

## **SOPHARMA GROUP**

### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**for the three-month period ending on 31 March 2018**

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*This is a translation from Bulgarian of the consolidated financial statements of Sopharma Group for Q1 2018.*

## SOPHARMA GROUP

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS for the three-month period ending on 31 March 2018

#### 1. BACKGROUND INFORMATION ON THE GROUP

Sopharma Group (the Group) is comprised of the parent company and its forty eight (31 December 2017: forty eight) subsidiaries. In addition, the Group has investments in three joint ventures (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 March 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 St., 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 St.;
- 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 St.;
- 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 St., Sopharma Business Towers, Building A, floor 20;
- Unipharm AD – a business entity registered in Bulgaria by Decision of Sofia City Court under Company File No. 3685 of 1994, with a seat and address of management: Sofia, 3, Traiko Stanoev St.;
- 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 St., Sopharma Business Towers, Building A, floor 12;

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- 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 St., 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 St., 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 St., 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 St., 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 St., 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 St., 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 St., 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 St., 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 St., 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 St.;
- 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 St., Sopharma Business Towers, Building A, floor 8;
- 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;

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- 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;
- 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;
- 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;
- 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;
- 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 St.;
- 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 St.;
- 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 St.;
- 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 St.;
- 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 St., 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;

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- Rap Pharma International OOD, Moldova – a business entity, registered in Moldova with number 1004601000376 as of 11 February 2004 at the State Registration Authority with seat in Moldova, 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 St., 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 St., 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 St., 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 St.;
- 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 St.;
- 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 entrepreneurs under number 300000556 and with headquarters and management address – Belarus, Vitebsk, Stroitelei Square, building 3, app. 2;

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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- OOO Zdorovei, Belarus – a business entity registered in Belarus with decision as of 04 June 2014 of the Minsk City Executive 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 Executive 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 30 December 1996 of the Vitebsk City Executive Committee with seat and management address – Belarus, Polotzk, Shkolnaia Str.;

#### *Joint ventures*

The joint ventures of the Group as at 31 March 2018 are as follows:

- OOO Med-dent, Belarus – a business entity registered in Belarus by Decision No. 0018240 / 11 March 2013 of the Department of Economy at the Bobruysk City Executive Committee, with a seat and address of management: Belarus, Mogilevsk District, Bobruysk, 120, K. Marx St., office 4;
- BOOO SpetzApharmacia BOOO, Belarus – a business entity registered in Belarus by Decision No. 22-8 / 30 October 2000 of Mogilevsk District Executive Committee, with a seat and address of management: Belarus, Mogilevsk District, Bobruysk, 120, K. Marx St., office 2;
- 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 Storojevskaya St.;

#### *Associates*

The associates of the Group as at 31 March 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 March 2018 is as follows:

**SOPHARMA GROUP**  
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**for the three-month period ending on 31 March 2018**

	%
Donev Investments Holding AD	25.20
Telecomplex Invest AD	20.41
Rompharm Company OOD	7.52
Sopharma AD (treasury shares)	6.70
Other legal persons	32.88
Natural persons	7.29
	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 March 2018 as follows:

Ognian Donev, PhD	Chairman
Vessela Stoeva	Member
Ognian Palaveev	Member
Alexander Chaushev	Member
Andrey Breshkov	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:

<i><b>Subsidiaries</b></i>	<b>31.12.2018</b>	<b>31.12.2017</b>	<i><b>Date of acquisition of control</b></i>	<i><b>Date of disposal of control/merger</b></i>
	%	%		
<i><b>Companies in Bulgaria</b></i>				
Sopharma Trading AD*	72.85	72.85	08.06.2006	
Pharmalogistica AD	89.39	89.39	15.08.2002	

*This is a translation from Bulgarian of the consolidated financial statements of Sopharma Group for Q1 2018.*

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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	93.55	93.55	01.01.2008	
Unipharm AD	98.77	98.77	27.10.2010	
Phyto Palauzovo AD	95.00	95.00	21.09.2012	
Sopharmacy EOOD**	72.85	72.85	19.01.2015	
Sopharmacy 2 EOOD**	72.85	72.85	05.06.2015	
Sopharmacy 3 EOOD**	72.85	72.85	02.12.2015	
Sopharmacy 4 EOOD**	72.85	72.85	29.02.2016	
Sopharmacy 5 EOOD**	72.85	72.85	01.03.2016	
Sopharmacy 6 EOOD**	72.85	72.85	03.12.2015	
Sopharmacy 7 EOOD**	72.85	72.85	15.03.2017	
Sopharmacy 8 EOOD**	72.85	72.85	27.06.2017	
Sopharmacy 9 EOOD**	72.85	72.85	11.09.2017	
Sopharmacy 10 EOOD**	72.85	72.85	11.09.2017	
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	76.00	31.07.2017	
PharmaStore 1 EOOD**	72.85	72.85	07.12.2017	
PharmaStore 2 EOOD**	72.85	72.85	07.12.2017	
PharmaStore 3 EOOD**	72.85	72.85	07.12.2017	
PharmaStore 4 EOOD**	72.85	72.85	07.12.2017	
PharmaStore 5 EOOD**	72.85	72.85	07.12.2017	

\* *efficient percentage of interest*

\*\* *indirect interest*

<b><i>Subsidiaries</i></b>	<b>31.12.2018</b>	<b>31.12.2017</b>	<b><i>Date of acquisition of control</i></b>	<b><i>Date of disposal of control</i></b>
<b><i>Companies abroad</i></b>	<b><i>Interest %</i></b>	<b><i>Interest %</i></b>		
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**	72.85	72.85	05.06.2015	
Sopharma Poland Z.O.O. – in liquidation	60.00	60.00	16.10.2003	
OOO Tabina **	53.71	54.37	08.04.2011	
SOOO Brizpharm **	31.45	31.45	20.12.2012	
ODO Alean **	-	-	07.02.2013	31.08.2017

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OOO Sopharma Ukraine	100.00	100.00	07.08.2012	
OOO Farmacevt Plus **	35.60	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**	54.62	54.62	28.02.2015	
ODO Medjel**	55.55	55.55	28.02.2015	
ODO Alenpharm-plus**	52.24	52.24	30.06.2015	
OOO Farmatea**	38.18	38.18	30.11.2015	
OOO Mobil Line**	-	-	16.02.2016	04.07.2017
ODO SalusLine**	52.24	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.**	50.96	50.96	09.08.2017	
OOO Zdorovei **	34.79	35.00	16.08.2017	
OOO Ivem I K**	42.83	39.62	16.08.2017	
OOO Ariens**	35.20	35.30	16.08.2017	

\* *efficient percentage of interest*

\*\* *indirect interest*

- Sopharma Trading AD is a subsidiary of Sopharma AD, the control thereon being acquired and exercised through the direct participation of the parent company in the ownership of Sopharma Trading AD with 72.67% and the indirect participation of the parent company with 0.18% through the subsidiary Unipharm AD holding 0.18 % of the capital of Sopharma Trading AD;
- 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 Sopharmacy 6 EOOD;

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- 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 7 EOOD;
- Sopharmacy 9 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital Sopharmacy 7 EOOD;
- Sopharmacy 10 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital Sopharmacy 7 EOOD;
- PharmaStore 1 EOOD is a subsidiary of Sopharma Trading AD - Sopharma Trading AD owns 100% of the capital of PharmaStore 1 EOOD;
- PharmaStore 2 EOOD is a subsidiary of Sopharma Trading AD - Sopharma Trading AD owns 100% of the capital of PharmaStore 2 EOOD;
- PharmaStore 3 EOOD is a subsidiary of Sopharma Trading AD - Sopharma Trading AD owns 100% of the capital of PharmaStore 3 EOOD;
- PharmaStore 4 EOOD is a subsidiary of Sopharma Trading AD - Sopharma Trading AD owns 100% of the capital of PharmaStore 4 EOOD;
- PharmaStore 5 EOOD is a subsidiary of Sopharma Trading AD - Sopharma Trading AD owns 100% of the capital of PharmaStore 5 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 subsidiary 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 subsidiary SOOO Brititrade, Belarus - whereas SIA Briz, Latvia holds 6.10% of the capital of OOO Tabina and SOOO Brititrade – 93.9% 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 53.84% 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 37% 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 60% and SOOO Brititrade holds 30% of the capital of ODO Medjel;

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- ODO Alenpharm-plus, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 35% and SOOO Brititrade holds 55% 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 35%, SOOO Brititrade holds 55%.
- 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 subsidiary 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 – SOOO Brititrade and OOO Farmacevt Plus own each 25% of the capital of OOO Ivem i K and OOO dorovei owns 50% of the capital 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.

