joint venture includes also the goodwill identified on their acquisition net of any recognised impairment.

The post-acquisition gains or losses for the Group (through the parent company) from associates and joint ventures for the respective reporting period represent its share in the net (post-tax) financial results of their business activities for the period, which share is recognised and presented on a separate line in the consolidated statement of comprehensive income. Analogously, the Group's share in post-acquisition changes in other components of comprehensive income of associates and joint ventures is also recognised and presented as movement in the other components of comprehensive income in the consolidated statement of comprehensive income, and respectively the consolidated reserves of the Group - in the statement of changes in equity. The Group recognises its share in the losses of associates and joint ventures up to the amount of its investment, including the granted internal loans, unless it has assumed certain obligations or payments on behalf of the associate or joint venture.

The internal accounts and balances between the Group and associates and joint ventures are not eliminated. The unrealised gains or losses from transactions between them are eliminated to the percentage of Group's interest in the associates and joint ventures by also making tests for impairment in case of loss. The effect of deferred taxes on these consolidation procedures has also been taken into account.

2.4. Comparatives

In these consolidated financial statements, the Group presents comparative information for one prior year. Where necessary, comparative data is reclassified (and restated) 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 Group 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 Group applied the exeptions (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.*

2.5. Functional currency and recognition of exchange differences

The functional currency of the Group companies in Bulgaria being also presentation currency for the Group is the Bulgarian Lev. The Bulgarian Lev is fixed to the Euro, under the BNB Act, at the ratio BGN 1.95583:EUR 1.

Upon its initial recognition, a foreign currency transaction is recorded in the functional currency whereas the exchange rate to BGN at the date of the transaction or operation is applied to the foreign currency amount. Cash, 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. As at 31 December, these amounts are presented in BGN at the closing exchange rate of BNB.

The non-monetary items in the consolidated statement of financial position, which are initially denominated in a foreign currency, are accounted for in the functional currency by applying the historical exchange rate at the date of the transaction and are not subsequently re-valued at the closing exchange rate.

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

The functional currency of the companies in Poland (Sopharma Poland Z.O.O. (in liquidation) and Sopharma Warsaw SP. Z.O.O.) is the Polish Zloty, of the subsidiary TOO Sopharma Kazakhstan – the Kazakstan Tenge, of the subsidiaries in Ukraine (PAO Vitamini, OOO Sopharma Ukraine) – the Ukrainian Hryvnia, of the subsidiaries in Serbia (Sopharma Trading d.o.o. Belgrade and Lekovit D.o.o.) – the Serbian Dinar, of the subsidiary in Latvia (SIA Briz) and the company in Lithuania (UAB TBS Pharma) – the Euro, of the subsidiaries in Belarus (SOOO Brititrade, OOO Tabina, OOO Farmacevt Plus,– a subsidiary up to 5 December 2017, OOO Galenapharm, ODO Medjel, ODO Alenpharm-plus, OOO Farmatea, ODO SalusLine, ZAO Interfarm OOO Zdorovei, OOO Ivem i K, OOO Ariens, OOO Zabotlivaya spteka, OOO Med-dent and BOOO SpetsApharmatsiya) – the Belarusian Ruble and the subsidiary in Moldova (Rap Pharma International OOD) – in Moldovian leu.

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

(a) all assets and liabilities are restated to the currency of the Group by applying the closing exchange rate of the local currency thereto at 31 December or at the date of disposal of the company;
(b) all income and expenses are restated to the currency of the Group at average rate of the local currency thereto for the reporting period *(Note 2.6 and Note 2.7);*
(c) all exchange differences resulting from the restatements are recognised and presented as a separate component of equity in the consolidated statement of financial position – 'translation of foreign operations reserve', and
(d) the exchange differences resulting from the restatement of the net investment in the companies abroad together with the loans and other currency instruments, accepted as hedge of these investments, are presented directly in equity.

On disposal (sale) of a foreign operation (company), the cumulative amount of exchange differences that have been directly stated as a separate component of equity, are recognised as part of the profit or loss in the consolidated statement of comprehensive income on the line 'gains/(losses) on acquisition and disposal of subsidiaries, net', obtained on disposal (sale).

Goodwill and adjustments to fair value arising on acquisition of a company abroad are treated analogously to the assets and liabilities of this company and are restated to the presentation currency at closing exchange rate.

2.6. Revenue

2.6.1. Accounting policy applicable from January 1, 2018

2.6.1.1 Recognition of revenue under contracts with clients

Revenue in the Group 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 Group 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 Group, 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group is an agent and recognizes the proceeds of the transaction at the amount of the net amount for services provided as agent.

2.6.1.2. 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 Group expects to be entitled to, except for amounts collected on behalf of third parties. In determining the transaction price, the Group 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.

2.6.1.3. Performance obligations under contracts with clients

The Group's ordinary income comprises the following activities: production and sale of pharmaceutical substances and pharmaceutical forms (production), sale of pharmaceutical and medical goods, sale of medical equipment and provision of various services.

The Group has generally come to the conclusion that it acts as the principal in its dealings with customers unless otherwise explicitly disclosed for certain transactions as the Group typically controls the goods and / or services before transferring them to the customer.

Production and sale of produce

The wholesale of drug substances and pharmaceutical forms are in the country and abroad, both according to the Group manufacturer companies' own specification (technology) and the customer's specification (technology).

Sales of products according to own specification

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

For *domestic sales*, 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 Group has a legal and contractual restraint to redirect 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 Group 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 Group's default (legally exercised payment entitlement).

If the Group 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 to measure progress since the results best described the Group'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 Group *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).

Sale of pharmaceutical and medical goods

The sales of pharmaceutical and medical goods by the Group distributor companies are towards clients - pharmacies, hospitals and wholesalers (wholesale) in the country and abroad.

Wholesale

In wholesale, the control of the goods sold is transferred to the customer at a specific time. This is usually the case with the delivery of the goods and the physical possession of the goods to the customer when the customer can dispose of the goods by managing their use and receiving substantially all other benefits.

Retail

In the case of retail sales, the control of the goods sold is transferred to the customer when handed over to the customer.

Client Loyalty Programs

The Group maintains a loyalty program that allows club card customers to accumulate points for each purchase. Accumulated points may be exchanged for products participating in the program, without payment by the customer within a time limit defined under the terms of the program. The management of the Group has determined that loyalty points provide customers with a material right that they will not receive without the initial purchase. The provision of points is therefore a separate obligation to implement. The transaction price paid by the customer at the initial purchase is divided between the goods sold and the loyalty points the

Group expects to be made and exchanged on the basis of the respective individual sales prices. The individual sale price per item reflects the sale price of the products the customer is entitled to receive against the accumulated points adjusted for the likelihood that the points will be claimed and compensated, based on information about the points used (past experience). The self-selling price of the goods sold is determined on the basis of the price list in force at the time of the original sale. Loyalty program liabilities are presented as a liability in the statement of financial position. Revenue is recognized when exchanging loyalty points or when their term expires. The Group reviews its estimate of the points to be made and offset at the end of each reporting period and adjusts the recognized liability (contingent liability) as appropriate, respectively the recognized revenue at the time of the change (revaluation) by cumulative catching up.

Medical Equipment (Apparatus)

The delivery of medical equipment typically includes delivery, installation, commissioning, training for work and warranty service, the selling price being common to the particular contract and / or apparatus. Revenue from the sale of medical equipment is recognized at the level of an individual contract, as in each contract is assessed whether the promised goods and / or services are separate performance obligations. The assessment is made according to the moment of transfer of the control over the medical equipment.

Normally, the control of the medical equipment (apparatus) is transferred to the customer at a precise time, by the delivery of the equipment (apparatus) at the agreed destination and the transfer of the physical possession to the client. From that point on, the Group transfers all risks and rewards related to the medical equipment (apparatus) subject to the customer's contract, and the client has the opportunity to dispose of and manage its use.

Installation, commissioning, and training services sold together with the equipment are carried out after the delivery. These services are reported as a separate performance obligation because: (a) they may be performed by another supplier; (b) in most cases, services are short-term and non-specific; (c) do not modify the equipment (apparatus) supplied and are not interconnected and integrated with it. In these cases, the control over installation, commissioning and training for work is transferred over the period of time when they are provided as they are carried out on a client-controlled asset and he receives and consumes their benefits simultaneously with the performance of the services . Revenue from services rendered is recognized over time, using a method based on performance evaluation to measure progress on the contract (stage of completion). This method is considered to be the most appropriate to measure progress as it best describes the Group's activity on control transfer and debt fulfillment and therefore most accurately reflects the level of performance of the obligations as all incomplete activities, the control over which is of the client, will be covered by the method.

The remuneration the Group expects to be entitled to (the transaction price) is allocated to each individual performance obligation based on individual sales prices, estimated approximately using the cost plus margin method.

In the case where installation, commissioning and training services are provided prior to the transfer of control over the medical equipment (apparatus), they are reported as a performance obligation, together with the supply of the equipment (apparatus), which is satisfied at a *certain point in time with the acceptance of the equipment and services by the customer.*

<u>*Warranty Service*</u>

The offered warranty service for the sale of medical equipment (apparatus) normally includes a standard warranty clause that ensures that the sold medical equipment (apparatus) meets the agreed specifications and standard quality conditions within the normal warranty period (usually 12 months) and is covered by the manufacturer.

Transport of sold products

Normally, when selling abroad, the Group has the obligation to transport the goods to an agreed destination, the transport is organized by the Group 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 (i.e. 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 Group 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 Group 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 (i.e. the Group is responsible for the performance of the promise in the contract, whether the Group 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 Group'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 Group'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*.

Billing and Holding Agreements

In certain cases, when wholesaling, the goods sold remain in the physical possession of the Group. The Group has analyzed these arrangements and has determined that although the customer does not obtain physical possession of the goods, he usually has control over them as: (a) the detention is at the customer's request; (b) the goods can be identified as belonging to the customer; (c) the goods are ready for immediate shipment at the request of the customer; (d) the Group is unable to use the goods or direct them to other customers; and (e) a separate consideration is agreed for the storage service. In these cases, the supply of goods and the provision of the service under the responsibility of custody are recorded as separate performance obligations. Accordingly: (a) the control over the goods sold is transferred to the customer *at a specific time* when the goods can be identified as belonging to the customer and hence has a legal right of ownership thereon; (b) the obligation to execute for the provision of the custody services is satisfied *over time,* in the course of the provision of those services.

Payment terms

Sales prices are fixed on a general or customer price list and are determined individually for each specific product. In determining the transaction price, the Group also takes into account the different forms of variable remuneration, the amounts (wages) due to the client and the existence of a significant financial component.

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 Group include:

- *Volume discounts:* 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 Group 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.

- *Price discounts from a general price list:* According to the accepted pricing policy for the sale of wholesale goods, the sale price on a general price list is reduced by the discount for the respective item. The amount of the discount for each customer is determined by the turnover agreed for a certain period in relation to the total potential turnover of the client. These price discounts are provided to the customer at each sale and / or at the end of each month. In case the client does not reach the turnover provided in the contract and does not offset the difference in the next period, the Group is entitled to claim a default penalty, defined as a percentage of the outstanding part of the agreed amount of turnover.

- *Price protection:* For sales on the Bulgarian market, the Group 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 Group 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 Group.

- *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 Group's quality assurance system and the experience gained.

- *Neutralizing, due to the client:* In case of improper performance of the contractual obligations by the Group, usually in connection with non-observance of the agreed delivery time and/ or in relation to the remaining shelf life of the delivered products (production and goods). They are included in a reduction in the transaction price only if their payment is highly likely. The Group's experience shows that historically agreed deadlines are respected and the Group has not charged any defaults.

- *Right of return:* Some contracts for the sale of goods entitle the customer to return the goods within a certain period. The Group recognizes the right to return as a form of variable remuneration and recognizes income from sale only at the amount of the consideration for which it is reasonably sure that it is entitled (considering the goods that are expected to be returned). In determining how much of the goods sold are expected to be returned, the Group uses historical data on customer returns for the past one year.

- *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 Group. 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 occur 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 Group 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 Group 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.

In the case of sales with a right of return, for the goods expected to be returned, the Group recognizes a reimbursement obligation and an asset for the right to recover the products from the clients in settling the obligation to reimburse amounts *(Note 24 and Note 39).* Upon expiry of the option for the client to exercise the option, the Group recognizes the reimbursement obligation as income and the carrying amount of the recognized asset under contract is derecognised and presented to the book value of the goods sold (cost of goods sold).

Remuneration due to the client

The remuneration due to the client includes amounts that companies in the Group pay and / or have promised to pay to the client. It is included as a component of the transaction price unless the payment to the customer is in return for clearly identifiable (distinct) goods and / or services that the client transfers and / or provides to the Group companies and the fair value of those individual items and / or services does not exceed the amount of remuneration the Group pays. In case the latter is more than the fair value of the goods and / or services received by the customer, only the excess is included as part of the transaction price. Paid remunerataions to the client are recognized as assets under contracts with customers and are included as part of the transaction price and respectively a reduction in revenue from contracts with customers when the control of the goods sold is transferred or when the Group pledges to pay later .

The Group has analyzed and determined that, apart from the amounts paid to customers in the form of a marketing budget, there are no other fees that should be reported as a reduction in the transaction price.

Essential financial component

The regular credit period in wholesaling is from 30 to 180 days. In some cases the Group collects short-term advances from clients who lack a substantial component of funding. The collected advance payments from the customer are presented to the financial statements as liabilities under contracts with customers.

In retail sales the payment is due simultaneously from the moment of sale. Exclusion of retail sales on the territory of Bulgaria, where the NHIF reimburses part of the price. In particular, the purchase price is paid by the NHIF within 60 days.

As a result of the financial situation and the credit risk of part of the clients - hospitals, the customer pays for the goods delivered with a substantial delay from the agreed payment period, and in some cases the period between the transfer of control over the goods and the payment date by the customer may reach and over 2 years. The Group has determined that the contracts with such clients do not contain an element of financing because:

(a) the payment deadline agreed with the client is not different from the usual for this type of transaction and there is no explicit deferred payment upon conclusion of the sales contract;

(b) the sales prices do not include a financing element (interest). They are legally regulated and do not differ materially from the sale price of the same goods and / or services when selling to other customers and / or selling the same client from another trader of medicines and medical supplies. The differences (if any) are the result of the variable remuneration provided in the form of discounts and not as a result of the agreed and / or expected payment periods;

c) the delays in payments are the result of the financial situation and the credit risk of the clients - hospitals;

d) in case of delay in payment by the clients, the Group charges interest (penalty) at the amount of the legal interest, as from the due date;

(e) the funding element arises from the default date, from which the Group shall charge default interest;

f) the client pays accrued interest (penalties) and they reflect the value of money over time.

Recognized interest income due to non-payment within clients' time - hospitals is presented as financial income in the statement of comprehensive income.

When selling medical equipment (apparatus), the payment terms of the transaction price are determined individually for each specific contract. Typically, the client pays an advance of up to 20% of the contract value and the rest of the agreed remuneration - after performance of the contract obligations postponed on a specific date or according to an agreed payment scheme. Deferred payment is usually from 30 days to 2 years. For deferred payments over 1 year, the Group has determined that there is a *funding element* and, *if material*, it adjusts the transaction price to reflect the effect of the time value of money using a discount rate that reflects the credit characteristics of the country receiving the funding (the client). The collected prepaid payments by the client are presented in the financial statements as liabilities under contracts with customers, and accrued interest is presented as financial income in the statement of comprehensive income.

Sale of services

The services provided by the Group include: pre-distribution services of customer goods, post-warranty service of medical equipment (apparatus), etc. Revenue from services is presented as other income in the statement of comprehensive income, as long as they are not part of the Group's core business.

Out-of-warranty service

A Group company carries out post-warranty service under the conditions of subscription payment. Post-warranty service contracts are usually up to 2 years. The remuneration is fixed and determined on an annual basis and / or for the entire duration of the contract and is distributed on an equal monthly basis. The services are usually invoiced monthly, and the payment period is 30 to 60 days from the date of issue of the invoice to the assignor.

The post-warranty service includes various permanent / repetitive tasks / activities that are identifiable and are part of an integrated service. They are a series of identifiable services and are therefore a performance obligation because:

(a) the integrated maintenance service includes multiple identifiable time periods (usually one month);

(b) the services are essentially the same as the client receives a constant benefit from them every single time period (each month), even if the tasks performed are different in nature and quantity;

(c) control is transferred over time as the customer receives and consumes the service at the same time as it is provided, and it is not necessary for another company to repeat in substance the work that the Group Company has performed on the relevant date if that other company has to perform the remaining part of the obligation.

Revenue is recognized over time, with progress on the contract (stage of completion) measured on a per-time basis (on a monthly basis). This method is considered to be the most appropriate measure of progress as services are provided on a monthly basis and are part of a series and therefore best describes the Group's business of transferring control and meeting obligations.

Other services

For other services performed by the Group, the control is transferred to the client over the period of time when they are provided as the client simultaneously receives and consumes the benefits of the Group's operations. Sales revenue is recognized over time by measurement of the Group's obligation performance (the stage of completion). To measure progress (the stage of completion), the Group uses the output method based on the amount of services provided.

2.6.1.4. Costs from contracts with customers

As contract costs with customers, the Group 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 Group 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.

2.6.1.5. Balances on contracts with customers

Trade receivables and assets under contracts

The contract asset is the right of the Group 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 Group 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 Group 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 Group 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*.

2.6.1.6. Feedback assets under contracts with clients

The right of return is the Group's right to receive re-sold goods that are expected to be returned by customers *(Note 24)*. Originally, this right is valued at the book value of the goods expected to be returned, decreased with the expected recovery costs, expected decrease in value of the returned products, incl. due to the expiration date. At the end of each reporting period, the Group updates the valuation of the recognized return assets related to changes in expectations regarding the volume of returns and other reductions in their value.

Assets on the right of return are presented in the financial statements at the position of inventories and are disclosed separately in the notes to the annual financial statements.

2.6.1.7. Repayment obligations under contracts with customers

The reimbursement obligation includes the Group'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, quality compensation discounts and/ or under contracts with reimbursement obligation. Initially, the reimbursement obligation is assessed at the amount that the Group does not expect to have the right and which the Group expects to repay to the customer. At the end of each reporting period, the Group 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.

2.6.2 Accounting policy applicable until 31 December 2017

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

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

Upon rendering of services, revenue is recognised by reference to the stage of completion of the transaction at the end of the reporting period, if this stage as well as the costs incurred for the transaction and the costs to complete the transaction, can be measured reliably.