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;
- Unipharm AD – production and trade in pharmaceuticals;
- Phyto Palauzovo AD – production, collection, purchase, growing and trade in herbs and medicinal

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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;
- Aromania OOD – development and marketing of food supplements;
- PharmaStore 1 EOOD - retail of medicinal products;
- PharmaStore 2 EOOD - retail of medicinal products;
- PharmaStore 3 EOOD - retail of medicinal products;
- PharmaStore 4 EOOD - retail of medicinal products;
- PharmaStore 5 EOOD - retail of medicinal products;
- 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;

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- 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, Belarus - retail trade in medicinal products, pharmaceuticals and medical equipment.
- OOO Ariens, Belarus - retail trade in medicinal products, pharmaceuticals and medical equipment.

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, Aromania OOD, PharmaStore 1 EOOD, PharmaStore 2 EOOD, PharmaStore 3 EOOD, PharmaStore 4 EOOD, PharmaStore 5 EOOD 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; UAB TBS Pharma – in Lithuania, TOO Sopharma Kazakhstan – in Kazakhstan, Rap Pharma International OOD – in Moldova.

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

- OOO Med-dent, Belarus, a joint venture through SIA Briz, Latvia – 50% interest jointly with a natural person. The principal activities of the joint venture include trade in pharmaceuticals and food supplements. The company has been a joint venture for the Group since 17 December 2013.
- BOOO SpetzApharmacia, Belarus, a joint venture through SIA Briz – 50% interest jointly with a natural person. The principal activities of the joint venture include trade in pharmaceuticals and food supplements. The company has been a joint venture for the Group since 20 January 2014.
- 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 March 2018, the interest of the Group in *associates* is as follows:

- Doverie Obedinen Holding AD – 32.74% 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.

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At the date of these interim consolidated financial statements, the average number of Group's personnel was 5 039 workers and employees (2017: 4 895).

**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 2015 – 2017, are presented in the table below:

<b>Indicator</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
USD/BGN average for the year/period	1.76833	1.71916	1.59123
USD/BGN at end of the year/period	1.85545	1.63081	1.58740
PLN/BGN average for the year/period	0.44846	0.45956	0.46792
PLN/BGN at end of the year/period	0.44347	0.46824	0.46450
RSD/BGN average for the year/period	0.01589	0.01612	0.01651
RSD/BGN at end of the year/period	0.01584	0.01651	0.01652
UAH/BGN average for the year/period	0.06916	0.06528	0.05835
UAH/BGN at end of the year/period	0.06881	0.05839	0.05980
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	0.80650
1 BYN/BGN at end of the year/period	0.95429	0.83112	0.81367
KZT/BGN average for the year/period	0.00518	0.00533	0.00492
KZT/BGN at end of the year/period	0.00555	0.00491	0.00499
MDL/BGN average for the year/period	-	0.09393	0.09509
MDL/BGN at end of the year/period	-	0.09583	0.09638

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" (IASs).

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 respectively, by the

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International Financial Reporting Interpretations Committee (IFRIC), which are relevant to its activities. The adoption of these standards and/or interpretations, *effective for annual periods beginning on 1 January 2018, has not caused changes in the accounting policies, except for some new disclosures and the expansion of those already adopted*, however, not resulting in other changes in the classification or valuation of individual reporting items and transactions.

As at the date of publication of these financial statements, several new standards and interpretations, as well as revised standards and interpretations that were not adopted for previous application of the Group, were issued but are not yet in force for annual periods beginning on 1 January 2017.

The management of the Group has estimated that the following would have a potential effect in the future for changes in accounting policies and the classification and the values of reportable items in the financial statements for subsequent periods, namely:

- *IFRS 9 (revised) - Financial Instruments - for cases of negative early repayment and modification of financial liabilities (effective for annual periods beginning on or after 1 January 2019 - not adopted by the EC)*. This change covers two issues: (a) amends the current IFRS 9 requirements by allowing the classification of certain financial assets at amortized cost and passing them on the SSGI test, irrespective of the existence of early repayment terms with negative compensation. Negative compensation occurs when the terms of the contract allow the debtor to pay early for the instrument before its maturity, and the prepaid amount may be different from the remaining unpaid principal and interest but this negative compensation must be reasonable and relevant for the early termination of the contract. Prepayment itself is not a sufficient indicator of judgment, it is important to measure against the prevailing interest rate, and against it the amount of prepayment may also be in favor of a party, nitsiirala 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 and determining the effects of changes through the new standard that may affect accounting policies and the values and classification of the Group's assets, liabilities, operations and results (*Note 39*)
- *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 for both the lessee and the lessor. The Standard will replace the current IAS 17. - a) The guiding principle of the new standard is the

introduction of a one-size-fits-all model of lease accounting for lessees - for all leases of more than 12 months duration, an asset will be recognized under The form of "right of use" to be amortized over the term of the contract and, respectively, a financial liability for the liability under these contracts. This is also the major change in current reporting practice. For short-term or very low-cost leases an exception is allowed and retention of practice; b) There would be no material change in the lessors and they would continue to recognize leases similar to the old Standard IAS 17 as operating and financial. To the extent that the new standard gives a more complete concept, a more detailed analysis of the terms of the contracts should also be made on their behalf and it is possible for them (the lessors) to create grounds for reclassification of certain leasing transactions. The new standard requires expanding disclosures. The management has chosen to apply a modified retrospective application for the first time to IFRS 16 and not to restate the comparative figures;

- *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 to be determined of the 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 accounting treatment depends on whether the assets sold or the contributed non-monetary assets are essentially "business" or not 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.

In cases where assets are sold or non-monetary assets that are "business" as a whole are sold, the investor recognizes wholly the gain or loss on the transaction. These changes will be applied prospectively. The IASB postponed the initial date of application of these changes indefinitely.

- *IAS 28 (revised) - Investments in Associates and Joint Ventures - Long-Term Investments in Associates and Joint Ventures (in force for annual periods beginning on or after 1 January 2019) - not adopted by the EC.* This amendment specifies that an entity should apply IFRS 9, including impairment requirements, to participations in associates or joint ventures that form the net investment with those companies and which do not qualify for equity method. Changes in management's intentions or plans are not considered evidence of change.
- *IFRIC 23 (revised) Uncertainties in the treatment of income taxes (effective for annual periods beginning on or after 1 January 2019 - not adopted by the EC).* This Interpretation provides guidance on accounting for 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 any specific interest and other penalties associated with tax uncertainties. The Interpretation covers: (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 has determined the tax profit or loss, tax bases, unused tax losses, tax rates and unused tax credits; (d) how the entity has judged and treated the changes in the facts and circumstances; and (e) the entity determines whether it will assess the individual uncertainties of tax treatment individually or in combination with others. Group management is still considering the impact that this standard might have on the Group's financial statements.

- *Improvements to IFRS Cycle 2015-2017 (December 2017) - Improvements to IAS 23, IAS 12 and IFRS 3 in relation to IFRS 11 (effective for annual periods beginning on or after 1 January 2019 - not adopted by the EC).* These improvements bring about partial changes and revisions in 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 introducing more precise terminology of concepts. Changes are principally directed at the following items or operations: (a) they clarify that when an entity acquires control over a business that is a joint venture, it should restate (revalue) its previously held interests in that business under IFRS3. It is also specified that when an entity acquires joint control in a business that is a joint venture, it should not restate previously the units held in it under IFRS 11; (b) clarify that 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 specified qualifying asset remain outstanding once the asset becomes ready for the intended use or sale, those loans become part of the general purpose* financing instrument when calculating the capitalization rate IAS 23. Group management is still considering the impact that this standard might have on the Group's financial statements.
- *IAS 19 (amended) - Changes in defined benefit plans, staff cuts or settlements (in force for annual periods beginning on or after 1 January 2019 - not adopted by the EC).* This amendment specifies that in the event of changes to the defined benefit plans, redundancy or settlement, the determination of current service cost and interest expense for the period after the restatement, the company is required to use the assumptions used in the restatement. Additionally, changes in disclosure are included in changes to defined benefit plans, curtailments or settlements in relation to the asset ceiling.

Additionally, for the above-mentioned revised standards that have been issued but are not yet in force for annual periods beginning on 1 January 2018, management has determined that the following would not have a potential effect on changes in accounting policies and classification And the values of reportable items in the financial statements of the company, namely:

- *IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021 - not adopted by the EC).* This Standard is an entirely new accounting standard for all types of

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insurance contracts, incl. for certain guarantees and financial instruments, including rules on recognition and measurement, presentation and disclosure. The standard will replace the current standard for insurance contracts - IFRS 4. It establishes a new comprehensive model for the reporting of insurance contracts covering all relevant accounting aspects. It is not applicable to the Group's activities.

- *Changes in the Financial Framework Conceptual Framework (effective for annual periods beginning on or after 1 January 2020 - not 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.

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 available-for-sale financial instruments, 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 Med-dent, BOOO SpetzApharmaciana and OOO Bellerophon – the Belarusian legislation, 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 Moldovan 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, Note 14, Note 15, Note 16, Note 17, Note 18, Note 21, Note 22, Note 38*.

## ***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 ventures are: OOO Med-dent, OOO Bellerophon, BOOO SpetzApharmacias-Belarus (*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 associate companies are: 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

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### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS for the three-month period ending on 31 March 2018**

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.

#### ***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. 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 Kazakhstan 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 and OOO Ariens) – 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**

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.

The types of Group's revenue are presented in *Notes 3, 4 and 11*.

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 it 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.

Finance income is included in the consolidated statement of comprehensive income when earned and comprises: interest income on granted loans and term deposits, interest income on receivables under special contracts, interest income on past due receivables, income/gains from deals with investments in available-for-sale securities including dividends, net gains on exchange differences under loans in foreign currency, income from debt settlement transactions, gain on fair value measurement of available-for-sale investments in the acquisition of a subsidiary performed in stages They are presented separately from of finance costs on the face of the consolidated statement of comprehensive income.

### ***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, 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 consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of 'property, plant and equipment' group are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under 'other operating income/(losses), net' on the face of the consolidated 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 consolidated 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 consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of intangible assets are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under 'other operating income/(losses), net' on the face of the consolidated 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 consolidated 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 net disposal proceeds and the carrying amount of the asset at the disposal date. They are presented under 'other operating income/(losses), net' in the consolidated 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. Available-for-sale investments and financial assets at fair value through profit***

#### ***2.14.1. Available-for-sale investments***

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

#### ***Initial measurement***

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Available-for-sale investments (financial assets) are initially recognised at cost, being the fair value of the consideration given including the direct expenses associated with the investment (financial asset) acquisition (*Note 2.25.1*).

***Subsequent measurement***

The available-for-sale investments (financial assets), held by the Group, are subsequently measured at fair value (*Note 2.30*) with the assistance of an independent certified appraiser.

The effects of subsequent revaluation of securities to fair value are presented in a separate component of the consolidated statement of comprehensive income (within other comprehensive income) and recognised in the consolidated statement of comprehensive income (within profit or loss for the year) on disposal (sale) of the respective investment by being stated as 'finance income' or 'finance costs'.

Dividend income related with long-term investments (financial assets) representing shares in other companies (non-controlling interests) is recognised as current income and presented in the consolidated statement of comprehensive income (within profit or loss for the year) within the item 'finance income'.

When shares are written-off due to sale, the Company uses the method of weighted average price determined at the end of the month in which write-off is made.

Any purchase or sale of available-for-sale investments (financial assets) is recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

The available-for-sale investments (financial assets) are reviewed at the end of each reporting period and if conditions for permanent impairment are identified, the latter is recognised in the consolidated statement of comprehensive income (within profit or loss for the year) under 'finance costs'.

Where conditions for impairment are identified, the latter is determined as the difference between the carrying amount and the recoverable value of the investment and is recognised in the consolidated statement of comprehensive income (within profit or loss for the year) unless a positive reserve for this investment was formed in prior periods – then the impairment is at first covered at the account of this reserve and is presented net in the consolidated statement of comprehensive income (within other comprehensive income).

***2.14.2. 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. The shares in investment funds are initially measured at acquisition cost. The direct transaction costs of the purchase are stated as expense. Subsequently, at the end of each reporting period, 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. Subsequent to the date of each statement of financial position, they are measured at fair values determined in accordance with the conditions for participation. The fair value is calculated and analyzed by the investment funds themselves. The effects of revaluation to fair value are recognised immediately in the consolidated statement of comprehensive income as 'finance income' or 'finance costs'.

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

Trade receivables are recognised in the consolidated financial statements and carried at fair value based on the original invoice amount (cost) less any allowance for uncollectable debts. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the receivables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest method (*Note 2.25*).

An estimate allowance for doubtful and bad debts is made when significant uncertainty exists as to the collectability of the full amount or a part of it. Bad debts are written-off when the legal grounds for this are available. Impairment of trade receivables is being accrued through a respective corresponding allowance account for each type of receivable in the item 'other expenses' on the face of the consolidated statement of comprehensive income (within profit or loss for the year).

**2.17. Interest-bearing loans and other financial resources granted**

All loans and other financial resources granted are initially recognised at cost (nominal amount), which is accepted to be the fair value of the 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 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, 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' (interest) or 'finance costs' throughout the amortisation period, or when the receivables are settled, derecognised or reduced.

Interest-bearing loans and other financial resources granted are classified as current ones unless (and for the relevant portion thereof) the 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, the funds of which are freely available to the companies of the Group in accordance with the terms and conditions agreed with the banks within the deposit term regardless of the original maturity of the respective deposit (*Note 2.25*).

For the purposes of the consolidated statement of cash flows:

- cash proceeds from customers and cash paid to suppliers are presented at gross amount, including value added tax (20%);
- interest on investment purpose loans received is reported as payments for financial activities while the interest on loans related to current activities (working capital) is included in the operating activities;

- interest received from short-term bank deposits is included in the composition of cash flows from investing activities;
- VAT paid on fixed assets purchased from foreign suppliers is presented on the line 'taxes paid' while that paid on assets purchased from local suppliers is presented as 'cash paid to suppliers' in the cash flows from operating activities as far as it represents a part of the operating flows of the Group companies and is recovered therewith in the respective period (month);
- blocked funds for a period of more than 3 months are not treated as cash and cash equivalents;
- proceeds under a factoring agreement are presented in the 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 consideration to be paid in the future for goods and services received. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the payables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest method (*Note 2.25*).

### ***2.20. Interest-bearing loans and other borrowings***

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 on settlement, 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-bearing loans and other borrowings are classified as current ones unless (and 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.

### ***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 Moldovan 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 Company's Group 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 staff, 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 –

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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 state 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

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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.

*Available-for-sale financial assets reserve* is being set aside from the difference between the carrying amount of the available-for-sale financial assets and their fair values at the revaluation date. This reserve is transferred to current profit and loss in the consolidated statement of comprehensive income (within profit or loss for the year) when the financial assets are disposed of (sold) by the Group and/or on identified permanent impairment of particular financial assets.

The *Translation of foreign operations reserve* 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. 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 2.14.1*).

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 2.14.1*).

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

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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.

**2.25.2. 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*).

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**2.26. Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle (repay) the obligation. The provisions are valued based on the best estimate of the respective company management and the Group at the date of the consolidated statement of financial position of the expenses necessary to settle the respective obligation.

The estimate is discounted if the obligation is long-term. When part the resources required to settle the obligation are expected to be recovered from a third party, the respective company of the Group recognises a receivable if it is virtually certain that reimbursement will be received, its amount can be reliably measured and income (credit) is recognised in the same item of the consolidated statement of comprehensive income (within profit or loss for the year) where the provision itself is presented.