Revenue is measured on the basis of the fair value of the products, goods and services sold, net of indirect taxes (excise duties and VAT) and any discounts and rebates granted.

Revenue on sale of goods under a loyalty programme are allocated between the programme and the other components of the transaction (sale of goods). The amount received under the loyalty programme is deferred as a liability and is recognised as income when the company fulfils its obligations to provide the promoted products in line with the programme terms or when its becomes unlikely that the points under the programme will be used.

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

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

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

2.6.3. Financial income

Financial income is included in the statement of comprehensive income (in the 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 income on overdue receivables, income/gains from deals with investments in securities at fair value through profit or loss, or other comprehensive income, incl. dividends, net gains on exchange differences under loans in foreign currency, income from debt settlement transactions, gains from fair value measurement of investments in securities at fair value through profit or loss or other comprehensive income, gains from fair value measurement of investments that are part of the phased acquisition of a subsidiary.

Financial income is presented separately from the financial expenses on the face of the 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 (i.e. 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 in the Group when they are incurred based on the accrual and matching concepts (to the extent that this would not lead to recognition of an asset or liability not satisfying the definitions for assets and liabilities in the Framework and IFRS themselves).

Deferred expenses are put off and recognised as current expenses in the period when the contracts, whereto they refer, are performed.

Losses from revaluation of investment property to fair value are presented in the consolidated statement of comprehensive income (within profit or loss for the year) on the line 'other operating income/(losses)'.

Finance costs are included in the consolidated statement of comprehensive income when incurred separately from finance costs and comprise: interest expenses under loans received, bank fees and charges under loans and guarantees, foreign exchange net loss from loans in foreign currencies, expenses/losses from investments in available-for-sale securities, expenses on debt settlement transactions, loss on fair value measurement of available-for-sale investments in the acquisition of a subsidiary performed in stages.

2.8. Mandatory dividend for distribution

The subsidiary company Sopharma Buildings REIT has the status of a joint-stock special-purpose investment company within the meaning of the Bulgarian Special Purpose Investment Companies Act (SPICA). For this reason, the company has specific policy for distribution of dividends to shareholders in line with the requirements of the law, namely:

- the company is obliged by law to distribute as dividend not less than 90% of the generated profit for the respective financial year adjusted in accordance with SPICA; and
- the distribution of the remaining 10% is determined by a decision of the General Meeting of Shareholders as per the common procedure of the Bulgarian Commercial Act, including for dividend payment.

The statutory dividend at an amount of not less than 90% of the generated profit is recognised as a liability in the current year and in decrease (mandatory distribution) of the current profit for the year.

In 2017 and 2018, the subsidiary did not distribute mandatory dividend as it reported a negative financial result (loss).

2.9. Property, plant and equipment

Property, plant and equipment (fixed tangible assets) are presented in the consolidated financial statements at revalued amount less the accumulated depreciation and impairment losses in value.

Initial acquisition

Upon their initial acquisition, property, plant and equipment are valued at acquisition cost (cost), which comprises the purchase price, including customs duties and any directly attributable costs of bringing the asset to working condition for its intended use. The directly attributable costs include the cost of site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes, expenses on capitalised interest for qualifying assets, etc.

Property, plant and equipment of acquired subsidiaries are measured at fair value at the transaction (business combination) date which is accepted as acquisition price for consolidation purposes.

Upon acquisition of property, plant and equipment under deferred settlement terms, the purchase price is equivalent to the present value of the liability discounted on the basis of the interest level of the attracted by the Group credit resources with analogous maturity and purpose.

The Group has set a value threshold of BGN 500, below which the acquired assets, regardless of having the features of fixed assets, are treated as current expense at the time of their acquisition.

Subsequent measurement

The chosen by the Group approach for subsequent measurement of property, plant and equipment, is the revaluation model under IAS 16, i.e. measurement at revalued amount less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The revaluation of property, plant and equipment is accepted to be performed by certified appraisers normally in a period of five years. Where the fair value changes materially in shorter periods, revaluation may be performed more frequently.

Subsequent costs

Repair and maintenance costs are recognised as current expenses as incurred. Subsequent costs incurred in relation to property, plant and equipment having the nature of replacement of certain components, significant parts and aggregates or improvements and restructuring, are capitalised in the carrying amount of the respective asset whereas the residual useful life is reviewed at the capitalisation date. At the same time, the non-depreciated part of the replaced components is derecognised from the carrying amount of the assets and is recognised in the current expenses for the period of restructure.

Depreciation methods

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

The useful life per group of assets is as follows:

- buildings – 20-70 years;
- installations – 5-25 years;
- machinery and equipment – 7-25 years;
- computers and mobile devices – 2-5 years;
- motor vehicles – 5-17 years;
- servers and systems – 4-12 years;
- furniture and fixtures – 6-12 years.

The useful life, set for any tangible fixed asset, is reviewed by the management of each company within the Group and respectively, by the parent company, at the end of each reporting period and in case of any material deviation from the future expectations of their period of use, the latter is adjusted prospectively.

Impairment of assets

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount might permanently differ from their recoverable amount. If any indications exist that the estimated recoverable amount of an asset is lower than its carrying amount, the latter is adjusted to the recoverable amount of the asset. The recoverable amount of property, plant and equipment is the higher of fair value less costs to sell or the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions and assessments of the time value of money and the risks, specific to the particular asset. Impairment losses are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) unless a revaluation reserve has been set aside for the respective asset. Then the impairment is treated as a decrease in this reserve (through other comprehensive income) unless it exceeds its amount and the excess is included as expense in the consolidated statement of comprehensive income (within profit or loss for the year).

Gains and losses on disposal (sale)

Tangible fixed assets are derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of 'property, plant and equipment' group are determined as the difference between the remuneration the Group expects to be entitled to (the proceeds from the sale) and the carrying amount of the asset to the date to which the recipient receives control over it. They are stated net 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.

2.10. Biological assets

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

The fair value of biological assets is determined on the basis of their present location and condition based on a price quoted in an active market or other alternative sources of current prices. Gain or loss on initial recognition of a biological asset at fair value less estimated costs to sell and changes in fair value less estimated costs to sell is recognised in the consolidated statement of comprehensive income (within profit or loss for the year) in the period in which it arises and is presented in 'other operating income/(losses), net'. When the fair value of a biological asset cannot be reliably measured, it is measured at cost less accumulated depreciation or impairment losses. Subsequently, when the fair value of this biological asset becomes reliably measurable, the Group changes its approach and switches to measuring the asset at fair value less the estimated costs to sell.

2.11. Intangible assets

Goodwill

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

Goodwill arising on the acquisition of a subsidiary is presented in the consolidated statement of financial position in the group of 'intangible assets' while goodwill arising on the acquisition of a joint venture or an associate (entities) is incorporated in the total amount of the investment and is stated in the group of 'investments in joint ventures' or respectively 'investments in associates'.

The goodwill on the acquisition of joint ventures and associates (entities) is tested as part of the total balance (amount) of the investment. The individually recognised goodwill on the acquisition of subsidiaries (entities) is mandatory tested for impairment at least once in a year. Impairment losses on goodwill are not subsequently reversed. Gains or losses on the sale (disposal) of a particular subsidiary (entity) of the Group include the carrying amount of the goodwill relating to the entity sold (disposed of).

On the realisation of a particular business combination, each recognised goodwill is allocated to a particular cash generating unit and this unit is used for impairment testing. The allocation is made to those cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Impairment losses on goodwill are presented in the consolidated statement of comprehensive income (within profit or loss for the year) in the item 'impairment of non-current assets'.

Other intangible assets

Intangible assets are stated in the consolidated financial statements at acquisition cost less accumulated amortisation and any impairment losses in value. The intangible assets include mainly intellectual property rights, software and complex intangible assets (licences and pharmacy chain locations).

The Group applies the straight-line amortisation method for the intangible assets with determined useful life from 3 to 18 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 amortisation expense in the consolidated statement of comprehensive income (within profit or loss for the year).

Intangible assets are derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of intangible assets are determined as the difference between the remuneration the Group expects to be entitled to (the proceeds from the sale) and the carrying amount of the asset to date, the recepient receives control over it. They are stated net under 'other operating income/(losses) from the activity‘ on the face of the statement of comprehensive income (within profit or loss for the year).

2.12. Investment property

Investment property is property lastingly held by the Group to earn rentals and/or for capital appreciation. They are presented in the consolidated statement of financial position at fair value. Gains or losses arising from a change in the fair value of investment property are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as 'other operating income/(losses), net' for the period in which they arise. The income gained on investment property is presented in the same item of the consolidated statement of comprehensive income.

Investment properties are derecognised from the statement of financial position when they are permanently withdrawn from use and no future economic benefits are expected therefrom or on disposal. Gains or losses arising from the disposal of investment property are determined as the difference between the remuneration the Group expects to be entitled to (the proceeds from the sale) and the carrying amount of the asset to the date the recepient receives control over it. They are presented net 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 functional designation and the use of a particular property. In case of a transfer from 'investment property' to 'owner-occupied property', the asset is recognised in the new group at deemed cost, which is its fair value at the date of transfer.

To the opposite, in case of a transfer from 'owner-occupied property' to 'investment property' the asset is measured at fair value at the date of transfer while the difference to its carrying amount is presented as a component of the consolidated statement of comprehensive income (within other comprehensive income) and within 'revaluation reserve – property, plant and equipment' in the statement of changes in equity.

2.13. Investments in associates and joint ventures

Long-term investments, representing shares in associates and joint ventures, are presented in the consolidated financial statements under the equity method – value that includes the acquisition cost being the fair value of the consideration paid, including the direct costs on investment acquisition adjusted by investor's share of profits or losses and respectively the other reserves of the joint ventures and associates after the dates of their acquisition.

The share of profits and losses after the date of acquisition of an associate and a joint venture is presented on a separate line in the consolidated statement of comprehensive income (within profit or loss for the year) while the share of other components of comprehensive income – on the respective line of the consolidated statement of comprehensive income (within other comprehensive income) and as a separate movement of the individual components of reserves in the consolidated statement of changes in equity.

The investments in associates and joint ventures held by the Group together with the included goodwill are subject to review for impairment at the date of the financial statements. Where conditions for impairment are identified and its amount is determined, the impairment is included in the consolidated statement of comprehensive income (within profit or loss for the year) in the item 'gain/(loss) from associates and joint ventures'.

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

Investments in associates and joint ventures are derecognised when the rights related thereto are transferred to third parties as a result of occurrence of legal rights for that and thus the significant influence over or joint control of the economic benefits from the investments is being lost. The income from their sale is presented in 'gain/(loss) from associates and joint ventures' of the consolidated statement of comprehensive income (within profit or loss for the year).

2.14. 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 2.25)*

All purchases and sales of equity investments are recognized on the "trading date" of the transaction, i.e. 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 Fair values*) 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 permanent impairment, the latter is 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 is 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.

2.15. Inventories

Inventories are valued in the consolidated financial statements as follows:

- raw materials, consumables and goods – at the lower of 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.

The inclusion of fixed production overheads in the production cost of finished products, semi-finished products and work in progress is based on normal production capacity.

They are allocated to finished products on the following bases chosen by the Group:

- for production of medicinal products – the standard rate of man-hours of directly engaged staff in the production of the particular unit;

- for production of infusion solutions – quantity of manufactured finished products;
- for production of plastic medical disposable products – planned cost of manufactured finished products.

The parent 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, are adopted materiality thresholds regarding: (a) variance on supply of raw materials and other production materials – up to 2%, and (b) variance on production – up to 1%, within which the current value of the existing closing stocks of raw and other materials, finished products and work in progress are not adjusted for the purposes of the consolidated financial statements.

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

The net realisable value represents the estimated selling price of an asset in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

2.16. Trade receivables

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

Initial evaluation

Trade receivables are initially presented 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 Group 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 2.25 Financial instruments*).

Impairment

Accounting policy applicable from 1 January 2018

The Group applies the pattern of expected credit losses for the entire duration of all trade receivables using the simplified approach assumed by IFRS 9 and based on a matrix model for the percentage of loss (*Note 24 Trade receivables*).

Impairment of receivables is accrued through a corresponding Correction Account for each type of receivable to the item "Other operating expenses" on the face of the statement of comprehensive income 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 off when the legal grounds for that occur.

2.17. Interest-bearing loans and other financial resources granted

All loans and other financial resources granted are initially recognised at acquisition price (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, net of the direct costs related to these loans and granted resources. After the initial recognition, the interest-bearing loans and other granted resources are subsequently measured and presented in the financial statements at amortised cost by applying the effective interest rate method. Amortised cost is calculated by taking into account all types of charges, commissions, and other costs, associated with these loans. Gains and losses are recognised in the statement of comprehensive income (within profit or loss for the year) as 'finance income' (interest) or 'finance costs' throughout the amortisation period, or when the receivables are settled, derecognised or reduced.

Interest 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 financial resources granted are classified as current ones unless for the relevant portion thereof the Group has unconditionally the right to settle its obligation within a term of more than 12 months after the end of the reporting period *(Note 2.25).*

2.18. Cash and cash equivalents

Cash includes cash in hand and cash at current accounts while cash equivalents include bank deposits, with an original maturity of up to three months and deposits with longer maturity, the funds of which are freely available to the Group in accordance with the terms and conditions agreed with the banks within the deposit term *(Note 2.25).*

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.

2.19. Trade and other payables

Trade and other current amounts payable are carried to the consolidated financial statements at original invoice amount (acquisition cost), which is the fair value of the transaction to be paid in the future for goods and services received. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the payables are initially valued at their fair value on the basis of their present value at a discount rate inherent in the companies of the Group, and subsequently – at amortised cost *(Note 2.25)*.

2.20. Interest-bearing loans and other borrowed financial resources

All loans and other borrowings are initially recognised in the consolidated financial statements at cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, netted of the direct costs related to these loans and borrowings. After the initial recognition, the interest-bearing loans and other borrowings are subsequently measured and presented in the consolidated financial statements at amortised cost by applying the effective interest rate method. Amortised cost is calculated by taking into account all types of charges, commissions and other costs, including any discount or premium, associated with these loans. Gains and losses are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as finance income or costs (interest) throughout the amortisation period, or when the liabilities are derecognised or reduced *(Note 2.25).*

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

Interest-bearing loans and other borrowed financial resources are classified as current except for the portion for which the Group has an unconditional right to settle its liability within 12 months of the end of the reporting period.

2.21. Capitalisation of borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset of the Group are capitalised as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a period of at least 12 months to get ready for its intended use or sale.

The amount of borrowing costs eligible for capitalisation to the value of a qualifying asset is determined by applying a capitalisation rate. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when the following conditions are met: expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress.

Borrowing costs are also reduced by any investment income earned on the temporary investment of those borrowed funds.

2.22. Leases

Finance lease

Lessee

Finance leases, which transfer to the Group a substantial part of all risks and rewards incidental to ownership of the leased property, plant and equipment, are recognised as assets in the statement of financial position of the lessee and are presented as leased item of property, plant and equipment at their immediate sale price or, if lower, at the present value of the minimum lease payments.

The lease payments are apportioned between the finance cost (interest) and the attributable portion (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 consolidated statement of comprehensive income (within profit or loss for the year) as finance costs (interest) based on the effective interest rate *(Note 2.25).*

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

Lessor

Finance lease, where a substantial portion of all risks and rewards incidental to the ownership of the leased asset is transferred outside the Group, is written-off from the assets of the lessor and is presented in the statement of financial position as a receivable at an amount equal to the net investment in the lease. The net investment in the lease agreement represents the difference between the total amount of minimum lease payments under the finance lease agreement and the non-guaranteed residual value, accrued for the lessor and the non-earned finance income.

The difference between the carrying amount of the leased asset and the immediate (fair selling) value is recognised in the consolidated statement of comprehensive income (within profit or loss for the year) in the beginning of the lease term (when the asset is delivered) as sales income.

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

Operating lease

Lessee

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

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

Lessor

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

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

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

The employment and social security relations with workers and employees of the Group are based on the Labour Code and the provisions of the effective social security legislation for the companies operating in *Bulgaria*, the Polish Code – for the companies in *Poland*, the employment legislation and the Collective Labour Agreement – for the companies in *Ukraine*, the employment legislation, the General Collective Labour Agreement and the effective Employment Rules and Regulations – for the companies in *Serbia*, the Labour Act – for the company in *Latvia*, the employment legislation – for the companies in *Belarus*, the Social Security Law of the Republic of Kazakhstan – for the company in *Kazakhstan* and the Labour Code – for the company in *Lithuania* and under the Moldovian Labour Code for the company in *Moldova*.

Short-term benefits

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

At each date of consolidated balance sheet, the companies of the Group measure the estimated costs on the accumulating compensated absences, which amount is expected to be paid as a result of the unused entitlement. The measurement includes the estimated amounts of employee's remuneration and the statutory social security and health insurance contributions due by the employer thereon.

Tantieme

In terms specifically included in the statutes of the Group companies and decided by the General Meeting of the company, the CEO and / or other executives are entitled to receive a one-off remuneration (bonuses), usually defined as a percentage of the net profit of the company. This type of wage costs are recognized in the statement of comprehensive income (in profit or loss) in the item "personnel costs". When a part is required to be deferred for longer than the 12-month period, this part is measured at its present value at the balance sheet date and points to current liabilities in the statement of financial position item "employee obligations"

Bonus schemes

Amounts due to personnel, incl. key management personnel, under different bonus schemes applied by the companies in the Group, are accrued for the accounting year for which the results are reported. This type of wage costs are recognized in the statement of comprehensive income (in profit or loss) in the item "staff costs" and in the statement of financial position as "payables to staff" and are usually short-term.

Long-term retirement benefits

Defined contribution plans

For Bulgaria

The major duty of the companies - employers in Bulgaria is to make the mandatory social security contributions for the hired employees to the Pensions Fund, the Supplementary Mandatory Pension Security (SMPS) Fund, to the General Diseases and Maternity (GDM) Fund, the Unemployment Fund, the Labour Accident and Professional Diseases (LAPD) Fund, and for health insurance.

The rates of the social security and health insurance contributions are defined annually in the Law on the Budget of State Social Security and the Law on the Budget of National Health Insurance Fund for the respective year. The contributions are split between the employer and employee in line with rules of the Social Security Code (SSC).

These pension plans, applied by the Company in its capacity as an employer, are defined contribution plans. Under these plans, the employer pays defined monthly contributions to the government funds as follows: Pensions Fund, GDM Fund, Unemployment Fund, LAPD Fund as well as to universal and professional pension funds – on the basis of rates fixed by law, and has no legal or constructive obligation to pay further contributions if the funds do not hold sufficient means to pay the respective individuals the benefits they have worked-out over the period of their service. The obligations referring to health insurance are analogous.