**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:

<i>Country</i>	<i>Tax rate</i>	
	<i>2018</i>	<i>2017</i>
Ukraine	18%	18%
Serbia	15%	15%
Latvia	15%	15%
Belarus	18%	18%
Lithuania	15%	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 the Company for expenses incurred is recognised in current profit or loss on a systematic basis in the same period in which the expenses are recognised.

A government grant that compensates investment expenses incurred to acquire an asset is recognised in current profit or loss on a systematic basis over the useful life of the asset 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 Company's assets and liabilities are measured and presented and/or just disclosed at fair value for financial reporting purposes. Such are: (a) on a recurring (annual) basis – *available-for-sale financial assets, investment property, granted and received bank loans and loans from third parties, certain trade and other receivables and payables, finance lease receivables and payables; and other* (b) on a non-recurring (periodical) basis – *non-financial assets such as property, plant and equipment.*

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

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

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

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

The 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 Company determines at the end of each reporting period whether transfers between levels in the fair value hierarchy are deemed to be made for a particular asset or liability depending on the inputs available and used at that date.

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

The Company uses the expertise of external certified appraisers to determine the fair value of the following assets and liabilities: available-for-sale financial assets Level 2 and Level 3, investment properties, property, plant and equipment. The choice of such appraisers is made on an annual basis using the following criteria: applied professional standards, professional experience and knowledge, reputation and market status. The need for rotation of external appraisers is periodically assessed – every three to five years. The applied valuation approaches and techniques as well as the used inputs for each case of fair value measurement are subject to mandatory discussion and coordination between the external experts – appraisers and the specifically designated individual, engaged with measurements, and so is the acceptance of the issued appraiser's reports – especially with regard to the significant assumptions and the final conclusions and proposals for the fair value amount. The final fair value measurements are subject to approval by 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 Company's accounting policy, at the end of each reporting period the specifically designated individual, engaged with measurements, performs a general analysis of collected in advance information about the movement in the values of assets and liabilities that are subject to valuation or to a disclosure at fair value, the type of available data and the possible factors for the observed changes, and proposes for approval to the Finance Director, the approach for measuring the fair value of the respective assets and liabilities at that date. Where necessary, this is explicitly consulted with the involved external appraisers.

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

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

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

#### ***2.31.1. 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

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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.

***2.31.2. 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 for the company.

***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 period January - March 2018, impairment of inventories at the amount of BGN 206 thousand has been recovered and recognized in the consolidated statement of comprehensive income (within profit or loss for the year) (January – March 2017: accounted for recovered impairment of BGN 13 thousand) (*Note 9*).

***2.31.3. Impairment of receivables***

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 impairment (*Note 9*).

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, the Company initiates legal actions 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*).

For the period January – March 2018 there is no amount of reimbursed impairment (January – March 2017: none) (*Note 9*).

tor for impairment. The managing bodies of the Group companies assess collectability by analysing the specific receivables and the position of the debtor company as well as the circumstances for the delay and the opportunities for repayment and after that, they take a decision on whether impairment shall be recognised and charged on an individual basis and at what amount.

#### ***2.31.4. 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.

#### ***2.31.5. 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.

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As a result of the calculations made, a liability has been stated for long-term employee benefits at the amount of BGN 5,227 thousand BGN (31 December 2017: BGN 5,177 thousand) (*Note 28*).

**2.31.5. Operating lease**

The Group classified a building, part of which had been leased to related parties under operating lease terms, in the group of 'property, plant and equipment' of the consolidated statement of financial position. Since a significant part of the building was used by the Group as well, the management decided that the building should not be treated as investment property.

**2.31.7. 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 March 2018 (31 December 2017: none) (*Note 41*).

**3. REVENUE**

*Group revenue* includes:

	<i>1 January-31 March 2018 BGN'000</i>	<i>1 January-31 March 2017 BGN'000</i>
Goods	238,156	174,334
Finished products	54,707	65,394
<b>Total</b>	<b>292,863</b>	<b>239,728</b>

	<i>1 January-31 March 2018 BGN'000</i>	<i>1 January-31 March 2017 BGN'000</i>
<i>Sales of goods by type</i>		
Tablet dosage forms	118,381	84,489
Ampoule dosage forms	46,583	44,515
Syrup dosage forms	12,194	13,103
Drops	10,837	8,018
Cosmetics	6,503	3,002
Consumables and dressing materials	6,309	6,061
Infusion solutions	6,290	172
Ointments	5,997	4,447
Food supplements and herbs	5,413	5,775

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Suppositories	3,188	983
Liophilic products	1,802	1,119
Other	14,659	2,650
<b>Total</b>	<b>238,156</b>	<b>174,334</b>

	<i>1 January-31 March 2018 BGN'000</i>	<i>1 January-31 March 2017 BGN'000</i>
<i>Sales of finished products by type</i>		
Tablet dosage forms	35,288	43,215
Ampoule dosage forms	8,608	9,087
Consumables, dressing materials and apparatuses	2,423	1,888
Ointments	1,731	3,173
Syrups	1,708	2,918
Lyophilic products	1,507	1,710
Infusion solutions	486	268
Inhalation products	346	798
Drops	104	328
Other	2,506	2,009
<b>Total</b>	<b>54,707</b>	<b>65,394</b>

**4. OTHER OPERATING INCOME AND LOSSES, NET**

*Other operating income and losses, net* include:

	<i>1 January- 31 March 2018 BGN'000</i>	<i>1 January-31 March 2017 BGN'000</i>
Services rendered	1,277	813
Government grants	234	285
Rentals	212	175
Social activities and events	151	149
Net gain/(loss) on exchange differences under trade receivables and payables and current accounts	73	291
Gain from sale of LTA	37	63
Gain/(loss) on sale of materials	15	19
Liabilities written-off	9	8
Other	94	161
<b>Total</b>	<b>2,102</b>	<b>1,964</b>

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The services rendered include:

	<i>1 January-31</i> <i>March 2018</i> <i>BGN'000</i>	<i>1 January-31</i> <i>March 2017</i> <i>BGN'000</i>
Advertising and marketing	560	195
Pre-distribution income	196	164
Revenue from secondary packaging	135	159
Laboratory analyses	53	40
Other	333	255
<b>Total</b>	<b>1,277</b>	<b>813</b>

**5. MATERIALS AND CONSUMABLES USED**

*Expenses on materials* include:

	<i>1 January-31</i> <i>March 2018</i> <i>BGN'000</i>	<i>1 January-31</i> <i>March 2017</i> <i>BGN'000</i>
Basic materials	16,819	18,410
Electric energy	1,833	1,620
Spare parts, laboratory and technical materials	1,773	1,445
Heat power	1,391	1,185
Fuels and lubricating materials	749	715
Auxiliary materials	375	607
Other	1,093	1,017
<b>Total</b>	<b>24,033</b>	<b>24,999</b>

*Expenses on basic materials* include:

	<i>1 January-31</i> <i>March 2018</i> <i>BGN'000</i>	<i>1 January-31</i> <i>March 2017</i> <i>BGN'000</i>
Substances (active ingredients)	6,870	8,787
Packaging materials	3,595	3,356
Liquid and solid chemicals	2,254	2,223
Sanitary-hygiene and dressing materials	689	365
Ampoules	584	683
Herbs	573	936
Aluminium foil	332	333
Polypropylene, polyethylene, polystyrene	224	358
Other	1,698	1,369
<b>Total</b>	<b>16,819</b>	<b>18,410</b>

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**6. HIRED SERVICES EXPENSE**

*Hired services expense* includes:

	<i>1 January-31 March 2018</i>	<i>1 January-31 March 2017</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Advertising and marketing services	3,644	2,851
Rentals	2,838	2,057
Consulting services	1,516	1,222
Buildings and equipment maintenance	1,350	1,093
Forwarding and transport services	1,193	1,310
Subscription fees	825	547
Bank and regulatory charges	740	330
Manufacturing of medicinal products	655	385
Local taxes and charges	550	570
Insurance	493	321
Security	458	423
Motor vehicles repair	281	246
Communication services	279	240
Services under civil contracts	259	252
Service taxes	214	158
Medical services	193	199
Services on medicinal products registration	174	236
Other	1,208	1,270
<b>Total</b>	<b>16,870</b>	<b>13,710</b>

**7. EMPLOYEE BENEFITS EXPENSE**

	<i>1 January-31 March 2018</i>	<i>1 January-31 March 2017</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Current wages and salaries	21,553	17,670
Social security/health insurance contributions	4,179	3,396
Accruals for unused paid leaves	721	633
Social benefits and payments	718	792
Social security/health insurance contributions on leaves	137	117
Accruals for long-term retirement benefits to personnel (Note 28)	65	129

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Total	<u>27,373</u>	<u>22,737</u>
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**8. OTHER OPERATING EXPENSES**

	<i>1 January-31 March 2018 BGN'000</i>	<i>1 January-31 March 2017 BGN'000</i>
Business trips	397	307
Charged/(reversed) impairment of current assets, net ( <i>Note 9</i> )	250	(13)
Representative events	240	322
Trainings	226	176
Scrap and shortages of goods	176	83
Donations	166	190
Scrap and shortages of products and unfinished goods	47	156
Unrecognized tax credit	30	34
Scrapping of fixed assets	8	76
Other	216	107
<b>Total</b>	<u><b>1,756</b></u>	<u><b>1,438</b></u>

**9. IMPAIRMENT OF CURRENT ASSETS**

*Impairment losses* on receivables, work in progress, finished products and goods, net include:

	<i>1 January-31 March 2018 BGN'000</i>	<i>1 January-31 March 2017 BGN'000</i>
Impairment of goods	250	(13)
Impairment of materials ( <i>Note № 5</i> )	(44)	-
<b>Total impairment of non-current assets</b>	<u><b>206</b></u>	<u><b>(13)</b></u>

**10. FINANCE INCOME**

	<i>1 January-31 March 2018 BGN'000</i>	<i>1 January-31 March 2017 BGN'000</i>
<i>Finance income</i> includes:		

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Interest income on past due trade receivables	534	953
Interest income on loans granted	273	238
Interest income on bank deposits	2	2
Interest on receivables under special contracts	-	12
<b>Total</b>	<b>809</b>	<b>1,205</b>

**11. FINANCE COSTS**

	<i>1 January-31 March</i>	<i>1 January-31 March</i>
<i>Finance costs</i> include:	<i>2018</i>	<i>2017</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Interest expense on loans received	1,535	1,835
Net loss on exchange differences under loans in foreign currency	221	173
Bank fees and charges on loans and guarantees	171	172
Net loss from exchange rate differences from receivables from sale of a subsidiary	87	-
Interest expense under factoring agreement	74	79
Interest expense on finance lease	24	74
Net loss on investments in securities	6	-
Effects from derivatives	2	97
<b>Total</b>	<b>2,120</b>	<b>2,430</b>

**12. GAINS/LOSSES FROM ASSOCIATES AND JOINT VENTURES**

	<i>1 January-31</i>	<i>1 January-31</i>
	<i>March 2018</i>	<i>March 2017</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Share in the (losses)/gains from joint ventures	47	243
Share in the gains/(losses) from associates, net	(64)	94
	<b>(17)</b>	<b>337</b>

**13. OTHER COMPREHENSIVE INCOME**

Other components of comprehensive income include:

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	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	
	<i>1 January- 31 March 2018 BGN '000</i>	<i>1 January- 31 March 2017 BGN '000</i>	<i>1 January- 31 March 2018 BGN '000</i>	<i>1 January- 31 March 2017 BGN '000</i>	<i>1 January- 31 March 2018 BGN '000</i>	<i>1 January- 31 March 2017 BGN '000</i>
<i>Items that may be reclassified to profit or loss</i>						
Net change in fair value of available-for-sale financial assets:	21	(10)	-	13	21	3
<i>Gains arising during the year</i>	36	(10)	-	13	36	3
<i>Less: Reclassification adjustments for (gains) /losses included in profit or loss for the current year</i>	(15)	-	-	-	(15)	-
Net exchange rate changes from foreign operations recalculation	77	26	(259)	128	(182)	154
<b>Other comprehensive income for the year</b>	<b>21</b>	<b>(10)</b>	<b>-</b>	<b>13</b>	<b>21</b>	<b>3</b>

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**14. PROPERTY, PLANT AND EQUIPMENT**

	<i>Land and buildings</i>		<i>Plant and equipment</i>		<i>Other</i>		<i>Assets in progress</i>		<i>Total</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<i>Book value</i>										
<b>Balance at 1 January</b>	<b>225,602</b>	<b>222,998</b>	<b>230,964</b>	<b>222,692</b>	<b>41,839</b>	<b>41,789</b>	<b>9,108</b>	<b>6,026</b>	<b>507,513</b>	<b>493,505</b>
Additions	12	967	690	4,335	804	3,292	3,414	16,139	4,920	24,733
Acquired assets in newly acquired subsidiaries	-	2,578	-	569	-	765	-	2	-	3,914
Effect from remeasurement to fair value	-	-	-	-	-	13	-	-	-	13
Effects of foreign currency restatements	39	(330)	31	(465)	9	(145)	6	(50)	85	(990)
Written-off Allowance for impairment	-	(7,451)	(77)	(1,564)	(974)	(4,226)	(64)	(110)	(1,115)	(13,351)
Transfer to property, plant and equipment	1,119	6,840	2,091	5,397	398	351	(3,608)	(12,588)	-	-
<b>Balance at 31 March/31 December</b>	<b>226,772</b>	<b>225,602</b>	<b>233,699</b>	<b>230,964</b>	<b>42,076</b>	<b>41,839</b>	<b>8,856</b>	<b>9,108</b>	<b>511,403</b>	<b>507,513</b>
<i>Accumulated depreciation and impairment</i>										
<b>Balance at 1 January</b>	<b>44,504</b>	<b>40,019</b>	<b>117,926</b>	<b>105,628</b>	<b>27,458</b>	<b>26,638</b>	<b>5</b>	<b>5</b>	<b>189,893</b>	<b>172,290</b>
Depreciation charge for the year	1,824	7,299	3,354	13,246	1,189	4,390	-	-	6,367	24,935
Effect from remeasurement to fair value	-	-	-	42	-	-	-	-	-	42
Effects of foreign currency restatements	(23)	169	(27)	282	7	83	-	-	(43)	534
Written-off depreciation	-	(2,983)	(55)	(1,272)	(682)	(3,653)	-	-	(737)	(7,908)
<b>Balance at 31 March/31 December</b>	<b>46,305</b>	<b>44,504</b>	<b>121,198</b>	<b>117,926</b>	<b>27,972</b>	<b>27,458</b>	<b>5</b>	<b>5</b>	<b>195,480</b>	<b>189,893</b>
<b>Carrying amount at 31 March/31 December</b>	<b>180,467</b>	<b>181,098</b>	<b>112,501</b>	<b>113,038</b>	<b>14,104</b>	<b>14,381</b>	<b>8,851</b>	<b>9,103</b>	<b>315,923</b>	<b>317,620</b>
<b>Carrying amount at 1 January</b>	<b>181,098</b>	<b>182,979</b>	<b>113,038</b>	<b>117,064</b>	<b>14,381</b>	<b>15,151</b>	<b>9,103</b>	<b>6,021</b>	<b>317,620</b>	<b>321,215</b>

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As at 31 March 2018, the tangible fixed assets of the Group include: land amounting to BGN 52,563 thousand (31 December 2017: BGN 51,968 thousand) and buildings of carrying amount BGN 127,904 thousand (31 December 2017: BGN 129,130 thousand).

Tangible fixed assets in progress as at 31 March include:

- buildings reconstruction – BGN 5,611 thousand (31 December 2017: BGN 4,517 thousand);
- expenses on new buildings construction – BGN 1,208 thousand (31 December 2017: BGN 1,022 thousand);
- advances granted – BGN 1,496 thousand (31 December 2017: BGN 2,493 thousand);
- supply of equipment – BGN 300 thousand (31 December 2017: BGN 554 thousand);
- other – BGN 236 thousand (31 December 2016: 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 March 2018 is BGN 3,285 thousand (31 December 2017: BGN 3,680 thousand).