For companies abroad

The rates of the social security contributions in Poland are approved by the Law on the National Social Security System, in Ukraine – Law on Pension Provision, in Serbia – the Law on Labour in the Republic of Serbia, in Latvia – the Law on Social Security, in Lithuania – Law on National Social Security, in Belarus – the Law on the Mandatory Contributions to the Fund for Social Security of the Population of the Ministry of Labour and Social Security, and in Kazakhstan – Law of the Republic of Kazakhstan on Social Security Obligations and Moldova – with the Law for the budget and the sate social insurance. The social security contributions are being apportioned between an employer and employees at ratios regulated by the relevant local laws.

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

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

Defined benefit plans

In accordance with the requirements of the Labour Code, the employer of the companies in *Bulgaria* is obliged to pay to its personnel upon retirement an indemnity, which depending on the length of service at the entity varies between two and six gross monthly salaries as at the termination date of the employment. In accordance with the Labour Law in *Serbia*, the employer of the Serbian company is obliged to pay to its personnel on coming of age for retirement an indemnity at the amount of at least three average salaries calculated at the time of payment.

In accordance with the employment legislation in *Ukraine* and the Collective labour Agreement of the Ukrainian company, the employer is obliged to pay to its personnel on coming of age for retirement an indemnity, which depending on the length of service with the entity may vary between UAH 100 and UAH 200 (between BGN 6 and BGN 12). Also, the company in Ukraine accrues social indemnities, which are paid prior to retirement of employees due to specific labour conditions. According to the employment legislation in Poland, the employer is obliged to pay upon retirement one gross monthly salary. According to the employment legislation, there are no obligations to the personnel on retirement in Lithuania, Latvia, Belarus and Moldova.

In their nature these are unfunded defined benefit schemes.

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

At the date of issue of the consolidated financial statements, the companies of the Group assign certified actuaries who provide their report with calculations regarding the long-term retirement benefit obligations. For this purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows, which are expected to be paid within the maturity of this obligation, and using the interest rates of long-term government bonds of similar term, quoted in the respective country where the company itself operates.

Termination benefits

In accordance with the local provisions of the employment and social security regulations of the Group companies, the employer is obliged, upon termination of the employment contracts prior to retirement, to pay certain types of indemnities.

The Group recognises employee benefit obligations on employment termination before the normal retirement date when it is demonstrably committed, based on an announced plan, including for restructuring, to terminating the employment contract with the respective individuals without possibility of withdrawal or in case of formal issuance of documents for voluntary redundancy. Termination benefits due more than 12 months are discounted and presented in the consolidated statement of financial position at their present value.

2.24. Share capital and reserves

Sopharma AD (the parent company) is a joint-stock company and is obliged to register with the Commercial Register a specified ***share capital***, which should serve as a security for the creditors for execution of their receivables. Shareholders are liable for the obligations of the Company up to the amount of the capital share held by each of them and may claim returning of this share only in liquidation or bankruptcy proceedings. The parent company reports its share capital at the nominal value of the shares registered in the court.

According to the requirements of the Commercial Act and the Articles of Association, the parent company is obliged to set aside a ***Reserve Fund (statutory reserve)*** by using the following sources:

- at least one tenth of the profit, which should be allocated to the Fund until its amount reaches one tenth of the share capital or any larger amount as may be decided by the General Meeting of Shareholders;
- any premium received in excess of the nominal value of shares upon their issue (share premium reserve);
- other sources as provided for by a decision of the General Meeting.

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

The ***treasury shares*** are presented in the consolidated statement of financial position at acquisition cost (cost) and Group's equity is decreased by their gross purchase price. Gains or losses on sales of treasury shares are at the expense of retained earnings and are carried directly to Group's equity in the 'retained earnings' component.

Revaluation reserve – property, plant and equipment is set aside from:

- the revaluation surplus between the carrying amount of property, plant and equipment and their fair values at the date of each revaluation;
- the revaluation surplus between the carrying amount of property stated as owner-occupied property and their fair values at the date when they are transferred to investment property.

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

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

The revaluation reserve covers the impairment of the assets to which it relates. It may be used in the implementation of Group's dividend and capital policies only after it is transferred to the 'retained earnings' component.

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).

The reserve of foreign activities recalculations in the currency of presentation includes the effects of restating the financial statements of the companies abroad from local currency to the presentation currency of the Group. This reserve is recognised as a separate component of equity in the consolidated statement of financial position and as part of the profit or loss in the consolidated statement of comprehensive income on the line 'gains/(losses) on acquisition and disposal of subsidiaries, net' on disposal (sale) of a foreign operation (company).

2.25. Financial instruments

2.25.1. 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 Group 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 *Revenue from contracts with customers* (*Note 2.6.1.2*).

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), i.e. on the date that the Group 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 companies of the Group for their 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 the Group for financial asset management reflects the way the companies of the Group manage their 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 the following categories:

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

Classification groups

Financial assets at amortized cost (debt instruments)

The Group 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 Group 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, 25 and 27*).

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

Upon initial recognition, the companies of the Group 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 Group 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. Significant part of them is traded on the capital markets. These investments are 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 Group 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 Group has undertaken to pay the fully received cash flows without significant delay to a third party through a transfer agreement; wherein: or (a) the Group has transferred substantially all the risks and rewards of ownership of the asset; or (b) the Group 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 Group 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 Group 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 Group 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 Group 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 Group may be required to pay.

Impairment of financial assets

The Group 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 Group 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 Group applies the general approach for impairment set by IFRS 9. Under this approach, the Group 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 Stage 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 Group 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 Group 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 Group.

The Group 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 Group 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 Group 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 Group 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.

Classification groups

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 Group 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).

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 Group has not classified any of its financial liabilities as such at fair value in profit or loss.

Loans received and other borrowed funds

Following initial recognition, the Group 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 the relation between the companies of the Group with a counterparty that, in the coexistence of these two requirements, the expected actual cash flow and the benefits of these estimates for the companies of the Group are the net flow, the net amount reflects the actual right or obligation of the Group 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 Group'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 / overdue, and
  - in case of default 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".

2.25.2. Accounting policy applicable until December 31, 2017

Financial assets

The Group classifies its financial assets in the following categories: 'loans (credits) and receivables', 'available-for-sale assets' and 'assets at fair value through profit'. The classification depends on the nature and purpose (designation) of the financial assets at the date of their acquisition. The management of the parent company together with the management of the respective subsidiary determine the classification of the financial assets for the purposes of the Group at the date of their initial recognition in the statement of financial position.

The Group companies usually recognise their financial assets in the statement of financial position on the trade date, being the date on which they commit to purchase the respective financial assets. All financial assets are initially measured at their fair value plus the directly attributable transaction costs.

Financial assets are derecognised from the Group's consolidated statement of financial position when the rights to receive cash from these assets have expired or have been transferred, and the Group has transferred substantially all the risks and rewards of ownership of the asset to another entity (person) external thereto. If the Group retains substantially all risks and rewards associated with the ownership of a particular transferred financial asset, it continues to recognise the transferred asset in its consolidated statement of financial position but also recognises a secured liability (a loan) for the consideration received.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured in the consolidated statement of financial position at their amortised cost using the effective interest method less any allowance for impairment. These assets are included in the group of current assets when having maturity within 12 months or within a common operating cycle of the respective Group company while the remaining ones are carried as non-current assets.

This group of financial assets includes: loans granted, trade receivables, other receivables from counterparts and third parties, cash and cash equivalents from the consolidated statement of financial position *(Notes 2.16, 2.17 and 2.18).* Interest income on loans and receivables is recognised by applying the effective interest rate except for short-term receivables (due in less than three months) where the recognition of such interest would be unjustifiable as immaterial and within the common credit terms. It is presented in the consolidated statement of comprehensive income (within profit or loss for the year) under the item 'finance income'.

At the end of each reporting period, the Group companies assess whether events and circumstances have occurred that indicate the existence of objective evidence necessitating loans and receivables to be impaired *(Note 2.31).*

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative assets that are either acquired for the purpose of being sold or are not classified in any other category. For the Group, these are usually shares, bonds or interest in other (third) companies, acquired for investment purposes (available-for-sale investments), and are included within non-current assets, except where a Group company intends to sell them in the following 12 months and is actively searching for a buyer *(Note 2.14).*

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

The available-for-sale financial assets are subsequently measured at fair value except for the shares in closed-end companies not traded in a stock-exchange market *(Note 2.14)*.

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

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

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

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

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

Financial assets at fair value through profit

The financial assets at fair value through profit are non-derivative assets acquired for the purpose of gaining current income through shares in funds for investing of cash collected in a portfolio of various companies. These instruments represent held shares in investments funds *(Note 2.14.2)*. The shares in investment funds are initially measured at acquisition cost. Subsequently, at the date of each consolidated financial statements, they are measured at fair value determined on the basis of the terms and conditions for participation. The fair value is calculated and analysed by the investment funds themselves. The effects of revaluation to fair value are recognised immediately in the consolidated statement of comprehensive income in the items 'finance income' or 'finance costs' depending on the financial result – profit or loss.

Financial liabilities and equity instruments

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

Financial liabilities

The financial liabilities of the Group include loans and payables under factoring agreement, payables to suppliers and other counterparts. They are initially recognised in the consolidated statement of financial position at fair value net of the directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method *(Notes 2.20, 2.21 and 2.22).*

2.26. 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.

2.27. Income taxes

Current income taxes of the Bulgarian companies of the Group are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act (CITA). The nominal income tax rate in Bulgaria for January-September 2018 is 10 % (2017: 10%).

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

Country	***Tax rate***	
	2018	***2017***
Ukraine	18%	18%
Serbia	15%	15%
Latvia	15%	15%
Belarus	18%	18%
Lithuania	0-25%	15%
Poland	19%	19%
Kazakhstan	20%	20%
Moldova	12%	12%

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

Deferred tax liabilities are recognised for all taxable temporary differences, with the exception of those originating from recognition of an asset or liability, which has not affected the accounting and the taxable profit/(loss) at the transaction date.

Deferred tax assets are recognised for all deductible temporary differences and the carry-forward of unused tax losses, to the extent that it is probable they will reverse and a taxable profit will be available or taxable temporary differences might occur, against which these deductible temporary differences can be utilised, with the exception of the differences arising from the 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 directly credited or charged as other components of comprehensive income or as an equity item in the consolidated statement of financial position, are also reported directly in the respective component of the comprehensive income or the equity item in the statement of financial position.

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

Deferred tax assets of a Group company are presented net against the deferred tax liabilities of this company when it is the tax payer in the respective jurisdiction, and this is only in cases where the company is legally entitled to perform or receive net payments of current tax liabilities or income tax receivables.

2.28. Government grants

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

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

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

A government grant that compensates investment expenses incurred to acquire an asset is recognised in current profit or loss on a systematic basis over the useful life of the asset usually proportionately to the amount of the recognised depreciation charge.

2.29. Net earnings or losses per share

Net earnings or losses per share are calculated by dividing net profit or loss attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the period.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding during at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor.

This factor represents the number of days that the shares are outstanding as a proportion of the total number of days in the period.

In case of a capitalisation, bonus issue or splitting, the number of the outstanding ordinary shares as at the date of such event, is adjusted as to reflect the proportional change in the number of outstanding ordinary shares as if the event has occurred in the beginning of the earliest presented period.

Diluted net earnings or losses per share are not calculated because no dilutive potential ordinary shares have been issued within the Group.

2.30. Fair value measurement

Some of the Group's assets and liabilities are measured and presented and/or just disclosed at fair value for financial reporting purposes. Such are: *(a)* on a recurring (annual) basis – *other long-term equity investments (prior reporting period - available-for-sale financial assets), financial assets at fair value through profit or loss, investment property, granted and received bank loans and loans from third parties, certain trade and other receivables and payables, finance lease receivables and payables; and other (b)* on a non-recurring (periodical) basis – *non-financial assets such as property, plant and equipment.*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants at the measurement date. Fair value is an exit price and is based on the assumption that the sale transaction will take place either in the principal market for this asset or liability or in the absence of a principal market – in the most advantageous market for the asset or liability. Both the designated as a principal market and the most advantageous market are markets to which the Group must have an access.

Fair value is measured from the perspective of using the assumptions and judgments that potential market participants would use when pricing the respective asset or liability assuming that market participants act in their economic best interest.

Fair value is measured from the perspective of using the assumptions and judgments that potential market participants would use when pricing the respective asset or liability assuming that market participants act in their economic best interest.

In measuring the fair value of non-financial assets the starting point is always the assumption what would be the highest and best use of the particular asset for the market participants.

The Group applies various valuation techniques that would be relevant to the specific features of the respective conditions and for which its has sufficient available inputs while trying to use at a maximum the publicly observable information, and respectively, to minimize the use of unobservable information. It uses the three acceptable approaches – *the market approach, the income approach and the cost approach* – whereas the most frequently applied valuation techniques include directly quoted and/or adjusted quoted market prices, market comparables (analogues) and discounted cash flows, including based on capitalised rental income.

All assets and liabilities that are measured and/or disclosed in the financial statements at fair value, are categorised within the following fair value hierarchy, namely:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques that use inputs other than directly quoted prices but are observable, either directly or indirectly, including where the quoted prices are subject to significant adjustments; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised at fair value in the financial statements on a recurring basis, the Group 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 parent 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 of the Group, organises the performance of the overall valuation process and also coordinates and observes the work of the external appraisers.

The Group uses the expertise of external certified appraisers to determine the fair value of the following assets and liabilities: *other long-term equity investments (prior reporting 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 the Financial Director and / or the Chief Accountant, the Executive Director and the Board of Directors of the relevant Company and the Financial Director of the Group.

In accordance with Group’s accounting policy, at the end of each reporting period the specifically designated individual, engaged with measurements, performs a general analysis of collected in advance information about the movement in the values of assets and liabilities that are subject to valuation or to a disclosure at fair value, the type of available data and the possible factors for the observed changes, and proposes for approval to the Finance Director, the approach for measuring the fair value of the respective assets and liabilities at that date. Where necessary, this is explicitly consulted with the involved external appraisers.

The results from the process of fair value measurement are presented to the audit committee and to Group’s independent auditors.

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

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

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, expenses, 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.*

Fair value measurement of financial instruments

When the fair value of financial assets reported in the statement of financial position cannot 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 cannot be done, the determination of fair values implies the application of a certain degree of judgment. Such an estimation 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 2.25).*

Calculation of expected credit losses for financial assets measured at amortized cost and guarantees provided

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 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 Group'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) the formation of groups of similar financial assets (portfolios) for the purposes of measuring the expected credit losses;

(d) 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, future in the calculation of expected credit losses. (*Note 41*).

Approximate estimates to 31 December 2017

The losses from doubtful and bad debts are estimated at the date of the consolidated financial statements on individual basis for each receivable. Where difficulties in collecting certain receivables are observed, they are subject to analysis in order to determine the actually collectable portion therefrom while the remaining portion to the nominal value is recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as an impairment loss *(Note 10).*

Group's policy to ensure collectability and evaluate the impairment of receivables is based on the following specific rules:

(a) With regard to clients – hospitals, accrual of interest for delay starts (in- or off-balance sheet) in case of 30 days of delay after the end of the credit period. If delinquency continues for further 30 days actions are undertaken for signing of a rescheduling agreement. In case the agreement is not complied with, legal actions are initiated and the relevant legal procedures whereby to ensure the collection of the receivable together with the respective interest and penalties;

(b) With regard to clients – pharmacies, on a 5-day delay after the expiry of the credit period, the sales under deferred payment terms are suspended. If delays continue, on the 45th day of delinquency all sales are terminated and actions are undertaken for concluding of an agreement for payment of the due amounts. If the agreement is not complied with, legal proceedings are initiated;

(c) With regard to clients – related parties (hospitals), deliveries are suspended in case of more than 30-day delinquency. If delinquencies continue for further 30 days, actions are undertaken for signing of a rescheduling agreement.

After 180 days of delay it is already considered that indicators for impairment may exist. In the assessment of the collectability of receivables, the management of the Group companies perform analysis of the total exposure of each counterpart in order to establish the actual possibility for their collection and not only at the level of past due individual receivables from the total amount due by the counterpart, including the potential for collecting interest for compensating delays. When the collectability of a receivable (a group of receivables) is highly uncertain, an assessment is made what part thereof is secured by collateral (pledge, mortgage, guarantees) and thus with ensured collection (through future realisation of the collateral or guarantee payment). Where the management has concluded that a very high uncertainty exists as to the collectability of certain receivables or part of them and they are not secured by collateral, the receivables are impaired to 100% *(Notes 22, 23 and 24).*

Recognition of tax assets

On recognition of deferred tax assets, the management of the Group has assessed the probability the individual deductible temporary differences to reverse in the future and each of the Group companies' capability to generate sufficient taxable profit for their offset. The management of the Group has assessed at the date of issue of the consolidated financial statements the subsidiaries that continue to report losses in the last years with regard to existing significant uncertainties as to whether and to what extent within the final term, determined with the respective local tax regulations for tax loss carry forward, these companies would be able to generate sufficient taxable profit.

Inventories

Normal capacity

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

Allowance for impairment

At the end of each financial year, the Group companies review the state, useful life and usability of the existing inventories. Where inventories are identified that are potentially likely to not be realised at their current carrying amount in the following reporting periods, the Group companies impair the inventories to net realisable value.

As a result of the performed reviews and analyses for the 2018, restored impairment of inventories at the amount of BGN 2,839 thousand has been reported in the consolidated statement of comprehensive income (within profit or loss for the year) (2017: 3,662 thousand) *(Note 6).*

Revaluation of property, plant and equipment

As at 31 December 2016, an overall review was performed in regard of the price changes in the fair value of Group's tangible fixed assets as well as of their physical and technical state, mode of operation and residual useful life. Respectively, revaluation was made because the adopted five-year period for their remeasurement, as per the policy adopted, ended at that date. The review and revaluation were performed with the professional assistance of certified appraisers.

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

Actuarial calculations

Calculations of certified actuaries have been used every year when determining present value of long-term payables to personnel upon retirement on the basis of assumptions for mortality rate, staff turnover rate, future salaries level and discount factor.

As a result of the calculations made, a liability has been stated for long-term employee benefits at the amount of BGN 5,443 thousand BGN (31 December 2017: BGN 5,177 thousand) *(Note 30)*.