#### ***Operating lease***

The Group has leased fixed tangible assets with carrying amount of BGN 3,691 thousand as at 31 March 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 March 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 March 2018 in relation to received loans (*Notes 27 and 31*) as follows:

- Land and building with a carrying amount respectively of BGN 24,392 thousand and BGN 63,390 thousand (31 December 2017: respectively, BGN 24,713 thousand and BGN 64,245 thousand)
- Pledges on facilities with carrying amount of BGN 353 thousand (31 December 2017: BGN 371 thousand);
- Pledges on equipment, transportation vehicles and furniture and fixtures – BGN 41,255 thousand (31 December 2017: BGN 44,872 thousand);
- Pledges on assets in progress – BGN 2,355 thousand (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  
*This is a translation from Bulgarian of the consolidated financial statements of Sopharma Group for Q1 2018.*

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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 if 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 March 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*).

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**15. INTANGIBLE ASSETS**

	<i>Goodwill</i>		<i>Software</i>		<i>Intellectual property rights</i>		<i>Assets in progress</i>		<i>Total</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<i>Book value</i>										
<b>Balance at 1 January</b>	<b>33,284</b>	<b>19,662</b>	<b>17,811</b>	<b>15,042</b>	<b>67,785</b>	<b>35,160</b>	<b>362</b>	<b>1,325</b>	<b>119,242</b>	<b>71,189</b>
Additions	-	-	17	1,124	308	1,004	112	1,154	<b>437</b>	<b>3,282</b>
Acquired assets in newly acquired subsidiaries	-	14,051	-	9	-	33,047	-	-	-	<b>47,107</b>
Effects of foreign currency restatements	5	(429)	(3)	(38)	(261)	(1,653)	-	(5)	<b>(259)</b>	<b>(2,125)</b>
Transfer	-	-	-	1,685	-	303	-	(1,988)	-	-
Written-off	-	-	-	(11)	(4)	(76)	-	(124)	<b>(4)</b>	<b>(211)</b>
<b>Balance at 31 March/31 December</b>	<b>33,289</b>	<b>33,284</b>	<b>17,825</b>	<b>17,811</b>	<b>67,828</b>	<b>67,785</b>	<b>474</b>	<b>362</b>	<b>119,416</b>	<b>119,242</b>
<i>Accumulated amortisation and impairment</i>										
<b>Balance at 1 January</b>	<b>10,137</b>	<b>9,777</b>	<b>7,938</b>	<b>6,578</b>	<b>14,571</b>	<b>10,348</b>	-	-	<b>32,646</b>	<b>26,703</b>
Amortisation charge for the year	-	-	390	1,349	1,515	4,035	-	-	<b>1,905</b>	<b>5,384</b>
Allowance for impairment	-	360	-	-	-	-	-	-	-	<b>360</b>
Effects of foreign currency restatements	-	-	(2)	22	42	257	-	-	<b>40</b>	<b>279</b>
Amortisation written-off	-	-	-	(11)	(1)	(69)	-	-	<b>(1)</b>	<b>(80)</b>
<b>Balance at 31 March/31 December</b>	<b>10,137</b>	<b>10,137</b>	<b>8,326</b>	<b>7,938</b>	<b>16,127</b>	<b>14,571</b>	-	-	<b>34,590</b>	<b>32,646</b>
<b>Carrying amount at 31 March/31 December</b>	<b>23,152</b>	<b>23,147</b>	<b>9,499</b>	<b>9,873</b>	<b>51,701</b>	<b>53,214</b>	<b>474</b>	<b>362</b>	<b>84,826</b>	<b>86,596</b>
Carrying amount at 1 January	<b>23,147</b>	<b>9,885</b>	<b>9,873</b>	<b>8,464</b>	<b>53,214</b>	<b>24,812</b>	<b>362</b>	<b>1,325</b>	<b>86,596</b>	<b>44,486</b>

*This is a translation from Bulgarian of the consolidated financial statements of Sopharma Group for Q1 2018.*

Intangible assets in progress as at 31 March include:

- expenses on acquisition of software – BGN 365 thousand (31 December 2017: BGN 253 thousand)
- expenses for acquisition of licenses – BGN 84 thousand (31 December 2017: BGN 84 thousand);
- expenses on permits for use of medicinal products – BGN 25 thousand (31 December 2017: BGN 25 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, Chlofodon, 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 had been determined specifically for each goodwill bearing company, treated as a separate cash-generating unit, and in line with the characteristic features of its operations, the business environment and risks. The key assumptions used to calculate the recoverable value of each object are in the following ranges:

- growth rate in three (or five) years - from 2% to 22%;
- post-prediction growth in terminal value calculation - 1.8% to 7.5%;
- discount rate (based on WACC) - from 6.1% to 24.28%;
- interest rate (debt price) - from 2.3% to 17%.

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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, the management of the Group has determined that impairment of goodwill was not recognized as at 31 March 2018 (31.12.2017: BGN 360 thousand for 2 subsidiaries in Belarus and 1 subsidiary in Bulgaria).

**16. INVESTMENT PROPERTY**

	<i>31.3.2018</i>	<i>31.12.2017</i>
	<i>BGN '000</i>	<i>BGN '000</i>
<b>Balance at 1 January</b>	<b>9,811</b>	<b>9,483</b>
Additions	-	19
Net profit on fair value adjustment, included in profit or loss (Note 4)	-	309
<b>Balance at 31 March/31 December</b>	<b>9,811</b>	<b>9,811</b>

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:

<i>Group of assets</i>	<i>31.3.2018</i>	<i>31.12.2017</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Warehouse premises	4,045	4,045
Offices	2,897	2,897
Production buildings	2,466	2,466
Recreational facilities	403	403
<b>Total</b>	<b>9,811</b>	<b>9,811</b>

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As at 31 March 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:

	<i>Warehouse premises</i>	<i>Offices</i>	<i>Production buildings</i>	<i>Recreational facilities</i>	<i>Total</i>
<b>Balance at 1 January 2017</b>	<b>3,921</b>	<b>2,722</b>	<b>2,440</b>	<b>400</b>	<b>9,483</b>
Purchases and capitalised costs	11	-	8	-	19
Revaluation to fair value through profit or loss is unrealized	113	175	18	3	309
<b>Balance at 31 December 2017</b>	<b>4,045</b>	<b>2,897</b>	<b>2,466</b>	<b>403</b>	<b>9,811</b>
Purchases and capitalised costs	-	-	-	-	-
<b>Balance at 31 March 2018</b>	<b>4,045</b>	<b>2,897</b>	<b>2,466</b>	<b>403</b>	<b>9,811</b>

## 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:

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<b>Asset Groups Level 2</b>	<b>Approaches and evaluation techniques</b>	<b>Significant unobservable incoming data</b>
Warehouses	<i>a. Asset Approach</i> Assessment technique: Capitalized rental income method as a discounted cash flow scheme (basic valuation technique)	a. Adjusted rate of return
	Manufacturing buildings	<i>b. Cost approach</i> Evaluation Technique: Cost-based creation or replacement cost method - depreciated recoverable amount (as an assistive maintenance estimate)
Офиси		<i>a. Revenue approach</i> Assessment technique: Capitalized rental income method as a discounted cash flow scheme (basic valuation technique)
	Почивни бази	<i>b. Market Approach</i> Assessment technique: Market analogue method

**17. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES**

	<i>31.3.2017</i> <i>BGN '000</i>	<i>31.12.2017</i> <i>BGN '000</i>
Investments in associates	18,122	18,122
Investments in joint ventures	1,443	1,414
<b>Total</b>	<b>19,565</b>	<b>19,536</b>

The movement of the investments in associates is presented below:

	<i>31.3.2017</i> <i>BGN '000</i>	<i>31.12.2017</i> <i>BGN '000</i>
<b>Balance at 1 January</b>	<b>18,122</b>	<b>15,033</b>
Acquisition of shares	66	4,847
Sale of shares	(2)	(1,531)
Share in the current profit for the period	(64)	568
Transfer to investments in subsidiaries	-	(795)
<b>Balance at 31 March/31 December</b>	<b>18,122</b>	<b>18,122</b>