Litigation provisions

With regard to the pending litigations against companies of the Group, the management of respective companies have judged, jointly with their lawyers, that at this stage the probability and risks of a negative outcome therefrom is still below 50% and therefore, no provisions for payables under litigations have been included in the consolidated statement of financial position as at 31 December 2018 (31 December 2017: none) *(Note 40)*.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

	2018	*2017*
	BGN'000	*BGN'000*
Goods	931,717	767,575
Finished products	250,452	249,530
Total	**1,182,169**	**1,017,105**

	2018	*2017*
	BGN'000	*BGN'000*
Sales of goods by type		
Tablet dosage forms	449,623	371,712
Ampoule dosage forms	195,964	182,017
Syrup dosage forms	77,032	51,514
Drops	60,889	33,637
Consumables and dressing materials	31,430	26,743
Cosmetics	29,050	14,372
Ointments	24,315	23,881
Food supplements and herbs	16,800	13,228
Suppositories	13,494	4,503
Liophilic products	5,674	4,211

Other	27,446	41,757
Total	**931,717**	**767,575**

	2018	***2017***
	BGN'000	***BGN'000***
Sales of finished products by type:		
Tablet dosage forms	166,314	165,907
Ampoule dosage forms	33,852	33,723
Consumables, dressing materials and apparatuses	11,539	9,896
Syrups	8,676	10,381
Ointments	8,288	8,792
Lyophilic products	6,738	6,807
Infusion solutions	1,569	1,704
Inhalation products	1,121	2,161
Drops	1,104	1,599
Veterinary vaccines	926	852
Other	10,325	7,708
Total	**250,452**	**249,530**

Revenue from contracts with customers includes proceeds of BGN 174 thousand, which were recognized as contract liabilities at the beginning of the period.

For all unfulfilled and / or partially satisfied obligations the Group has the right to remuneration, defined as a fixed sum for the work done so far.

4. OTHER REVENUE

Other revenue amounts to BGN 798 thousand and represents rental income from long-term assets.

5. OTHER OPERATING INCOME AND LOSSES, NET

Other operating income and losses, net include:

	2018	***2017***
	BGN'000	***BGN'000***
Services rendered	7,748	5,246
Net exchange losses on trade receivables and payables and current accounts	(1,804)	(2,924)
Written-off liabilities	1,330	129
Social activities and events services	910	874
Government grants	889	1,156
Gain from sale of LTA	439	346
Gain/(loss) on sale of materials	114	94

Profit from a change in the fair value of investment property *(Note 16)*	613	309
Rentals	-	909
Other	568	545
Total	**10,807**	**6,684**

The written-off liabilities are mainly from written tantiems in 2018 at the amount of BGN 1,137 thousand.

The services rendered include:

	2018	***2017***
	BGN'000	***BGN'000***
Advertising and marketing	3,484	1,678
Pre-distribution income	1,280	1,164
Laboratory analyses	238	180
Revenue from secondary packaging	237	346
Other	2,509	1,878
Total	**7,748**	**5,246**

6. MATERIALS AND CONSUMABLES USED

Expenses on materials include:

	2018	***2017***
	BGN'000	***BGN'000***
Basic materials	63,391	63,113
Electric energy	7,161	6,983
Spare parts, laboratory and technical materials	6,757	6,346
Heat power	3,780	3,381
Fuels and lubricating materials	3,061	2,790
Auxiliary materials	1,702	2,191
Promotional materials	1,218	1,122
Impairment of materials	489	696
Other	3,805	3,531
Total	**91,364**	**90,153**

Expenses on basic materials include:

	2018	***2017***
	BGN'000	***BGN'000***
Substances (active ingredients)	26,813	26,628

Packaging materials	15,415	13,491
Liquid and solid chemicals	9,532	8,712
Herbs	3,476	3,839
Sanitary-hygiene and dressing materials	2,778	4,912
Ampoules	2,244	2,334
Polypropylene, polyethylene, polystyrene	1,438	1,433
Aluminium foil	1,422	1,669
Other	273	95
Total	**63,391**	**63,113**

7. HIRED SERVICES EXPENSE

Hired services expense includes:

	2018	*2017*
	BGN'000	*BGN'000*
Advertising and marketing services	17,294	13,203
Rentals	12,623	9,306
Consulting services	8,312	6,949
Buildings and equipment maintenance	5,576	4,655
Forwarding and transport services	4,669	5,267
Manufacturing of medicinal products	3,798	3,464
Subscription fees	3,312	2,824
Bank and regulatory charges	2,545	2,427
Local taxes and charges	2,052	2,117
Security	1,875	1,825
Messaging and communications	1,461	1,205
Insurance	1,319	1,265
Motor vehicles repair	1,304	1,087
Service taxes	1,250	919
Services under civil contracts	1,245	1,176
Medical services	855	807
Services on medicinal products registration	760	964
Expence taxes	656	586
Document translation	490	410
License remuneration and fees	406	456
Other	4,204	2,634
Total	**76,006**	**63,546**

8. EMPLOYEE BENEFITS EXPENSE

	2018	*2017*
	BGN'000	*BGN'000*
Current wages and salaries	92,051	78,463

Social security insurance contributions	17,935	14,866
Social benefits and payments	3,904	4,734
Accruals for unused paid leaves	1,772	1,601
Tantiems	1,276	775
Payment based on shares	1,224	-
Accrued expenses on long-term retirement benefits to employees *(Note 30)*	634	741
Accruals for social security contributions on leaves	252	244
Total	**119,048**	**101,424**

9. OTHER OPERATING EXPENSES

	2018	*2017*
	BGN'000	*BGN'000*
Representative events	3,614	3,034
Impairment of goods, production and unfinished goods	2,350	2,966
Business trips	1,723	1,725
Scrap and lack of goods	1,465	642
Accrued/ (recovered) impairment of trade and court receivables, net *(Note 10)*	1,215	(180)
Trainings	686	700
Donations	638	743
Scrap and shortages of products and unfinished goods	534	554
Other	1,626	1,328
Total	**13,851**	**11,512**

10. IMPAIRMENT OF FINANCIAL ASSETS

	2018	*2017*
	BGN'000	*BGN'000*
Accrued / (recovered) impairment of trade receivables, net *(Notes 9, 24, 25)*	1,230	(199)
Impairment of receivables on commercial loans granted *(Notes 13, 21, 22, 26)*	122	125
(Recovered) / accrued impairment of court receivables, net *(Notes 9 and 26)*	(15)	19
Total	**1,337**	**(55)**

11. IMPAIRMENT OF FINANCIAL ASSETS

	2018	*2017*
	BGN'000	*BGN'000*
Impairment of property, plant and equipment *(Note 16)*	186	311
Impairment of goodwill *(Note 17)*	-	360
Total	**186**	**671**

12. FINANCE INCOME

Finance income includes:	*2018*	*2017*
	BGN'000	*BGN'000*
Interest income on past due trade receivables	2,649	4,026
Interest income on loans granted	1,179	1,213
Net gain on exchange differences on receivables from sale of subsidiary	152	-
Income from share equity (dividends)	96	155
Interest income on bank deposits	3	10
Net profit on investment securities transactions	-	2,965
Total	**4,079**	**8,369**

13. FINANCE COSTS

Finance costs include:	*2018*	*2017*
	BGN'000	*BGN'000*
Interest expense on loans received	7,258	7,084
Bank fees and charges on loans and guarantees	747	814
Net loss on investment operations with securities	677	-
Net loss on exchange differences under loans in foreign currency	456	2,904
Interest expense on factoring	374	348
Impairment of receivables from commercial loans granted	122	125
Interest expense on finance lease	83	272
Effects from derivatives	47	74
Impairment of available-for-sale investments	37	4

Investment intermediation fees	-	6
Total	**9,801**	**11,631**

14. GAINS AND LOSSES FROM ASSOCIATES AND JOINT VENTURES

	2018 *BGN'000*	*2017* *BGN'000*
Gains from associates, net	2,576	32
Gains from joint ventures, net	81	415
	2,657	**447**

Gains / (losses) from joint ventures include:

	2018 *BGN'000*	*2017* *BGN'000*
Effect of valuation of previously held units at fair value in companies upon acquiring control in them by the Group	109	336
Share of the Group in the current profit / (loss) of joint ventures	(28)	(29)
Impairment of an investment in a joint venture	-	(186)
Effect of the exemption of a joint venture	-	294
Total	**81**	**415**

15. OTHER COMPREHENSIVE INCOME

Other components of comprehensive income include:

	Items of other comprehensive income attributable to the Group		Items of other comprehensive income attributable to non-controlling interests		Total items of other comprehensive income	
	2018 *BGN '000*	*2017* *BGN '000*	*2018* *BGN '000*	*2017* *BGN '000*	*2018* *BGN '000*	*2017* *BGN '000*
Items that will not be reclassified to profit or loss						
Losses (gains) from revaluation of property, plant and equipment	341	(42)		-	341	(42)
Net change in the fair value of equity investments designated for fair value measurement through other comprehensive income	(288)	-	-	-	(288)	-
Subsequent evaluations of defined benefit pension plans	(45)	(575)	-	(22)	(45)	(597)

Items that may be reclassified to profit or loss						
Exchange rate differences from foreign operations recalculation	1,162	407	(613)	(1,306)	549	(899)
Net change in fair value of available-for-sale financial assets:	-	1,301	-	(24)	-	1,277
Gains arising during the year	-	1,314	-	(24)	-	1,290
Less: Reclassification adjustments for (gains) /losses included in profit or loss for the current year	-	(13)	-	-	-	(13)
Income tax related to components of other comprehensive income	(34)	4	-	-	(34)	4
Other comprehensive income for the year	**1,136**	**1,095**	**(613)**	**(1,352)**	**523**	**(257)**

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		*Plant and equipment*		*Other*		*In process of acquisition*		*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	**225,602**	**222,998**	**230,964**	**222,692**	**41,839**	**41,789**	**9,108**	**6,026**	**507,513**	**493,505**
Additions	9,096	967	2,684	4,335	6,300	3,292	21,582	16,139	39,662	24,733
Acquired assets in newly acquired subsidiaries	169	2,578	95	569	21	765	-	2	285	3,914
Effect from remeasurement	-	-	-	-	(29)	13	-	-	(29)	13
Effects of foreign currency restatements	69	(330)	101	(465)	(35)	(145)	17	(50)	152	(990)
Written-off	(11,315)	(7,451)	(4,381)	(1,564)	(5,391)	(4,226)	-	(110)	(21,087)	(13,351)
Impairment	-	-	-	-	-	-	(186)	(311)	(186)	(311)
Transfer to property, plant and equipment	5,611	6,840	7,401	5,397	1,354	351	(14,366)	(12,588)	-	-
Balance at 31 December	**229,232**	**225,602**	**236,864**	**230,964**	**44,059**	**41,839**	**16,155**	**9,108**	**526,310**	**507,513**
Accumulated depreciation and impairment										
Balance at 1 January	**44,504**	**40,019**	**117,926**	**105,628**	**27,458**	**26,638**	**5**	**5**	**189,893**	**172,290**
Depreciation charge for the year	7,124	7,299	14,512	13,246	3,890	4,390	-	-	25,526	**24,935**
Effect from remeasurement	-	-	-	42	-	-	-	-	-	**42**
Effects of foreign currency restatements	(55)	169	(60)	282	(12)	83	-	-	(127)	**534**
Written-off depreciation	(3,195)	(2,983)	(3,191)	(1,272)	(4,771)	(3,653)	-	-	(11,157)	**(7,908)**
Balance at 31 December	**48,378**	**44,504**	**129,187**	**117,926**	**26,565**	**27,458**	**5**	**5**	**204,135**	**189,893**
Carrying amount at /31 December	**180,854**	**181,098**	**107,677**	**113,038**	**17,494**	**14,381**	**16,150**	**9,103**	**322,175**	**317,620**
Carrying amount at 1 January	**181,098**	**182,979**	**113,038**	**117,064**	**14,381**	**15,151**	**9,103**	**6,021**	**317,620**	**321,215**

As at 31 December 2018, the tangible fixed assets of the Group include: land amounting to BGN 51,366 thousand (31 December 2017: BGN 51,968 thousand) and buildings of carrying amount BGN 129,488 thousand (31 December 2017: BGN 129,130 thousand).

Tangible fixed assets in progress as at 31 December include:

- expenses on new buildings construction – BGN 3,628 thousand (31 December 2017: BGN 1,022 thousand);
- buildings reconstruction – BGN 1,609 thousand (31 December 2017: BGN 4,517 thousand);
- land - BGN 2,838 thousand (31 December 2017: none);
- supply of equipment – BGN 6,104 thousand (31 December 2017: BGN 554 thousand);
- advances granted – BGN 150 thousand (31 December 2017: BGN 2,493 thousand);
- other – BGN 1,821 thousand (31 December 2017: BGN 517 thousand).

Finance lease

The carrying amount of the tangible fixed assets (motor vehicles) of the Group obtained under finance lease as at 31 December 2018 is BGN 4,819 thousand (31 December 2017: BGN 3,680 thousand).

Operating lease

The Group has leased fixed tangible assets with carrying amount of BGN 3,594 thousand as at 31 December 2018 to related parties (31 December 2017: BGN 3,716 thousand). In addition, tangible fixed assets at carrying amount of BGN 764 thousand have been leased to third parties as at 31 December 2018 (31 December 2017: BGN 772 thousand).

Other data

The following encumbrances have been constituted on tangible fixed assets of the Group as at 31 December 2018 in relation to received loans *(Notes 29 and 33)* as follows:

- Lands and buildings with a carrying amount respectively of BGN 23,670 thousand and BGN 59,057 thousand (31 December 2017: respectively, BGN 24,713 thousand and BGN 64,245 thousand)
- Pledges on facilities with carrying amount of BGN 251 thousand (31 December 2017: BGN 371 thousand);
- Pledges on equipment, vehicles and invenories – BGN 40,298 thousand (31 December 2017: BGN 44,872 thousand);
- Pledges on assets in progress – none (31 December 2017: BGN 2,226 thousand).

Periodical revaluation to fair value

Revaluation of property, plant and equipment was performed as at 31 December 2016 with the assistance of an independent appraiser 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 11,488 thousand are reported in the comprehensive income (in profit or loss for the year and other components of the comprehensive Income).

In this reassessment, the following two main approaches and assessment methods are applied Measurement of the fair value of individual types of tangible fixed assets:

- "Market Approach" through the "Market Analogue Method" - for the lands in regulation and agricultural land for which there is a real market, analogous properties and transactions are observed, and is there is entity basis for comparability - fair value has been accepted their market price, determined by the comparative method;
- "Cost Approach" through "Depreciated Recovery Method" and "Depreciation Method" Cost basis for creating or replacing the asset "- 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 assets is amortized.

Restorative value based on an indexed historical cost of the asset and on the basis of the current costs of creating or replacing the asset.

The revaluation is recognized as a revaluation reserve amounting to BGN 11,802 thousand net of impairment.

As at 31 December 2018, the management of the Group 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 2.9)*.

17. INTANGIBLE ASSETS

	Goodwill		*Software*		*Intellectual property rights*		*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	**33,284**	**19,662**	**17,811**	**15,042**	**67,785**	**35,160**	**362**	**1,325**	**119,242**	**71,189**
Acquired	-	-	67	1,124	2,228	1,004	1,261	1,154	**3,556**	**3,282**
Assets in newly acquired subsidiaries	21	14,051	-	9	4,184	33,047	-	-	**4,205**	**47,107**
Effects of foreign currency restatements	347	(429)	(10)	(38)	(750)	(1,653)	-	(5)	**(413)**	**(2,125)**
Transfer	-	-	36	1,685	47	303	(83)	(1,988)	-	-
Written-off	-	-	(28)	(11)	(43)	(76)	(206)	(124)	**(277)**	**(211)**
Balance at 31 December	**33,652**	**33,284**	**17,876**	**17,811**	**73,451**	**67,785**	**1,334**	**362**	**126,313**	**119,242**
Accumulated amortisation and impairment										
Balance at 1 January	**10,137**	**9,777**	**7,938**	**6,578**	**14,571**	**10,348**	**-**	**-**	**32,646**	**26,703**
Depreciation charge for the year	-	-	1,571	1,349	6,215	4,035	-	-	**7,786**	**5,384**
Allowance for impairment	-	360	-	-	-	-	-	-	**-**	**360**
Effects of foreign currency restatements	-	-	4	22	87	257	-	-	**91**	**279**
Amortisation written-off	-	-	(28)	(11)	(40)	(69)	-	-	**(68)**	**(80)**
Balance at 31 December	**10,137**	**10,137**	**9,485**	**7,938**	**20,833**	**14,571**	**-**	**-**	**40,455**	**32,646**
Carrying amount at 31 December	**23,515**	**23,147**	**8,391**	**9,873**	**52,618**	**53,214**	**1,334**	**362**	**85,858**	**86,596**
Carrying amount at 1 January	**23,147**	**9,885**	**9,873**	**8,464**	**53,214**	**24,812**	**362**	**1,325**	**86,596**	**44,486**

Intangible assets in progress as at 31 December include:

- expenses on acquisition of software – BGN 1,201 thousand (31 December 2017: BGN 253 thousand);
- advances granted – BGN 126 thousand (31 December 2017: none).
- expenses on permits for use of medicinal products – BGN 7 thousand (31 December 2017: BGN 25 thousand);
- expenses for acquisition of licenses – none (31 December 2017: BGN 84 thousand).

The rights on intellectual property include products of development activities related to medicinal substances (active ingredients) and dosage forms, acquired patents and trademarks and complex intangible assets (licences and pharmacy chain locations).

Within the total intellectual property, owned by the Group, are included internally created trademarks, which have not been capitalised in the consolidated statement of financial position.

These trademarks grant exceptional rights on the names of pharmaceuticals while those with biggest relative share in the sales of the Group are: Carsil, Tempalgin, Broncholitin, Tabex, Analgin, Tribestan, Vicetin, Sydnopharm, Antistenocardin, Spasmalgon, Softensif, Chlofadon, Chlofasolin, Sofafailin, Sopral, Vasopren, Buscolisin, Nivalin, Maraslavin, Dimex, Allergosan, Aminalon.

Capitalised trademarks as a result of performed business combinations are as follows: Probiotic, Laxomucil, Alfalipoin, Influrex, etc. The Group holds a patent for production of dosage forms containing Ranitidin.

The intangible assets, acquired through business combinations mainly in Belarus, include the exclusive contracts with counterparts, licences and a distribution network.

Goodwill impairment

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

The calculations were made by the management of the Group with the assistance of an independent certified appraiser and a detailed review was performed on the availability of events and facts that could serve as indicators for changes in the assumptions and assessments made as at 31 December 2017.