The movement of investments in joint ventures is presented below:

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	<i>31.3.2017</i>	<i>31.12.2017</i>
	<i>BGN '000</i>	<i>BGN '000</i>
<b>Balance at 1 January</b>	<b>1,414</b>	<b>3,682</b>
Capital increase	-	71
Disposal	-	(102)
Transfer to investments in subsidiaries	-	(1,847)
Share in the current profit/(loss) for the period	48	(29)
Effects of foreign currency restatements	(21)	(175)
Effects of transactions with companies of the Group	2	-
Allowance for impairment	-	(186)
<b>Balance at 31 March/31 December</b>	<b>1,443</b>	<b>1,414</b>

	<i>Country</i>	<i>31.3.2018</i>		<i>31.12.2017</i>	
		<i>BGN '000</i>	<i>Interest %</i>	<i>BGN '000</i>	<i>Interest %</i>
Lavena AD	Bulgaria	3,499	11.24	3,519	11.30
Olainfarm AD	Latvia	1,874	0.77	1,826	0.77
Achieve Life Sciences Inc.	USA	762	3.01	770	3.01
Sopharma Properties REIT	Bulgaria	744	0.56	664	0.50
Hydroizomat AD	Bulgaria	500	14.11	489	13.81
OOO Pharmico	Belarus	172	2.00	172	2.00
Todorov AD	Bulgaria	156	10.83	155	10.56
OOO Aptekar-Centr	Belarus	161	2.00	-	-
ODO DKM-Pharm	Belarus	100	2.00	100	2.00
BTF Expat Bulgaria	Bulgaria	67	0.17	78	0.19
OOO Set Aptek	Belarus	70	2.00	70	2.00
Elana Agrocredit AD	Bulgaria	31	0.12	13	0.05
Other		109		126	
<b>Total</b>		<b>8,245</b>		<b>7,982</b>	

**SOPHARMA GROUP****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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The carrying amount of the investments by company is as follows:

The other available-for-sale investments as at 31 March 2018, amounting to BGN 109 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 investments in Achieve Life Science Inc., USA, and all other companies in Belarus are valued and presented in the consolidated financial statements at acquisition cost.

The available-for-sale investments measured at fair value as at 31 March 2018 are as follows:

	<i>Number of shares held</i>	<i>Fair value per share</i>	<i>31.3. 2018</i>	<i>Number of shares held</i>	<i>Fair value per share</i>	<i>31.12. 2017</i>
			<i>BGN '000</i>			<i>BGN '000</i>
Lavena AD	35,950	97.33	3,499	36,170	97.29	3,519
Olainfarm AD	108,500	17.27	1,874	108,500	16.83	1,826
Achieve Life Sciences Inc.	359,305	2.12	762	359,305	2.14	770
Sopharma Properties REIT	113,946	6.53	744	101,237	6.56	664
Hydroizomat AD	421,666	1.19	500	412,936	1.18	489
Todorov AD	368,081	0.42	156	359,001	0.43	155
BTF Expat Bulgaria	55,604	1.20	67	64,316	1.21	78
Elana Agrocredit AD	23,250	1.33	31	10,000	1.30	13
Sirma Group Holding AD	7,000	1.00	7	2,000	1.00	2
Aroma AD	2,000	2.00	4	-	-	-
Chimimport AD	-	-	-	15,093	1.72	26
<b>Total</b>			<b>7,644</b>			<b>7,542</b>

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

*Fair value hierarchy*

<i>Available-for-sale investments</i>	<i>Fair value</i>	<i>(Level 1)</i>	<i>(Level 2)</i>
	<b>31.3.2018</b>		
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
Lavena AD	3499	-	3499
Olainfarm AD	1874	1874	-
Achieve Life Siences Inc.	762	762	-
Sopharma Properties REIT	744	744	-
Hydroizomat AD	500	500	-
Todorov AD	156	-	156
BTF Expat Bulgaria	67	67	-
Elana Agrocredit AD	31	31	-
Sirma Group Holding AD	7	7	-
Chimimport AD	4	4	-
<b>Total</b>	<b>7,644</b>	<b>3,989</b>	<b>3,655</b>

<i>Available-for-sale investments</i>	<i>Fair value</i>	<i>Level 1</i>	<i>Level 2</i>
	<b>31.12. 2017</b>		
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
Lavena AD	3,519	-	3,519
Olainfarm AD	1,826	1,826	-
Achieve Life Siences Inc.	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	-
<b>Total</b>	<b>7,542</b>	<b>3,868</b>	<b>3,674</b>

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

*Level 1                      Level 2                      Total*

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*Available-for-sale investments*

	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<b>Balance at 1 January 2017</b>	<b>2,110</b>	<b>2,883</b>	<b>4,993</b>
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 <i>Finance costs – Net loss on transactions with securities</i>	11	10	21
Unrealised loss included in the current profit and loss for the year ( <i>Note 13</i> )	(4)	-	(4)
Unrealised gain/(loss), net, included in other comprehensive income ( <i>Note 16</i> )	1,068	209	1,277
<b>Balance at 31 December 2017</b>	<b>3,868</b>	<b>3,674</b>	<b>7,542</b>
Purchases	129	12	141
Sales	(34)	(32)	(66)
Realised gain/(loss) included in the current profit and loss for the year in the item <i>Finance costs – Net loss on transactions with securities</i>	5	1	6
Unrealised gain/(loss), net, included in other comprehensive income ( <i>Note 16</i> )	21	-	21
<b>Balance at 31 December 2018</b>	<b>3,989</b>	<b>3,655</b>	<b>7,644</b>

**19. LONG-TERM RECEIVABLES FROM RELATED PARTIES**

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

**31.3. 2018**

**31.12.2017**

*This is a translation from Bulgarian of the consolidated financial statements of Sopharma Group for year January-December 2017.*

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	<i>BGN '000</i>	<i>BGN '000</i>
Long-term loans granted to related parties	21,206	20,356
Receivable under a long-term rental deposit granted	231	243
<b>Total</b>	<b>21,437</b>	<b>20,599</b>

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

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

<i>Type of currency</i>	<i>Contractual amount</i>	<i>Due date</i>	<i>Interest %</i>	<i>31.3.2018</i>		<i>31.12.2017</i>	
				<i>BGN'000</i>	<i>BGN'000 incl. interest</i>	<i>BGN'000</i>	<i>BGN'000 incl. interest</i>
	<i>'000</i>						
<i>EUR</i>	29,742	31.12.2019	3.50%	17,381	161	16,538	17
<i>BGN</i>	29,900	11.06.2019	3.00%	3,825	10	3,818	3
				<u>21,206</u>	<u>171</u>	<u>20,356</u>	<u>20</u>

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 231 thousand with validity term on 1 August 2022 (31 December 2017: BGN 243 thousand).

**20. OTHER LONG-TERM RECEIVABLES**

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

<i>31.3. 2018</i>	<i>31.12.2017</i>
<i>BGN'000</i>	<i>BGN'000</i>

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Receivables from selling an investment in a subsidiary	2,853	2,940
Loans granted	1,244	1,216
Deposits under long-term rental contracts	353	368
Other	358	359
<b>Total</b>	<b>4,808</b>	<b>4,883</b>

The receivables related to sold investment in a subsidiary are with a deferred payment amounting to BGN 2,853 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:

<i>Currency</i>	<i>Amount agreed</i> <i>'000</i>	<i>Maturity</i>	<i>Interest %</i>	<i>31.3.2018</i>		<i>31.12.2017</i>	
				<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
					<i>Incl. interest</i>		<i>Incl. interest</i>
<i>EUR</i>	495	12.10.2022	3.05%	981	13	945	6
<i>EUR</i>	40	30.9.2021	6.00%	88	-	88	-
<i>EUR</i>	30	30.9.2021	6.00%	65	-	65	-
<i>EUR</i>	30	30.9.2021	6.00%	65	-	65	-
<i>BGN</i>	120	31.12.2019	3.50%	46	-	54	-
				<b>1,244</b>	<b>13</b>	<b>1,216</b>	<b>6</b>