The (pre-tax) projected cash flows were based on the financial budgets, developed by the management of the respective companies and of the Group as a whole, that covered 3 to 5-year period as well as other medium-term and long-term plans and intents for the development and restructuring of the activities within the Group. The recoverable amount of each cash generating unit was determined on the basis of the 'value in use'.

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

The tests and judgments of the Group's management for impairment of recognized goodwill are made in the light of its projections and intentions regarding the future economic benefits the Group expects to receive from its subsidiaries, through the use of their internally generated trademarks, commercial and industrial experience and the revenues generated and expected in the future by them, securing positions on

Bulgarian and foreign markets (development and preservation), expectations for future sales and restructuring of the activity ect.

As a result of the analyzes conducted by the management of the Group as at 31 December 2018 no impairment of goodwill was recognized (31.12.2017: BGN 360 thousand for 2 subsidiaries in Belarus and 1 subsidiary in Bulgaria).

18. INVESTMENT PROPERTY

	31.12.2018 *BGN '000*	*31.12.2017* *BGN '000*
Balance at 1 January	**9,811**	**9,483**
Acquired	2,217	19
Written-off	(153)	-
Net profit on fair value adjustment, included in profit or loss *(Note 5)*	613	309
Fair value estimate, recognized in other components of comprehensive income	341	-
Balance at 31 December	**12,829**	**9,811**

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

Group of assets	*31.12.2018* *BGN '000*	*31.12.2017* *BGN '000*
Warehouse premises	6,567	4,045
Offices	3,226	2,897
Production buildings	2,420	2,466
Social objects	539	403
Expenses for acquisition of investment properties	77	-
Total	**12,829**	**9,811**

As at 31 December 2018, there were no established burdens on investment properties. (31 December 2017: none).

Fair value estimates

Hierarchy of fair values

Fair value measurements of investment property groups are categorized as fair Level 2 values based on incoming data used in the valuation technique. The revaluation of the investment property to fair value is recurring and is due to the application of the fair value model under IAS 40. It is carried out on a regular basis at the date of each financial statement. 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*	*Expenses for acquisition of investment properties*	*Total*
Balance at 1 January 2017	**3,921**	**2,722**	**2,440**	**400**	**-**	**9,483**
Purchases and capitalised costs	11	-	8	-	-	19
Revaluation to fair value through profit or loss is unrealized	113	175	18	3	-	309
Balance at 31 December 2017	**4,045**	**2,897**	**2,466**	**403**	**-**	**9,811**
Acquired	2,075	-	65	-	77	2,217
Written-off	(13)	-	(140)	-	-	(153)
Revaluation to fair value through profit or loss, unrealized	119	329	29	136	-	613
Fair value assessment recognized in other components of comprehensive income	341	-	-	-	-	341
Balance at 31 December 2018	**6,567**	**3,226**	**2,420**	**539**	**77**	**12,829**

Evaluation technique and significant non-observable input data

The table below provides a description of the valuation techniques used to determine the fair value of all investment groups Level 2 investment classes as well as the significant non-observable input data used:

Asset Groups Level 2	**Approaches and evaluation techniques**	**Significant unobservable incoming data**
Warehouses Manufacturing buildings	*a. Asset Approach* Assessment technique: Capitalized rental income method as a discounted cash flow scheme (basic valuation technique) *b. Cost approach* Evaluation Technique:	a. Adjusted rate of return b. Time of realization of rental transactions Adjusted cost of building identical objects and delivery prices of

	Cost-based creation or replacement cost method - depreciated recoverable amount (as an assistive maintenance estimate)	machines and equipment analogues
Offices Recriational establishment	*a. Revenue approach* Assessment technique: Capitalized rental income method as a discounted cash flow scheme (basic valuation technique) *b. Market Approach* Assessment technique: Market analogue method	a. Adjusted rate of return b. Time of realization of rental transactions Adjustments made for comparability

19. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Investments in associates	20,920	18,122
Investments in joint ventures	44	1,414
Total	**20,964**	**19,536**

The movement of the investments in associates is presented below:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Balance at 1 January	**18,122**	**15,033**
Acquisition of shares	227	4,847
Sale of shares	(5)	(1,531)
Share in the current profit for the period	2,576	568
Transfer to investments in subsidiaries	-	(795)
Balance at 31 December	**20,920**	**18,122**

The movement of investments in joint ventures is presented below:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Balance at 1 January	**1,414**	**3,682**
Capital increase	-	71
Disposal	-	(102)
Transfer to investments in subsidiaries	(1,330)	(1,847)

Share in the current profit/(loss) for the period	(28)	(29)
Effects of foreign currency restatements	(5)	(175)
Effects from transactions with companies from the Group	(7)	-
Allowance for impairment	-	(186)
Balance at 31 December	**44**	**1,414**

20. OTHER LONG-TERM EQUITY INVESTMETS

Other long-term equity investments include participations in the following companies:

	Country	*31.12.2018 BGN '000*	*Interest %*	*31.12.2017 BGN '000*	*Interest %*
Traded securities					
Lavena AD	Bulgaria	3,427	10.89	3,519	11.30
Sopharma Properties REIT	Bulgaria	2,078	1.55	664	0.50
Olainfarm AD	Latvia	1,484	0.77	1,826	0.77
Todorov AD	Bulgaria	181	10.94	155	10.56
Achieve Life Siences Inc. - USA	The USA	83	1.30	770	3.01
BTF Expat Bulgaria	Bulgaria	59	0.17	78	0.19
Elana Agrocredit AD	Bulgaria	31	0.07	13	0.05
Hydroizomat AD	Bulgaria	-	-	489	13.81
Other		5	-	28	-
Total		**7,348**		**7,542**	
Untraded securities					
OOO Medprostor	Belarus	546	19.00	-	-
OOO Farmiko	Belarus	172	2.00	172	2.00
ОДО DKM-Farm	Belarus	100	2.00	100	2.00
OOO Set Aptek	Belarus	70	2.00	70	2.00
OOO Aptekar-Center	Belarus	24	0.14	0	0.00
Other		148	0.00	98.0	-
		1,060		**440**	
Total		**8,408**		**7,982**	

The other available-for-sale investments as at 31 December 2018, amounting to BGN 153 thousand (31 December 2017: BGN 126 thousand), include a number of minority interests of the Group in the capital of nine companies (31 December 2017: eight companies).

The other long-term equity investments measured at fair value as at 31 December 2018 are as follows:

Capital investments	***Number of shares held***	***Fair value per share***	***31.12.2018*** ***BGN '000***	***Number of shares held***	***Fair value per share***	***31.12.2017*** ***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	6.56	664
Olainfarm AD	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 Siences 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	-	-	-
Sirma Group Holding AD	-	-	-	2,000	1.00	2
Hydroizomat AD	-	-	-	412,936	1.18	489
Chimimport AD	-	-	-	15,093	1.72	26
Total			**7,348**			**7,542**

The table below presents Group's long-term equity investments, which are measured at fair in the consolidated statement of financial position:

Fair value hierarchy

Capital investments	***Fair value*** ***31.12.2018*** ***BGN'000***	***(Level 1)*** ***BGN'000***	***(Level 2)*** ***BGN'000***
Lavena AD	3,427	-	3,427
Sopharma Properties REIT	2,078	2,078	-

Olainfarm AD	1,484	1,484	-
Todorov AD	181	-	181
Achieve Life Siences 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**

Available-for-sale investments	*Fair value 31.12.2017*	*Level 1*	*Level 2*
	BGN'000	*BGN'000*	*BGN'000*
Lavena AD	3,519	-	3,519
Olainfarm AD	1,826	1,826	-
Achieve Life Siences Inc. - USA	770	770	-
Sopharma Properties REIT	664	664	-
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	**7,542**	**3,868**	**3,519**

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

Available-for-sale investments	*Level 1*	*Level 2*	*Total*
	BGN'000	*BGN'000*	*BGN'000*
Balance at 1 January 2017	**2,110**	**2,883**	**4,993**
Purchases	1,116	551	1,667
Sales	(396)	(16)	(412)
Transfers 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 profit – Net gain on transactions with securities*	11	10	21

Unrealised loss included in the current profit and loss for the year *(Note 11)*	(4)	-	(4)
Unrealised gain/(loss), net, included in other comprehensive income *(Note 15)*	1,068	209	1,277
Balance at 31 December 2017	**3,868**	**3,674**	**7,542**
Purchases	1,664	30	1,694
Sales	(623)	(274)	(897)
Realised gain/(loss) included in the current profit and loss for the year in the item *Finance profit – Net gain on transactions with securities*	(774)	108	(666)
Unrealised loss included in the current profit and loss for the year *(Note 13)*	(37)	-	(37)
Unrealised gain/(loss), net, included in other comprehensive income *(Note 15)*	(358)	70	(288)
Balance at 31 December 2018	**3,740**	**3,608**	**7,348**

21. LONG-TERM RECEIVABLES FROM RELATED PARTIES

The *long-term receivables from related parties* as at 31 December include:

	31.12.2018 *BGN '000*	*31.12.2017* *BGN '000*
Long-term loans granted to related parties	22,977	20,356
Provisions for expected credit loss	(219)	-
	22,758	20,356
Receivable under a long-term rental deposit granted	194	243
Total	**22,952**	**20,599**

Long-term loans are granted to an associated company and a company controlled by an associated companyand a company related through a main shareholder (as at 31 December 2017 are to an associated company and a company controlled by an associate).

The ending balance of the corrective for impairment (the provision for expected credit loss) for loans granted as at 1 January 2018 equals the initial balance of the corrective as follows:

	2018 *BGN '000*	*2017* *BGN '000*
Balance on January 1, calculated under IAS 39	**-**	**-**
Amounts recognized in the initial 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**	**0**

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

Type of currency	*Contractual amount*	*Due date*	*Interest %*	*31.12.2018*		*31.12.2017*	
	'000			*BGN'000*	*BGN'000 incl. interest*	*BGN'000*	*BGN'000 incl. interest*
EUR	31,091	31.12.2021	3.50%	*17,464*	-	*16,538*	*17*
BGN	29,900	31.12.2021	3.00%	*3,908*	*93*	*3,818*	*3*
BGN	700	31.12.2021	3.00%	*1,386*	*17*	-	-
				22,758	**110**	**20,356**	**20**

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) and promissory notes.

The deposit receivable, received from company related through main shareholder, related with a rent under a concluded rental contract for administrative offices amounting to BGN 194 thousand with validity term on 1 August 2022 (31 December 2017: BGN 243 thousand).

22. OTHER LONG-TERM RECEIVABLES

The ***other long-term receivables*** of the Group:

	31.12.2018	*31.12.2017*
	BGN'000	*BGN'000*
Receivables from selling an investment in a subsidiary	3,094	2,940
Loans granted	2,641	1,216
Provision for expected credit loss	(8)	-
Loans granted, net	2,633	1,216
Deposits under long-term rental contracts	361	368
Other	352	359
Total	**6,440**	**4,883**

The ending balance of the impairment allowance (provision for expected credit losses) of the loans granted as at 1 January 2018 is equal to the initial balances of the adjustments as follows:

	2018	*2017*
	BGN '000	*BGN '000*
Balance on January 1, calculated under IAS 39	**-**	**-**
Amounts recognized in the initial 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 related to sold investment in a subsidiary are with a deferred payment amounting to BGN 3,094 thousand and expected maturity on 31 December 2020 – the date when the regulatory actions for registration of medicinal products permits are expected to be completed. (31 December 2017: BGN 2,940 thousand).

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

Currency	*Amount agreed*	*Maturity*	*Interest %*	*31.12.2018*		*31.12.2017*	
	'000			*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
					Incl. interest		*Incl. interest*
EUR	695	12.10.2022	3.05%	1,394	43	945	6
EUR	1,000	29.6.2023	3.05%	989	11	-	-
EUR	40	30.9.2021	6.00%	92	-	88	-
EUR	30	30.9.2021	6.00%	69	-	65	-
EUR	30	30.9.2021	6.00%	68	-	64	-
BGN	24	14.3.2023	5.00%	21	-	-	-
BGN	120	31.12.2019	3.50%	-	-	54	-
				2,633	*54*	*1,216*	*6*

22. INVENTORIES

Inventories include:	*31.12.2018*	*31.12.2017*

	BGN'000	*BGN'000*
Goods	154,914	140,218
Materials	33,907	33,102
Finished products	29,482	27,674
Semi-finished products	10,104	10,680
Work in progress	5,267	6,435
Total	**233,674**	**218,109**

Goods *by type* are as follows:

	31.12.2018	*31.12.2017*
	BGN'000	*BGN'000*
Tablet dosage forms	77,881	68,744
Ampoule dosage forms	19,939	19,591
Syrups	13,479	9,486
Consumables and dressing materials	11,791	6,796
Ointments	7,562	7,782
Cosmetics	5,549	7,239
Food supplements	4,566	3,899
Goods in transit	4,010	4,313
Drops	2,114	1,684
Lyophilic	1,223	1,459
Suppositories	1,207	1,248
Other	5,593	7,977
Total	**154,914**	**140,218**

The ***finished products*** include:

	31.12.2018	*31.12.2017*
	BGN'000	*BGN'000*
Tablet dosage forms	18,187	16,550
Ampoule dosage forms	3,669	4,602
Ointments	2,101	1,078
Consumables and dressing materials	1,793	1,218
Syrups	1,397	1,318
Liophilic	425	549
Syringes	305	430
Other	1,605	1,929
Total	**29,482**	**27,674**

Materials by type are as follows:	***31.12.2018***	***31.12.2017***
	BGN'000	***BGN'000***
Basic materials	30,689	28,463
Materials in transit	737	2,114
Spare parts	565	392
Technical materials	512	521
Auxiliary materials	395	619
Other	1,009	993
Total	**33,907**	**33,102**

Basic materials by type are as follows:	***31.12.2018***	***31.12.2017***
	BGN'000	***BGN'000***
Substances (active ingredients)	16,004	13,528
Chemicals	4,392	4,009
Vials, tubes and ampoules	2,920	3,256
PVC and aluminium foil	2,025	1,434
Packaging materials	1,702	2,131
Herbs	1,469	2,632
Consumables, dressing and apparatus	1,353	929
Other	824	544
Total	**30,689**	**28,463**

As at 31 December 2018, there were established special pledges on inventories at the amount of BGN 97,814 thousand (31 December 2017: BGN 89,829 thousand) as collateral under received by the Group bank loans and issued bank guarantees *(Notes 29, 33 and 40).*

24. TRADE RECEIVABLES

Trade receivables include:	***31.12.2018***	***31.12.2017***
	BGN'000	***BGN'000***
Receivables from clients	*234,291*	*228,961*
Provision for expected credit loss	*(6,169)*	*-*
Impairment of uncollectable receivables	*-*	*(2,104)*
Receivables from clients, net	228,122	226,857
Advances granted and other receivables from suppliers	*12,494*	*4,548*
Impairment of advances	*(127)*	*(127)*

Advances granted and other receivables from suppliers, net	12,367	4,421
Total	**240,489**	**231,278**

The ***receivables from clients*** are interest-free and are mainly denominated in BGN, EUR and RSD. Usually the Group companies negotiate with their clients payment terms within the range of 30 to 180 days for receivables under sales unless there are determined specific conditions for maturity for particular clients or in the cases where new markets and products are developed and new trade counterparts are attracted. The Group has defined common credit period for up to 60 days for clients and pharmacies and up to 180 days for other customers, where no interest is charged, except in the case of restructured receivables relating to particular agreement, where a longer term and a payout plan is applied. When selling medical equipment on the hospital market, the credit period could reach up to 2 years and above due to the financial circumstances of counterparties.

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

	2018 *BGN'000*	**2017** *BGN'000*
Balance on January 1, calculated under IAS 39	**2,104**	**2,483**
Amounts recognized in the initial balance of retained earnings from the restatement of the modified application of IFRS 9 for the first time	2,891	-
Initial balance of loss adjustment as at 1 January 2018, calculated under IFRS	**4,995**	**2,483**
Increase in the allowance for impairment recognized in profit or loss during the year	*2,888*	1,190
Decrease in the allowance for impairment recognized in profit or loss during the year	(1,666)	(1,333)
Transfer of correction to court and assigned receivables	(56)	(76)
Effect of exchange rate recalculations	8	(7)
Transfer of adjustment to receivables from related enterprises	-	(3)
Amounts written off on uncollectible receivables	-	(150)
Balance at 31 December	**6,169**	**2,104**

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

	31.12.2018 ***BGN'000***	***31.12.2017*** ***BGN'000***
up to 30 days	88,231	86,448

from 31 to 90 days	57,297	52,678
from 91 to 180 days	8,537	3,547
from 181 to 365 days	2,120	488
from 1 to 2 years	711	243
over 2 years	59	-
Provision for expected credit loss	(681)	-
Total	**156,274**	**143,404**

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

	31.12.2018	*31.12.2017*
	BGN'000	***BGN'000***
from 31 to 90 days	28,580	36,741
from 91 to 180 days	15,622	22,337
from 181 to 365 days	21,157	17,438
from 1 to 2 years	8,842	6,450
over 2 years	3,135	2,591
Provision for expected credit loss	(5,488)	-
Impairment	-	(2,104)
Total	**71,848**	**83,453**

For the year 2018, the Group 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 2.16)*. 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***
Expected % of credit loss		0.43%	1.00%	2.69%	4.25%	32.42%	
Trade receivables (gross carrying amount)	***BGN'000***	156,955	28,580	15,622	21,157	11,977	234,291
Expected Credit Loss (Impairment Allowance)	***BGN'000***	(681)	(285)	(420)	(900)	(3,883)	(6,169)

January 1, 2018		*Current*	*Overdue over 30 days*	*Overdue over 90 days*	*Overdue over 180 days*	*Overdue over 365 days*	*Total*
Expected % of credit loss		0.40%	1.13%	1.82%	6.16%	27.88%	
Trade receivables (gross carrying amount)	*BGN'000*	143,404	36,741	22,337	17,438	9,041	228,961
Expected Credit Loss (Impairment Allowance)	*BGN'000*	(577)	(417)	(406)	(1,074)	(2,521)	(4,995)

Until December 31, 2017, the Group applied the loss-at-cost approach to uncollectibility on the basis of individual (portfolio valuation). The impairment amount is calculated on an individual basis by applying the discounted cash flows method with a discount rate based on the price of attracted resources by the company adjusted against the average net yield and conservative prognosis on the expected cash flows, determined on the grounds of debtor's history and the concluded agreements, respectively, court rulings. Where the management has concluded that a very high uncertainty exists as to the collectability of certain receivables or part of them and they are not secured by collateral, the receivables are impaired to 100% *(Note 2.31.3).*

Most of the receivables overdue are from public hospitals. For all receivables overdue, the company's policy is to charge, invoice and collect additional interest on arrears, which fully compensates the payments overdue and costs / losses sustained, both with special agreements with the respective hospital in debt or through lawsuits.

As at 31 December 2018, there are established special pledges on trade receivables at the amount of BGN 65,050 thousand (31 December 2017: BGN 65,753 thousand). They are established as collateral under received by the Group bank loans and issued bank guarantees *(Notes 29, 33 and 40).*

The a***dvances granterd and other receivables from suppliers*** to suppliers are regular and are mainly denominated in BGN and EUR and are for the purchase of:

	31.12.2018 ***BGN'000***	***31.12.2017*** ***BGN'000***
Goods	8,598	785
Raw materials and consumables	2,220	2,605
Services	1,607	1,044
Allowance for impairment	(127)	(127)
Other	69	114
Total	**12,367**	**4,421**

25. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties by type are as follows:

	31.12.2018 ***BGN'000***	***31.12.2017*** ***BGN'000***
Trade loans granted	8,596	3,323
Receivables on sales of finished products and materials	1,383	1,371
Provision for expected credit loss on receivables from sales of production and materials	(8)	-
Total	**9,971**	**4,694**

The trade loans granted to related parties are unsecured and are as follows:

Type of currency	***Contractual amount*** ***'000***	***Due date***	***Interest rate*** ***%***	***31.12.2018*** ***BGN '000***	***31.12.2018*** ***BGN '000 incl. interest***	***31.12.2017*** ***BGN '000***	***31.12.2017*** ***BGN '000 incl. interest***
To companies related through key management personnel							
EUR	2,735	31.12.2019	2.81%	5,376	27	-	-
BGN	67,450	31.12.2018	2.81%	-	-	2,956	4
To company controlled through an associate							
BGN	3,130	31.12.2019	3.10%	3,165	34	305	5
BGN	190	31.12.2019	3.50%	55	-	62	-
Total:				**8,596**	**61**	**3,323**	**9**

The ***receivables on sales of finished products and materials*** are interest-free and denominated in BGN and in Belarusian rubles.

The Group companies usually negotiate payment terms between 90 and 180 days for receivables on sales of finished products and up to 30 days for receivables on sales of materials (including substances – active ingredients).

For the year 2018, the Group 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 2.16*). On this basis, the corrective for losses at 31 December 2018 and 1 January 2018 is determined as follows:

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

Balance on January 1, calculated under IAS 39	**-**	**56**
Amounts recognized in the opening balance of retained earnings from the restatement of the modified IFRS 9 for the first time	-	-
Initial balance of loss adjustment as of 1 January 2018, calculated according to IFRS	**-**	**56**
Increase in the allowance for impairment recognized in profit or loss during the year	8	-
Decrease in the allowance for impairment recognized in profit or loss during the year	-	(56)
Balance at 31 December	**8**	**-**

Until December 31, 2017, the Group has set a maximum credit period of up to 365 days for sales counterparties to related parties. The delay after this period has been accepted by the Group as an indicator of impairment. The management of the Group companies assessed the collectability by analyzing the specific receivables and the condition of the debtor company, as well as the circumstances of the delay and the repayment options, after which they had decided whether to recognize and accrue impairment on an individual basis and to what extent.

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	198	343
from 31 to 90 days	409	135
from 91 to 180 days	-	109
Total	**607**	**587**

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	194	135
from 91 to 180 days	528	364
from 181 to 365 days	54	285
Provision for expected credit loss	(8)	-
Total	**768**	**784**

26. OTHER SHORT-TERM RECEIVABLES AND ASSETS

Other receivables and prepayments of the Group include:

	31.12.2018	*31.12.2017*
	BGN'000	*BGN'000*
Court and awarded receivables	*6,206*	*8,165*
Impairment of court receivables	*(499)*	*(2,559)*
Court and awarded receivables, net	5,707	5,606
Taxes to recover	9,847	8,075
Loans granted to third parties	*4,130*	*3,917*
Provisions for expected credit loss	*(793)*	*-*
Impairment of loans granted to third parties	*-*	*(698)*
Loans granted to third parties, net	3,337	3,219
Prepayments	1,765	1,915
Receivables on deposits placed as guarantees	542	439
Receivables from investment transactions	270	-
Amounts granted to investment intermediaries	11	125
Receivables from NHIF	-	3,915
Other	1,550	1,661
Total	**23,029**	**24,955**

The movement of the allowance for impairment of court and awarded receivables is as follows:

	2018	*2017*
	BGN'000	*BGN'000*
Balance on January 1st	**2,559**	**2,518**
Transferred from impairment of trade receivables	56	76
Accrued impairment	6	7
Recoverable impairment	(21)	(26)
Written-off impairment	(2,101)	(16)
Balance at 31 December	**499**	**2,559**

Taxes refundable include:

	31.12.2018	*31.12.2017*
	BGN'000	*BGN'000*
Excise	4,905	3,625
VAT	3,861	4,235
Income tax	1,074	210
Local taxes and charges	7	5
Total	**9,847**	**8,075**

Prepayments include: *31.12.2018* *31.12.2017*

	BGN'000	*BGN'000*
Subscriptions	668	736
Insurance	648	664
Licence and patent fees	91	53
Advertisements	43	52
Rentals	11	71
Vouchers	4	44
Other	300	295
Total	**1,765**	**1,915**

The loans granted to third parties, amounting to BGN 3,377 thousand (31 December 2017: BGN 3,219 thousand), are granted to five entities (2017: five entities) – counterparts for working capital. The annual interest agreed for these loans for 2018 is between 3.50% and 4.7%% (2017: between 4.3% and 4.7%).

The ending balances of impairment allowances (provisions for expected credit loss) on loans granted to third parties as at 1 January 2018 are equal to the initial balances of adjustments as follows:

	2018 *BGN'000*	**2017** *BGN'000*
Balance on January 1, calculated under IAS 39	**698**	**283**
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	**773**	**283**
Increase in the allowance for impairment recognized in profit or loss during the year	20	415
Balance at 31 December	**793**	**698**

27. CASH AND CASH EQUIVALENTS

	31.12.2018 *BGN'000*	*31.12.2017* *BGN'000*
Cash at current bank accounts	17,730	17,554
Impairment of cash at current bank accounts	(166)	(166)
Cash in the cashier	3,417	2,337
Short-term deposits	2,813	2,863
Short-term blocked funds	26	26
Cash and cash equivalents presented in the consolidated statement of cash flows	**23,820**	**22,614**
Blocked cash under transactions for acquisition of a subsidiary	1,020	10,537
Blocked cash under court cases and issued bank guarantees	444	177

Cash and cash equivalents presented in the consolidated statement of financial position	**25,284**	**33,328**

The available cash and cash equivalents of the Group are mainly denominated in BGN, EUR and UAH (31 December 2017: in BGN, EUR and UAH).

The average level of the annual interest on current accounts in BGN and foreign currency is within the range from 0.01% to 0.3% (2017: from 0.01% to 0.3%) and that on deposit accounts in BGN and foreign currency is mainly within the range from 0.01% to 10.5% (2017: from 00.1% to 10.5%).

As at 31.12.2018 the blocked cash amounting to BGN 1,020 thousand are cash in an Escrow account, under the contract for acquisition of shares of Lekovit OOD, Serbia and the companies PharmaStore, Bulgaria (31 December 2017: BGN 10,537 thousand).

The short-term blocked funds amounting to BGN 26 thousand (31 December 2017: BGN 26 thousand), represent mainly blocked funds under performance guarantees.

28. EQUITY

Share capital

As at 31 December 2018, the registered share capital of Sopharma AD amounts to BGN 134,798 thousand distributed in 134,797,899 shares of nominal value BGN 1 each.

The shares of Sopharma AD 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*** are 8,881,336 at the amount of BGN 33,337 thousand (31 December 2017: 9,032,980 shares at the amount of BGN 33,834 thousand).

Statutory reserves at the amount of BGN 55,967 thousand (31 December 2017: BGN 51,666 thousand) have been set aside from allocation of profit of the parent company and included all amounts for the Reserve Fund.

The ***revaluation reserve – for property, plant and equipment***, amounting to BGN 29,570 thousand (31 December 2017: BGN 31,945 thousand), has been set aside from excess of the carrying amount of property, plant and equipment of the Group companies over their fair values at the dates of the respective regular revaluation. The effect of deferred taxes on the revaluation reserve is stated directly through other components of comprehensive income for the year.

The ***reserve for financial assets at fair value through other comprehensive income*** amounting to BGN 2,743 thousand - positive value (31.12.2017: BGN 4,109 thousand – positive value) is formed from the effects of fair value measurement of other long-term equity investments (including the consolidated share of the change in this reserve in associates in their valuation by the method of equity). When these investments are derecognised, the resulting reserve is not recycled through the statement of comprehensive income (through profit or loss for the period). 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 accounting (recycling) in the statement of comprehensive income (in profit or loss for the period).

The ***translation of foreign operations reserve***, amounting to BGN 852 thousand – a positive figure (31 December 2017: BGN 310 thousand – a negative figure), has been set aside from exchange differences arising as a result of translation of the currency in the financial statements of foreign companies to the presentation currency of the Group.

The ***retained earnings reserve*** includes the component 'other reserves', which contains the amounts distributed from profits of the Group companies generated in prior years, as well as the component 'accumulated profits and losses'.

Retained earnings, amounting to BGN 286,641 thousand at 31 December (31 December 2017: BGN 281,509 thousand), include also the recognised accumulated actuarial loss at the amount of BGN 2,349 thousand (31 December 2017: BGN 2,304 thousand), stated upon remeasurements of defined benefit pension plans in relation with the amendment to IAS 19 *Pension and other employee benefits.*

29. LONG-TERM BANK LOANS

	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
Credit lines and working capital loans								
BGN	16,000	30.06.2024	10,648	2,462	13,110	13,109	2,462	15,571
USD	3,600	01.06.2023	1,657	131	1,788	-	-	-
BYR	3,350	26.06.2021	1,425	973	2,398	-	-	-
BGN	3,500	10.07.2028	1,113	-	1,113	-	-	-
EUR	590	31.05.2022	825	188	1,013	825	141	966
BGN	4,250	16.04.2023	680	209	889	885	209	1,094
EUR	300	05.06.2020	99	235	334	352	234	586
BGN	120	25.08.2020	16	24	40	40	24	64
RSD	6,000	25.03.2019	-	6	6	6	25	31
Investment-purpose loans								
EUR	12,000	24.04.2024	14,995	3,386	18,381	18,472	3,350	21,822
EUR	32,000	15.04.2021	9,538	7,164	16,702	16,691	7,172	23,863
EUR	172	28.02.2021	78	67	145	146	72	218
AZN	35	16.03.2021	17	11	28	-	-	-
EUR	565	25.10.2018	-		-	-	220	220
EUR	2,000	31.12.2018	-	-	-	-	569	569
Total			**41,091**	**14,856**	**55,947**	**50,526**	**14,478**	**65,004**

The Group has gradually established a policy for annual re-negotiation of the terms and conditions of initially agreed long-term credit lines, including maturity terms. Starting from the date of re-negotiation, the extended credit lines are presented as short-term bank loans *(Note 33).*

The euro bank loans received were mainly negotiated at an interest rate based on EURIBOR plus a margin of up to 3.5% or fixed at 2.35%, for BGN loans - up to 4.1%, for bank loans in a RSD - BELIBOR plus allowance 0.5% and a bank loan in AZN - 24.10% fixed, for bank loans in US dollars - 8% fixed, for bank loans in Belarusian ruble - 11.50% fixed (for EURIBOR plus a margin of up to 3.5% or fixed at 2.35%, for BGN loans - up to 4.1% fixed for RSD - BELIBOR to 0.5%). Loans are for working capital.

Investment-purpose loans are intended for purchase of tangible fixed assets and expanding of activities.

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

- Real estate mortgages *(Note 16);*
- Special pledges on:
  - machinery and equipment *(Note 16);*
  - inventories *(Note 23);*
  - trade receivables *(Note 24).*
  -

30. RETIREMENT BENEFIT OBLIGATIONS

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

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Long-term retirement benefit obligations	5,443	5,177
Long-term benefit obligations for tantieme	348	281
Total	**5,791**	**5,458**

Long-term retirement benefit obligations

The long-term payables to personnel include the present value of the obligation of the Group companies, operating mainly in *Bulgaria and Ukraine*, to pay indemnities to the hired personnel at the date of the statement of financial position on coming of age for retirement. In accordance with the Labour Code in *Bulgaria* each employee is entitled to indemnity on retirement at the amount of two gross monthly salaries, and if he or she has worked for at least the last 10 years of the service period for the same employer – six gross monthly salaries at the time of retirement *(Note 2.23)*.

Employer's obligations to personnel on retirement for the companies abroad are as follows:

- *Ukraine* – the employer is obliged to pay between BGN 6 and BGN 12 depending on the length of service as well as a social pension, which the company accrues after employees' retirement due to specific work conditions;
- *Latvia, Belarus and Moldova* – the employer does not have a legal obligation to personnel upon retirement;
- *Kazakhstan* – according to the Kazakhstan legislation, the employer does not have a legal obligation to personnel upon retirement.
- *Serbia* – the employer is obliged to pay 3 average salaries;

Long-term obligations for tantiems

As at 31 December 2018, the long-term benefit obligations to personnel include also the amount of BGN 348 thousand (31 December 2017: BGN 281 thousand), representing a payable to personnel related to tantieme payment for a period of more than 12 months – until 2021 (2017: until 2020).

31. FINANCE LEASE LIABILITIES

As at 31 December, the finance lease liabilities are under revocable contracts for motor vehicles acquisition. They are presented net of the future interest due and are as follows:

Term	***31.12.2018***	***31.12.2017***
	BGN'000	***BGN'000***
Up to one year *(Note 39)*	1,182	1,271
Over one year	2,501	1,950
Total	**3,683**	**3,221**

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

Term	***31.12.2018***	***31.12.2017***
	BGN'000	***BGN'000***
Up to one year	1,273	1,360
From one to three years	2,587	2,030
	3,860	3,390
Future finance costs under finance leases	(177)	(169)
Total	**3,683**	**3,221**

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

32. GOVERNMENT GRANTS

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

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

Long-term part of government grants	7,470	8,250
Short-term part of government grants *(Note 39)*	792	867
Total	**8,262**	**9,117**

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

	31.12.2018	*31.12.2017*
	BGN'000	*BGN'000*
Sopharma AD	5,937	6,526
Biopharm Engineering AD	1,813	1,953
Veta Pharma AD	512	638
Total	**8,262**	**9,117**

The government grants are received under European Operational Programmes mainly in relation to the acquisition of machinery and equipment *(Notes 16).*The current portion of the grants, amounting to BGN 792 thousand (31 December 2017: BGN 867 thousand), will be recognised as current income over the following 12 months from the date of the consolidated statement of financial position and is presented as 'other current liabilities' *(Note 39).*

33. SHORT-TERM BANK LOANS

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

Currency	*Contractual amount*	*Due date*	*31.12.2018*	*31.12.2017*
	'000		*BGN'000*	*BGN'000*
Bank loans (overdraft)				
EUR	28,000	31.01.2019	52,384	42,567
BGN	20,000	21.05.2019	12,947	11,775
EUR	5,500	25.04.2019	10,742	10,742
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
EUR	5,000	25.04.2019	9,757	9,757
UAH	150,000	22.02.2019	9,472	1,752
EUR	5,000	31.01.2019	9,192	-
EUR	3,500	02.09.2019	7,980	6,319
EUR	3,500	26.06.2019	6,715	3,520
EUR	4,500	31.05.2019	5,868	-
EUR	3,000	25.04.2019	5,863	5,862
BGN	9,779	01.06.2019	3,637	-
EUR	1,500	26.06.2019	2,543	115

EUR	1,100	26.06.2019	2,151	608
EUR	500	11.03.2019	978	-
EUR	500	06.03.2019	978	978
RSD	47,000	31.01.2019	608	-
BGN	500	02.06.2019	437	-
EUR	373	02.07.2019	425	323
EUR	257	08.08.2019	335	196
RSD	40,000	29.06.2019	328	-
EUR	135	24.12.2019	265	-
BYN	350	14.03.2019	265	292
BYN	345	20.02.2020	257	274
BYN	340	23.07.2019	257	-
EUR	126	28.10.2019	205	-
BYN	230	31.01.2019	184	175
BYN	150	23.02.2019	119	108
USD	30	30.12.2019	21	-
BYN	32	31.05.2021	17	60
BYN	21	30.06.2019	17	-
EUR	1,000	30.12.2018	-	1,076
EUR	400	09.11.2018	-	782
EUR	1,500	25.11.2018	-	2,847
EUR	2,000	21.09.2018	-	3,912
BYN	183	07.06.2018	-	152
EUR	1,000	22.12.2018	-	1,173
			174,767	**131,840**

Cyrrency	*Contractual amount*	*Due date*	*31.12.2018*	*31.12.2017*
	'000			*BGN'000*
Credit lines				
BGN	20,000	30.11.2019	19,264	9,244
EUR	8,434	31.01.2019	15,908	15,908
BGN	10,000	31.01.2019	10,000	10,000
BYN	10,500	20.02.2021	8,311	-
EUR	3,400	04.01.2021	6,507	5,797
EUR	3,000	01.11.2019	4,753	8,821
BYN	1,200	08.01.2020	961	1,009
BYN	1,000	19.01.2019	791	831
BYN	500	13.07.2020	396	416
BYN	376	18.10.2021	298	-
BYN	345	08.01.2020	273	287
BYN	100	10.02.2020	168	79
BYN	210	13.02.2021	166	-
BGN	1,000	20.12.2023	128	288
BYN	150	30.12.2019	117	121

BYN	150	31.10.2020	101	122
EUR	5,000	31.08.2019	-	5,594
BYN	6,009	02.07.2019	-	2,256
BYN	1,849	24.05.2019	-	1,552
			68,142	**62,325**
			242,909	**194,165**

The bank loans obtained in Euro are contracted mainly at interest rate, determined on the basis of EURIBOR plus a mark-up of up to 2.2%, or fixed to 12%, or EONIA plus a mark-up of up to 2.1%; for loans in BGN – reference interest rate of the respective bank plus a mark-up of up to 2.6% and fixed to 3.2%; for loans in RSD – BELIBOR plus mark-up of up to 1.5%; for loans in BYN - fixed to 13,8 % and for loans in UAH – fixed rate of 22,4 % and for USD 12% fixed (2017: EURIBOR plus margin up to 2.2% or fixed up to 12%, or EONIA plus margin to 2.1% or BELIBOR plus 0.5% surcharge, for BGN loans - SOFIBOR plus a surcharge of up to 2.95%, for BYN - 15% fixed for UAH 17% fixed). Loans are intended for providing working capital.

The following special pledges have been established as collateral for the above loans in favour of the creditor banks:

- machinery and equipment *(Note 16);*
- raw materials, consumables and finished products *(Note 23);*
- trade receivables *(Note 24).*

As at 31 December 2018, there are special pledges on receivables from related parties, subject to consolidation and eliminated for the purpose of the consolidated financial statements, at the amount of BGN 66, 351 thousand (31 December 2017: BGN 44,726 thousand), established as collateral under received by the Group bank loans and issued bank guarantees *(Notes 29, 33 and 40).*

34. TRADE PAYABLES

Trade payables include:	***31.12.2018***	***31.12.2017***
	BGN'000	***BGN'000***
Payables to suppliers	122,687	134,556
Advances from clients	852	612
Total	**123,539**	**135,168**

The ***payables to suppliers*** refer to:	***31.12.2018***	***31.12.2017***
	BGN'000	***BGN'000***
Suppliers outside Bulgaria	93,597	96,674
Suppliers from Bulgaria	29,090	37,882

Total	**122,687**	**134,556**

Liabilities to suppliers are current, interest-free and are for materials, goods and services received. The average credit period for which no interest is normally charged on trade payables is up to 180 days.

35. PAYABLES TO RELATED PARTIES

The payables to related parties refer to:

	31.12.2018	***31.12.2017***
	BGN'000	***BGN'000***
Payables to main shareholding companies	239	21
Payables to companies related through a main shareholder	68	403
Payables to companies related through key managing personnel	32	291
Payables to companies controlled by an associate	20	12
Other related parties	17	30
Total	**376**	**757**

The payables to related parties by type are as follows:

	31.12.2018	***31.12.2017***
	BGN'000	***BGN'000***
Supply of services	239	252
Payables on supply of goods and materials	100	468
Payables on advances	34	-
Payables on supply of fixed assets	3	37
Total	**376**	**757**

The payables to related parties are regular, denominated in BGN, interest-free and are not additionally secured through a special pledge or guarantee by the Group.

36. FACTORING AGREEMENT LIABILITIES

A Company from the Group has concluded factoring agreements with a financial institution (Factor) as follows: Factor of 19 January 2016 for the transfer of existing non-recurring receivables from its debtors.

Factor has the right of recourse (right of recourse) for all advance payments, whether or not included in the approved credit limit. The approved credit limit is BGN 40,000 thousand (2017 г.: BGN 25,000 thousand.). The transferred invoices are paid in advance up to 90% (ninety percent) of their value with VAT included.

The interest on the prepaid funds is 1M RPL + 1.55% on an annual basis and deducted at one-month period at the end of each calendar month.

As at 31 December 2018 the obligation under the factoring contract amounts to BGN 21,791 thousand (31.12.2017: BGN 19,403 thousand).

Total funding provided in 2018 amounts to BGN 153,574 thousand. (31 December 2017: BGN 131,269 thousand) (*Note 2.18*).

37. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security include:

	31.12.2018 ***BGN'000***	***31.12.2017*** ***BGN'000***
Payables to personnel, including:	11,558	10,317
current wages and salaries	5,917	4,499
tantieme	3,030	3,328
accruals on unused compensated leaves	2,611	2,490
Payables for social security/health insurance, including:	2,684	2,578
current payables for social security contributions	2,332	2,227
accruals on unused compensated leaves	352	351
Total	**14,242**	**12,895**

38. TAX PAYABLES

Tax payables include:

	31.12.2018 ***BGN'000***	***31.12.2017*** ***BGN'000***
VAT	4,062	4,305
Profit tax	897	1,471
Taxes on income of individuals	850	839
Taxes on expenses	614	563
Taxes at source	5	15
Other	66	182
Total	**6,494**	**7,375**

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

Company	**Full-scope tax audit**	**VAT inspection**	**Inspection under the social security legislation**
Sopharma AD	31.12.2011	31.12.2011	30.09.2013

Sopharma Trading AD	31.12.2011	31.12.2017	30.04.2018
Sopharmacy EOOD	none	31.05.2018	none
Sopharmacy 2 EOOD	none	30.11.2018	none
Sopharmacy 3 EOOD	none	30.11.2017	none
Sopharmacy 4 EOOD	none	31.03.2018	none
Sopharmacy 5 EOOD	none	30.11.2018	none
Sopharmacy 6 EOOD	none	31.01.2018	none
Sopharmacy 7 EOOD	none	30.11.2018	none
Sopharmacy 8 EOOD	none	30.11.2018	none
Sopharmacy 9 EOOD	none	30.11.2018	none
Sopharmacy 10 EOOD	none	31.12.2018	none
Sopharmacy 11 EOOD	none	31.08.2018	none
Sopharmacy 12 EOOD	none	30.09.2018	none
Sopharmacy 13 EOOD	none	31.01.2018	none
Sopharmacy 14 EOOD	none	30.04.2018	none
Sopharmacy 15 EOOD	none	28.02.2018	none
Biopharm Engineering AD	31.12.2014	31.01.2018	30.04.2009
Momina Krepost AD	31.12.2005	31.10.2006	31.10.2006
Pharmalogistica AD	31.12.2005	31.03.2007	none
Sopharma Buildings REIT	none	31.10.2018	none
Electroncommerce EOOD	31.12.2005	30.04.2006	none
PAO Vitamini	31.12.2013	31.12.2013	01.04.2014
OOO Sopharma Ukraine	31.12.2014	31.12.2013	31.03.2016
SIA Briz	31.12.2013	28.02.2014	31.12.2014
SOOO Brititrade	31.12.2011	31.12.2011	31.12.2011
OOO Tabina	31.12.2010	31.12.2010	31.12.2006
SOOO Brizpharm	31.12.2012	31.12.2012	none
OOO Med-dent	31.12.2010	31.12.2010	31.12.2007
BOOO SpetzApharmacia	31.03.2014	31.03.2014	31.12.2007
OOO Bellerophon	01.04.2010	01.04.2010	none
OOO Ivem & K	30.04.2008	30.04.2008	30.11.2007
OOO NPKF Ariens	31.03.2017	31.03.2017	31.12.2010
ODO Medjel	30.04.2013	30.04.2013	31.12.2012
Veta Pharma AD	none	30.09.2018	30.09.2016
ODO SalusLine	31.10.2007	31.10.2007	31.03.2016
ZAO Interfarm	30.04.2013	30.04.2013	none
SP. Z.O.O. Sopharma Warsaw	none	none	06.07.2017
Lekovit D.o.o.	31.03.2017	30.06.2017	15.04.2017

Tax audit of the companies in Bulgaria is performed within a 5-year period after the end of the year when the tax return for the respective liability has been submitted. The tax audit confirms ultimately the tax liability of the respective company — tax liable person except in the cases explicitly stated by law. For the companies outside Bulgaria a tax audit is performed as follows: in Ukraine, Latvia and Belarus – within a term of three years, in Poland, Kazakhstan and Lithuania – within a term of five years, in Serbia – within a term of ten years and in Moldova within a term of four years.

The companies Phyto Palauzovo AD, Aromania OOD, Sopharmacy 16 EOOD, Sopharmacy 17 EOOD, OOO Farmacevt Plus, TOO Sopharma Kazakhstan, Sopharma Trading D.o.o. Belgrade, OOO Farmatea, UAB TBS Pharma, OOO Galenapharm, OOO Zdorovei, ODO Aleanpharm-plus, Rap Pharma International OOD and OOO Zabotlivaya apteka have not been subject to full-scope tax audits, VAT audits and inspections under the social security regulations.

39. OTHER CURRENT LIABILITIES

Other current liabilities include:	***31.12.2018*** ***BGN'000***	***31.12.2017*** ***BGN'000***
Obligations to recover	3,350	-
Finance lease liabilities *(Note 31)*	1,182	1,271
Unpaid conditional liability in relation to acquisition of shares in a subsidiary	1,009	8,603
Government grants *(Note 32)*	792	867
Dividend liabilities	707	586
Liabilities under contracts with customers	474	-
Financial guarantee provision	380	-
Awarded amounts under litigations	337	303
Deductions from work salaries	235	234
Payables relating to the purchase of shares	-	376
Trade loans received from third parties	-	157
Other	336	924
Total	**8,802**	**13,321**

40. CONTINGENT LIABILITIES AND COMMITMENTS

<u>Issued and granted guarantees</u>

Sopharma AD

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:

	Maturity	Currency	Amount		Debt status
			Original Currency	BGN'000	*31.12.2018* BGN'000
Sopharma Properties REIT	2024	EUR	22,619	44,239	16,864
Energoinvestments AD	2020	BGN	2,000	2,000	1,552
Mineralcommerce AD	2019 – 2021	BGN	726	726	493
Pharmaplant AD	2023	EUR	235	460	323
Total					**19,232**

Bank guarantees

Sopharma Trading AD

The bank guarantees issued for the Company amounted to BGN 14,705 thousand (31.12.2017: BGN 13,427 thousand) and are to secure payments to suppliers of goods, for good performance – ensuring future deliveries of pharmaceutical and medicinal products to hospitals under concluded contracts, customs office guarantees and tender participation.

The bank guarantees have been issued by:

	31.12.2018	*31.12.2017*
	BGN '000	***BGN '000***
SG Expressbank AD	5,702	4,837
Raiffeisenbank EAD	5,200	4,801
ING Bank N.V.	3,803	3,789
	14,705	**13,427**

The collateral for issued bank guarantees is as follows:

- Special pledge on goods in circulation at the amount of BGN 8,997 thousand (31 December 2017: BGN 8,997 thousand) *(Note 23).*
- Special pledge on receivables from clients with a carrying amount of BGN 2,347 thousand (31 December 2017: BGN 2,347 thousand) *(Note 25).*

Electroncommerce EOOD

The bank guarantees issued for the company amount to BGN 47 thousand as at 31 December 2018 (31 December 2017: BGN 32 thousand).

Assets held under safe custody

Sopharma Trading AD

According to concluded pre-distribution contracts, the Company has received goods for safe custody amounting to BGN 6,242 thousand as at 31 December 2018 (31 December 2017: BGN 4,723 thousand).

Significant irrevocable agreements and commitments

Sopharma AD

The Company received three government grants under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 *(Note 30 and Note 38),* related to technological renovation and modernisation of tablet production facilities and implementation of innovative products in the ampoule production section *(Note 14).* 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.

Biopharm Engineering AD

The company has assumed a commitment under a grant contract with a term of five years after completion of the project for acquisition of:

(a) line for production of amino acid solution for parenteral nutrition, which includes components for inflation, filling and hermetisation in aseptic environment, and

(b) clean rooms construction (omega profile ceilings, separation walls, doors, blocking devices, lighting, air conditioning, etc.). The term commenced on 27 April 2015 (the date on which the project was ultimately approved by the financing institution) and according to the contract the project should not suffer significant changes referring to its nature, the conditions of its performance or leading to unjustifiable benefits for the company as well as changes resultant from modification in the nature of ownership of infrastructural component or discontinuance of production activities. On non-compliance with these requirements, the financing shall be returned. At the date of approval for issue of the financial statements, all contractual requirements were being fulfilled.

41. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Group can be exposed to a variety of financial risks the most important of which are market risk (including currency risk, risk of a change in the fair value and price risk), credit risk, liquidity risk and risk of interest-bearing cash flows.

The general risk management is focused on the difficulty to forecast the financial markets and to achieve minimizing the potential negative effects that might affect the financial results and position of the Group.

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

Risk management is currently performed by the management of the parent company and respectively, the managing bodies of the subsidiaries, in line with the policy defined by the Board of Directors of the parent. The Board of Directors has approved the basic principles of general financial risk management, on the basis of which specific procedures have been established for management of the separate specific types of risk such as currency, price, interest, credit and liquidity risk and the risk of use of non-derivative instruments.

The structure of financial assets and liabilities at 31.12.2018 is as follows:

Categories of financial instruments:	***31.12.2018*** ***BGN '000***
Financial assets	
Financial assets at amortized cost incl.:	**300,910**
Receivables and loans (Notes 21, 22, 24, 25 and 26)	277,090
Cash and cash equivalents (Note 27)	23,820
Financial assets at fair value through other comprehensive income, incl.:	**8,408**
Equity investments (Note 20)	8,408
Total financial assets	**309,318**
Financial liabilities	
Financial liabilities at amortized cost incl.:	**446,094**
Short-term and long-term bank loans (Notes № 29 and № 33)	298,856
Other loans and liabilities (Notes № 34, № 35, № 36 and № 39)	143,555
Leasing liabilities (Note № 30)	3,683
Liabilities under financial guarantees (Note 39)	**380**
Total financial liabilities	**446,474**

	31.12.2017 ***BGN '000***
Financial assets	***296,015***
Loans and receivables, incl.:	**288,033**
Receivables and loans (Notes 21, 22, 24, 25 and 26)	265,419
Cash and cash equivalents (Note 27)	22,614
Financial assets available-for-sale	**7,982**

31.12.2017

	BGN '000
Financial liabilities	***427,643***
Financial liabilities at amortised cost	**427,643**
Short-term and long-term bank loans (Notes 29 and 33)	259,169
Other loans and liabilities (Notes 30, 34, 35, 36 and 39)	*149,071*
Payables under factoring agreement (Note 36)	*19,403*

Foreign currency risk

The Group companies perform their operations with active exchange with foreign suppliers and clients and therefore, they are exposed to currency risk.

The Group through the companies in Belarus and Ukraine carries out business in these countries and, therefore, has significant exposure in BYN and UAH. The currency risk is related with the adverse floating of the exchange rate of these currencies against BGN in future business transactions as to the recognised assets and liabilities denominated in foreign currency and as to the net investments in foreign companies. The rest of the companies abroad perform sales mainly to the local markets, which leads to currency risk to their currencies as well –Polish Zloty (PLN), Lithuanian Lit (LTL), US Dollar (USD), British Pound (GBP) and Kazakhstani Tenge (KZT).

There are forward contracts regarding the deals in Kazakhstani Tenge.

Most operations of the Group companies are usually denominated in BGN and the fact that the BGN is fixed to the EUR reduces the potential currency volatility for the companies of the Group.

To control foreign currency risk, there is an implemented system in the whole Group for planning import supplies, sales in foreign currency as well as procedures for daily monitoring of US dollar exchange rates and control on pending payments. The exposures of almost all subsidiaries in Bulgaria to foreign currency risk are insignificant because almost all sales are performed to the local market in Bulgarian Levs (BGN). The import of goods is performed mainly in Euro (EUR). The loans denominated in a foreign currency have been granted mainly in EUR.

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

31 December 2018	*in BGN BGN '000*	*in EUR BGN '000*	*in RSD BGN '000*	*in BYN BGN '000*	*in USD BGN '000*	*в UAH BGN '000*	*in other curren cy BGN '000*	*Total BGN '000*
Equity investments	5,929	1,484	-	546	449	-	-	8,408
Financial assets at amortized cost including:	180,759	53,660	35,890	12,225	5,511	5,336	7,529	300,910
Receivables and loans	*170,284*	*49,836*	*35,078*	*11,022*	*4,888*	*1,281*	*4,701*	*277,090*
Cash and cash equivalents	*10,475*	*3,824*	*812*	*1,203*	*623*	*4,055*	*2,828*	*23,820*

Total financial assets	**186,688**	**55,144**	**35,890**	**12,771**	**5,960**	**5,336**	**7,529**	**309,318**
Short-term and long-term bank loans	102,568	168,942	942	15,095	1,809	9,472	28	298,856
Other loans and liabilities	49,555	50,837	15,737	17,385	6,394	167	3,480	143,555
Leasing liabilities	3,203	207	-	254	-	-	19	3,683
Financial guarantee obligations	380	-	-	-	-	-	-	380
Total financial liabilities	**155,706**	**219,986**	**16,679**	**32,734**	**8,203**	**9,639**	**3,527**	**446,474**

31 December 2017	*in BGN BGN '000*	*in EUR BGN '000*	*in RSD BGN '000*	*in BYN BGN '000*	*in USD BGN '000*	*in UAH BGN '000*	*in other currency BGN '000*	*Total BGN '000*
Available-for-sale financial assets	5,043	1,826	-	-	1,113	-	-	7,982
Loans and receivables, including:	180,002	50,009	31,688	10,070	5,317	4,998	5,949	288,033
Receivables and loans	*169,669*	*43,169*	*31,491*	*9,167*	*4,029*	*3,432*	*4,462*	*265,419*
Cash and cash equivalents	*10,333*	*6,840*	*197*	*903*	*1,288*	*1,566*	*1,487*	*22,614*
Total financial assets	**185,045**	**51,835**	**31,688**	**10,070**	**6,430**	**4,998**	**5,949**	**296,015**
Short-term and long-term bank loans	60,897	188,756	30	7,734	-	1,752	-	259,169
Other loans and liabilities	70,074	51,193	24,854	18,347	3,199	169	638	168,474
Total financial liabilities	**130,971**	**239,949**	**24,884**	**26,081**	**3,199**	**1,921**	**638**	**427,643**

Price risk

The Group companies are exposed to price risk of inventories based on three main factors:

(a) a possible increase of purchase prices of raw materials and consumables, since a significant portion of the raw materials used are imported and they represent a significant share of production costs;

(b) a possible increase in supplier prices of goods; and

(c) the growing competition on the Bulgarian pharmaceutical market, affecting the prices of pharmaceuticals.

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

The Group is exposed to a significant price risk also with regard to the shares held thereby, classified as other long-term equity investments, mostly through the parent company. For this purpose, the management monitors and analyses all changes in security markets and also uses consulting services of one of the most authoritative in the country investments intermediaries. In addition, at this stage, the management has taken a decision for a reduction in its operations on stock markets, retaining of the purchased shares for longer periods with current monitoring of the reported by the respective issuer financial and business indicators as well as the development of the operations in the environment of crisis.

Credit risk

Credit risk is the risk that any of the Group's clients will fail to discharge in full and within the normally envisaged terms the amounts due under trade receivables.

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

In the years of its trade experience, the Group has implemented different schemes of distribution to reach its efficient approach of today, in conformity with the market conditions, using various ways of payment as well as relevant trade discounts.

The Group works on its main markets with counterparts with history of their relations on main markets, which include a big number of licensed Bulgarian and foreign traders of pharmaceuticals.

The cooperation with the state hospitals also requires the implementation of deferred payments policy. There is a concentration of significant credit risk in this type of counterparts that form 40% of Group's trade receivables (31 December 2017: 35%). It is mitigated through implemented procedures for selection and current monitoring of the liquidity and financial stability of these trade partners. On delay in payments of the receivables from these counterparts, the Group has set a period of 30 days after which it starts activities for collection of receivables. With regard to *clients – hospitals*, in case of 30 days of delay after the date on which the credit period expires, interest for delay is being charged and if delinquencies are not settled after further 30 days, a meeting with the management is arranged for the purpose of signing rescheduling agreement. If the agreement is not complied with, legal proceedings are initiated. With regard to *clients – pharmacies*, in case of a 5-day delay after the expiry of the credit period, the subsequent sales under deferred payment terms are suspended. If delinquencies are not settled up yo the 45th day, all sales are ceased and negotiations are held for concluding an agreement. If the agreement is not complied with, legal proceedings are initiated.

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

The credit policy of the Group envisages that every new client shall be investigated with regard to its creditworthiness prior to being offered the standard terms of supply and payment.

The analysis, performed by the Group, includes but is not limited to visits to clients' premises, but also – collection of information on monthly turnovers and in some cases a promissory note is required in favour of the Group company for 130% - 135% of the credit granted. These limits are reviewed on a monthly basis. The clients that cannot cover the creditworthiness criteria may perform purchases in cash.

Collectability of receivables is controlled directly by the Executive, Finance and Trade Director of the parent company and, respectively, by the managing bodies of the subsidiaries. Their responsibility is to provide operating control and regulate receivables in conformity with the actual market situation and the needs of the Group. The Group has developed policy and procedures to assess the creditworthiness of its counterparts and to assign credit rating and credit limits by groups of clients. The management of the Group currently monitors and regulates the concentration of receivables by client and counterpart in total for the Group.

The financial resources of the Group as well as the settlement operations are concentrated mainly in different first-class banks. To distribute cash flows among them, the management of the parent company and the subsidiaries take into consideration a great deal of factors, as the amount of capital, reliability, liquidity, the credit potential and rating of the bank etc.

Expected credit losses are calculated on the date of each reporting period. They were first calculated on 01.01.2018, respectively. as at 31.12.2018.

Accounting policy applicable until 31 December 2017

According to the accounting policy applied until 31 December 2017, loans granted and trade receivables are presented in the statement of financial position in net amount after deduction of accrued impairment losses on doubtful and uncollectible receivables. Such impairments are made where and when there were events identifying loss of uncollectability under previous experience.

Liquidity risk

The liquidity risk is the adverse situation when the Group encounters difficulty in meeting unconditionally its obligations within their maturity.

The Group generates and maintains a significant volume of liquid funds. An internal source of liquid funds for the Group is its main economic activity of its companies generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. To isolate any possible general liquidity risk, the group implements a system of alternative mechanisms of acts and prognoses, the final aim being to maintain good liquidity and, respectively, ability to finance its economic activities. This is supplemented by current monitoring of the maturities of assets and liabilities, control over cash outflows and ensuring their current balancing with inflows, including renegotiation of maturities and optimisation of debt structure, increase and internal restructuring of self-generated funds and their investment.

Maturity analysis

The table below presents the financial non-derivative liabilities of the Group, classified by remaining term to maturity, determined against the contractual maturity at the consolidated financial statements date. The table is prepared on the basis of undiscounted cash flows and the earliest date on which a payable becomes due for payment. The amounts include principal and interest.

Maturity analysis

31 December 2018	*до 1 м*	*от 1 до 3 м*	*от 3 до 6 м*	*от 6 до 12 м*	*от 1 до 2 г*	*от 2 до 5 г*	*над 5 г*	*Общо*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Short-term and long-term bank loans	110,646	6,279	91,536	47,223	22,284	26,654	473	**305,095**
Other loans and liabilities	86,048	42,374	15,001	132	-	-	-	**143,555**
Leasing obligations	-	9	444	836	1,141	1,429	-	**3,859**
Financial guarantee obligations	-	-	-	380	-	-	-	**380**
Total liabilities	**196,694**	**48,662**	**106,981**	**48,571**	**23,425**	**28,083**	**473**	**452,889**

31 December 2017	*up to 1 month*	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*1 to 2 years*	*2 to 5 years*	*over 5 years*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Short-term and long-term bank loans	2,406	55,641	52,120	101,602	14,917	37,881	-	**264,567**
Other loans and liabilities	101,644	48,523	10,341	5,552	1,700	966	-	**168,726**
Total liabilities	**104,050**	**104,164**	**62,461**	**107,154**	**16,617**	**38,847**	**-**	**433,293**

Risk of interest-bearing cash flows

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

(a) optimisation of resources and structure of credit resources for achieving relatively lower price of attracted funds; and
(b) combined structure of interest rates on loans comprising two components – a permanent one and a variable one; the correlation between them, as well as their absolute value, are maintained in a proportion favourable for the Group companies. The fixed component has a relatively low absolute value and sufficiently high relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rate levels in case of variable component updating. Thus the probability for an unfavourable change of cash flows is reduced to a minimum.

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

Interest analysis	*interest-free*	*with floating interest %*	*with fixed interest %*	*Total*
31 December 2018	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Equity investments	8,408	-	-	8,408
Financial assets at amortized cost including:	231,602	12,009	57,299	300,910
Receivables and loans	*225,248*	*15*	*51,827*	277,090
Cash and cash equivalents	*6,354*	*11,994*	*5,472*	23,820
Total financial assets	**240,010**	**12,009**	**57,299**	**309,318**
Short-term and long-term bank loans	-	260,419	38,437	298,856
Other loans and liabilities	121,512	21,035	1,008	143,555
Leasing obligations	-	3,401	282	3,683
Financial guarantee obligations	380	-	-	380
Total financial liabilities	**121,892**	**284,855**	**39,727**	**446,474**

Interest analysis	*interest-free*	*with floating interest %*	*with fixed interest %*	*Total*
31 December 2017	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	7,982	-	-	7,982
Loans and receivables, including:	234,424	7,294	46,315	288,033
Receivables and loans	*224,724*	*15*	*40,680*	265,419
Cash and cash equivalents	*9,700*	*7,279*	*5,635*	22,614
Total financial assets	**242,406**	**7,294**	**46,315**	**296,015**
Short-term and long-term bank loans	-	229,924	29,245	259,169
Other loans and liabilities	146,154	21,897	423	168,474
Total financial liabilities	**146,154**	**251,821**	**29,668**	**427,643**

Capital risk management

The capital management objectives of the Group are to build and maintain capabilities to continue its operation as a going concern and to provide return on the investments of shareholders and economic benefits to other stakeholders and participants in its business as well as to maintain an optimal capital structure to reduce the cost of capital. Analogous approach is applied also at the level of a separate Group company with regard to its capital structure and financing.

The Group currently monitors capital availability and structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by the total amount of employed capital. Net debt is calculated as total borrowings (current and non-current ones) as presented in the consolidated statement of financial position less cash and cash equivalents. Total employed capital is equal the sum of equity (including non-controlling interest) and net debt. It is a characteristic feature for both presented periods that the Group finances its operations both through its own generated profit and by maintaining a certain level of trade and other current payables and loans (bank, commercial ones). In 2018, the strategy of the parent company's management was to maintain the ratio within 25-35% at a Group level (2017: 25-35%).

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

	31.12.2018	***31.12.2017***
	BGN'000	***BGN'000***
Total debt capital, including:	**324,330**	**281,793**
Bank loans	298,856	259,169
Loans and finance lease and factoring liabilities	25,474	22,624
Less: Cash and cash equivalents	**(23,820)**	**(22,614)**
Net debt	**300,510**	**259,179**
Total equity of the Group	**510,816**	**503,110**
Total capital of the Group	**811,326**	**762,289**
Debt ratio	0.37	0.34

The liabilities shown in the table are disclosed in *Notes 29, 31, 33 and 36.*

Fair values

The fair value concept presumes realisation of the financial instruments through sales. However, in most cases especially in regard of trade receivables and payables as well as loans and deposits with banks, the Group expects to realise these financial assets also through their total refund or respectively, settlement over time. Therefore, they are presented at amortised cost.

In addition, a large part of the financial assets and liabilities are either short-term in their nature (trade receivables and payables, short-term loans) or are presented in the consolidated statement of financial position based on market value (deposits placed with banks, investments in securities, loans with floating interest rate) and therefore, their fair value is almost equal to their carrying amount.

An exception to this rule is that they are part of the investments in other minority interests, for which there is no market and no objective conditions for determining their fair value, and therefore are accepted that they should be presented at aquisition cost. In the case of loans and advances with fixed interest rates, the methodology used for determining the latter uses the current observations of the Group with regard to market interest rates as a starting point for the calculation.

As far as no sufficient market experience, stability and liquidity exist in regards of purchases and sales of certain financial assets and liabilities and still no adequate and reliable quotes of market prices are available, some alternative assessment methods and techniques are applied.

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

42. RELATED PARTY TRANSACTIONS

Related parties	*Relation type*	*Relation period*
Telecomplect Invest AD	Main shareholding company	2018 and 2017
Donev Investments Holding AD	Main shareholding company	2018 and 2017
Sopharma Properties REIT	Company related through a main shareholder	2018 and 2017
Sofprint Group AD	Company related through a main shareholder	2018 and 2017
Elpharma AD	Company related through key management personnel	2018 and 2017
Telecomplect AD	Company related through key management personnel	2018 and 2017

Supplies from related parties:	*1 January-31 December 2018 BGN '000*	*1 January-31 December 2017 BGN '000*
Supply of inventories from:		
Companies related through a main shareholder	9,304	9,197
Companies controlled by an associated company	112	81
Companies related through key management personnel	15	44
Total	**9,431**	**9,322**
Supply of services from:		
Companies related through key management personnel	3,145	3,230
Companies related through a main shareholder	2,356	2,648
Companies controlled by an associated company	1,143	833
Main shareholder companies	341	229
	6,985	**6,940**
Supplies of tangible fixed assets from:		
Companies related through key management personnel	72	344
Companies related through a main shareholder	46	-
Companies controlled by an associated company	1	29
	119	**373**
Supplies for the acquisition of fixed assets:		
Companies related through key management personnel	2,313	1,222

Company related through a main shareholder	198	-
Main shareholder companies	-	6
	2,511	**1,228**

Other supplies from:		
Main shareholder companies	6	3
	6	**3**

Investments acquired from:		
Increase of capital in companies related through main sahreholder	-	425
	-	**425**

Accrued dividends on:		
Main shareholder companies	6,777	6,141
Companies related through key management personnel	221	42
	6,998	**6,183**
	26,050	**24,474**

Sales to related parties

Sales of inventories to:		
Joint ventures	3,301	4,845
Company controlled by an associated company	1,352	-
Companies related through a main shareholder	740	784
Companies related through key management personnel	1	-
	5,394	**5,629**

Sales of services to:		
Companies contolled by an associated company	289	289
Companies related through a main shareholder	51	48
Companies related through key management personnel	16	11
Associated companies	7	-
	363	**348**

Sales of fixed assets for:		
Company contolled by an associated company	24	-
	24	**-**

Other sales from:		
Companies related through a main shareholder	215	-
	215	**-**
Dividend income from:		
Companies related through a main shareholder	49	-
	49	**-**
Interest on loans granted:		
Associated companies	602	411
Companies controlled by an associated company	199	76
Companies related through key management personnel	108	541
	909	**1,028**
	6,954	**7,005**

The accounts and balances with related parties are presented in *Notes 19 and 23.*

The composition of key management personnel of the Group includes the disclosed in Note 1 Executive Director and the members of the Board of Directors of the parent company.

Remuneration and other income of the key management personnel and the executive directors, members of the Board of Directors and the managers of the Group's subsidiaries amounted to BGN 5,889 thousand (2017: BGN 6,806 thousand), including:

- current remuneration - BGN 5,315 thousand (2017: BGN 6,272 thousand);
- tantiems - BGN 572 thousand. (2017: BGN 534 thousand);
- payments based on shares - BGN 2 thousand (2017: none).

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

This appendix presents the effects on the Group's 2018 financial statements from the application for the first time of IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers as of 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 Group applied for the first time the exemptions when it was first applied, imposing the requirements of the Standard to the financial instruments contracts opened on 01.01.2018.

The application of IFRS 9 Financial Instruments has led to certain changes in accounting policies and adjustments of amounts in the relevant items that reflect the reportable items recognized in the consolidated financial statements. The new accounting policies are presented in *Note 2.6.*

IFRS 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. IFRS 15 disclosures and disclosures Revenue from contracts with customers is to a certain extent different and more detailed than the repealed accounting standards. The Group has applied the requirements of IFRS 15 for all outstanding contracts on 1 January 2018, using the practical benefit of modified customer contracts.

The application of IFRS 15 Revenue from contracts with customers has led to changes in the accounting policies of the Group. The new accounting policies are presented in *Note 2.*

The effects on retained earnings and non-controlling interest on 1 January 2018 from the application of IFRS 9 are as follows:

	Notes	BGN'000 Undistributed profit	Non-controlling stake
End balance as at 31 December 2017 (initially reported according to the accounting policy from 2017)		**281,509**	**33,227**
Accrued provision for impairment for expected credit losses on trade receivables		(2,152)	(739)
Accrual provision for impairment for expected credit losses on long-term loans granted to related parties	21	(119)	-
Accrual provision for impairment for expected credit losses on long-term loans provided to third parties	22	(6)	-
Accrual provision for impairment for expected credit losses short-term loans provided to third parties	26	(75)	-
Accrued provision for financial guarantees	39	(380)	-
Increase of deferred tax assets, related to accrued probisions for expected credit losses		191	35
		(2,541)	**(704)**

Beginning balance as at 1 January 2018 after recalculation from the first time application of IFRS 9	**278,968**	**32,523**

The reference relation between the classifications under IFRS 9 and IAS 39 of the Company's financial assets and liabilities is presented in the table below:

	IFRS 9		IAS 39	
	Classification	**Following evaluation**	**Classification**	**Following evaluation**
Financial assets				
Shares in the capital of other companies (long-term investments)	Financial assets at fair value through other comprehensive income	Fair value through other comprehensive income	Available for sale	Fair value through other comprehensive income
Trade receivables	Financial assets at amortized cost	Amortized cost	Credits and receivables	Amortized cost
Interest-bearing loans and other provided financial resources	Financial assets at amortized cost	Amortized cost	Credits and receivables	Amortized cost
Cash and cash equivalents	Financial assets at amortized cost	Amortized cost	Credits and receivables	Amortized cost

	IFRS 9		IAS 39	
	Classification	**Following evaluation**	**Classification**	**Following evaluation**
Financial liabilities				
Trade and other obligations	Financial liabilities at amortized cost	Amortized cost	Credits and obligations	Amortized cost
Interest-bearing loans and other borrowed financial resources	Financial liabilities at amortized cost	Amortized cost	Credits and obligations	Amortized cost
Finance lease liabilities	Financial liabilities at amortized cost	Amortized cost	Credits and obligations	Amortized cost

44. POTENTIAL EFFECTS OF THE APPLICATION OF NEW IFRS

IFRS 16 Leases is the new standard for the treatment of leases. It replaces IAS 17 Leases and related SIC and IFRIC.

IFRS 16 establishes principles and rules for the recognition, measurement, presentation and disclosure of the lease both to lessors and lessees.

The changes to the reporting for the lessees are most significant.

Reporting to the lessee

IFRS 16 establishes that lessees account for all leases under a single model that requires their balance sheet recognition, similar to accounting for the finance lease under IAS 17.

Under the new standard, a contract contains a lease if it transfers the right to control the use of an identified asset for a certain period of time against remuneration. Upon the commencement of the lease, the lessee recognizes an asset in the form of the "right of use" of the underlying underlying asset and a financial liability representing the present value of the liability to pay the lease amounts.

The Standard admits two mitigating exceptions: (a) short-term (up to 12 m) leases and / or (b) low value. If lessees choose to use short-term and / or low-value short-term lease arrangements, the lease payments associated with these contracts should be reported as current costs on a straight line basis over the contract period or on a systematic basis similarly of the IAS 8 operating lease accounting rules.

The lessee will recognize separately interest expense on the lease liability and respectively. Depreciation costs - for the asset: "right to use". In addition, they will have to recognize a revaluation of the lease liability upon occurrence of certain events (such as changes in the terms of the lease, changes in future lease payments due to changes in certain amounts (index, percentage, etc.) used in the calculation of lease payments). In these cases, the lessee recognizes the changes as an adjustment of the liability on the lease and the right to use the asset.

Reporting to the lessor

IFRS 16 does not substantially alter the accounting for leases for lessors. They will continue to classify each lease as a financial or operating arrangement by applying in practice rules analogous to those of IAS 17 that are substantially transferred to the new IFRS 16.

The Group has reviewed and analyzed all lease agreements in the light of the requirements of the new IFRS 16. The Standard will affect mainly the operating leases of the Group as lessees.

The Effects of Changing Accounting Policies Due to the Introduction of IFRS 16 are presented below:

a) The Group expects to recognize "right of use" assets for approximately BGN 38,421 thousand. on 1.01.2019 and respectively lease liabilities amounting to BGN 38,421 thousand. (after adjustments for prepaid or accrued lease payments related to the respective lease contracts recognized as at 31.12.2018).

b) Total net assets will not change and current net assets will decrease by BGN 9,697 thousand due to the presentation of part of the lease liabilities as current liabilities.

c) The Group expects the net profit for 2019 to decrease by approximately BGN 1,664 thousand as a result of the application of the new standard.

d) The EBIDTA indicator is expected to increase by approximately BGN 9,979 thousand due to the recording of the lease costs as amortization expense of the "right of use" asset and interest expense on the lease liability.

e) The net cash flows from operating activities will increase and the net cash flows from financial activities will decrease by approximately BGN 9,979 thousand as principal and lease payments under the lease contracts will be fully accounted for in the financial activity.

IFRS 16 is mandatory for application for the financial year beginning 01.01.2019. The Group has decided not to apply it earlier. She chose a modified retrospective application of the new rules of the standard from 01.01.2019. Comparative data for the year (2018) preceding the original application will not be recalculated.

45. EVENTS AFTER THE REPORTING PERIOD

On 2 January 2019, the merger of OO Med-dend, Belarus with BOOO SpetsApharmatsiya, Belarus was registered by merging the assets and liabilities of the two companies. The activity of the merged company OOO Med-dend is terminated and all its rights and liabilities at the moment of the merger are borne by BOOO SpetsApharmatsiya, Belarus.

On 15 January 2019, Sopharma Trading AD signed an agreement with Lekovit O.O. for the acquisition of 30% of its capital - the non-controlling stake.