**21. INVENTORIES**

<i>Inventories</i> include:	<b>31.3.2018</b>	<b>31.12.2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Goods	139,014	140,218
Finished products	32,777	27,674

*This is a translation from Bulgarian of the consolidated financial statements of Sopharma Group for year January-December 2017.*

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Materials	32,682	33,102
Semi-finished products	12,903	10,680
Work in progress	7,097	6,435
<b>Total</b>	<b>224,473</b>	<b>218,109</b>

*Goods by type* are as follows:

	<b>31.3.2018</b>	<b>31.12.2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Tablet dosage forms	69,074	68,744
Ampoule dosage forms	16,286	19,591
Cosmetics	11,306	7,239
Ointments	9,720	7,782
Goods in transit	5,466	1,248
Suppositories	5,048	1,459
Drops	5,011	6,796
Food supplements	3,849	3,899
Syrups	3,684	4,313
Consumables and dressing materials	3,244	9,486
Lyophilic	763	1,684
Other	5,563	7,977
<b>Total</b>	<b>139,014</b>	<b>140,218</b>

The *finished products* include:

	<b>31.3. 2018</b>	<b>31.12. 2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Tablet dosage forms	20,220	16,550
Ampoule dosage forms	5,059	4,602
Consumables and dressing materials	1,720	1,218
Syrups	1,312	1,318
Ointments	1,196	1,078
Liophilic	652	549
Syringes	389	430
Other	2,229	1,929
<b>Total</b>	<b>32,777</b>	<b>27,674</b>

*Materials* by type are as follows:

**31.3.2018**

**31.12.2017**

*This is a translation from Bulgarian of the consolidated financial statements of Sopharma Group for year January-December 2017.*

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	<i>BGN'000</i>	<i>BGN'000</i>
Basic materials	30,185	28,463
Auxiliary materials	650	619
Technical materials	460	521
Spare parts	393	392
Materials in transit	94	2,114
Other	900	993
<b>Total</b>	<b>32,682</b>	<b>33,102</b>

*Basic materials* by type are as follows:

	<i>31.3. 2018</i>	<i>31.12.2017</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Substances (active ingredients)	14,789	13,528
Chemicals	4,266	4,009
Vials, tubes and ampoules	4,033	3,256
Herbs	2,055	2,632
Packaging materials	1,757	2,131
PVC and aluminium foil	1,370	1,434
Consumables, dressing and apparatus	991	929
Other	924	544
<b>Total</b>	<b>30,185</b>	<b>28,463</b>

As at 31 March 2018, there were established special pledges on inventories at the amount of BGN 92,478 thousand (31 December 2017: BGN 89,829 thousand) as collateral under received by the Group bank loans and issued bank guarantees (*Notes 29, 34 and 41*).

**22. TRADE RECEIVABLES**

<i>Trade receivables</i> include:	<b>31.3.2018</b>	<b>31.12.2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<i>Receivables from clients</i>	222,479	228,961
<i>Impairment of uncollectable receivables</i>	(2,106)	(2,104)
Receivables from clients, net	<u>220,373</u>	<u>226,857</u>
<i>Advances to suppliers</i>	9,680	4,548
<i>Impairment of advances</i>	(127)	(127)
Advances granted, net	<u>9,553</u>	<u>4,421</u>
<b>Total</b>	<b><u>229,926</u></b>	<b><u>231,278</u></b>

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.

Any delay after this period is regarded by the Group as an indicator for impairment. The managing bodies of the Group companies assess collectability by analysing the exposure of the particular client, the opportunities for settlement (of the client and through the collateral) and take decision on the amount, recognition and charging of the respective impairment.

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

	<b>31.3.2018</b>	<b>31.12.2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
up to 30 days	91,649	86,448
from 31 to 90 days	55,154	52,678
from 91 to 180 days	1,986	3,547
from 181 to 365 days	801	488
from 1 to 2 years	207	243
<b>Total</b>	<b><u>149,797</u></b>	<b><u>143,404</u></b>

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

	<b>31.3.2018</b>	<b>31.12.2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
from 31 to 90 days	29,758	36,373
from 91 to 180 days	16,402	21,217
from 181 to 365 days	14,430	15,480
from 1 to 2 years	3,924	3,665
over 2 years	1,102	1,544
<b>Total</b>	<b>65,616</b>	<b>78,279</b>

With regard to the past due but not impaired receivables, there are usually already achieved or pending agreements for interest-bearing rescheduling of these payments together with the interest due for each specific client (including penalty interest for delay).

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

	<b>31.3.2018</b>	<b>31.12.2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
from 31 to 90 days	339	368
from 91 to 180 days	1,238	1,120
from 181 to 365 days	2,234	1,958
from 1 to 2 years	1,936	2,785
over 2 years	1,319	1,047
Allowance for impairment	(2,106)	(2,104)
<b>Total</b>	<b>4,960</b>	<b>5,174</b>

Most of the receivables overdue are from public hospitals. For all receivables overdue, the company's policy is to charge 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.

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*).

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As at 31 March 2018, there are established special pledges on trade receivables at the amount of BGN 63,194 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 27, 31 and 38*).

***Movement in the allowance for impairment***

	<b>31.3.2018</b>	<b>31.12.2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<b>Balance at the beginning of the year</b>	<b>2,104</b>	<b>2,483</b>
Allowance for impairment	-	1,190
Reversed impairment	-	(1,333)
Effect of exchange rate conversions	2	(7)
Transfer to impairment of court and awarded receivables	-	(76)
Transfer to impairment of associates	-	(3)
Amounts written-off under uncollectable receivables	-	(150)
<b>Balance at the end of the year</b>	<b>2,104</b>	<b>2,483</b>

The *advances granted* to suppliers are regular and are mainly denominated in BGN and EUR and are for the purchase of:

	<b>31.3.2018</b>	<b>31.12.2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Raw materials and consumables	7,557	2,605
Services	1,785	1,044
Goods	235	785
Allowance for impairment	(127)	(127)
Other	103	114
<b>Total</b>	<b>9,553</b>	<b>4,421</b>

**23. RECEIVABLES FROM RELATED PARTIES**

***Receivables from related parties by type are as***

***follows:***

	<b>31.3.2018</b>	<b>31.12.2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Trade loans granted	3,874	3,323
Receivables on sales of finished products and materials	1,369	1,371
<b>Total</b>	<b>5,243</b>	<b>4,694</b>

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The *granted loans* are as follows:

<i>Type of currency</i>	<i>Contractual amount</i> <i>'000</i>	<i>Due date</i>	<i>Interest rate</i> <i>%</i>	<i>31.3.2018</i>		<i>31.12.2017</i>	
				<i>BGN '000</i>	<i>BGN '000 incl. interest</i>	<i>BGN '000</i>	<i>BGN '000 incl. interest</i>
<i>to companies related through key management personnel</i>							
<i>BGN</i>	67,250	31.12.2018	2.81%	3,510	8	2,956	4
<i>To company controlled through an associate</i>							
<i>BGN</i>	300	31.08.2018	3.10%	304	3	305	5
<i>BGN</i>	190	31.12.2018	3.50%	60	-	62	-
<b>Total:</b>				<b>3,874</b>	<b>11</b>	<b>3,323</b>	<b>9</b>

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). The Group has set a maximum credit period of up to 365 days for sales counterparts – related parties. Any delay after this period is regarded by the Group as an indicator for impairment. The managing bodies of the Group companies assess collectability by analysing the specific receivables and the position of the debtor company as well as the circumstances for the delay and the opportunities for repayment and after that, they take a decision on whether impairment shall be recognised and charged on an individual basis and at what amount.

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

	<i>31.3.2018</i>	<i>31.12.2017</i>
	<i>BGN'000</i>	<i>BGN'000</i>
up to 30 days	265	343
from 31 to 90 days	347	135
from 91 to 180 days	-	109
<b>Total</b>	<b>612</b>	<b>587</b>

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

	<i>31.3.2018</i>	<i>31.12.2017</i>
	<i>BGN'000</i>	<i>BGN'000</i>
from 31 to 90 days	165	135
from 91 to 180 days	332	364
from 181 to 365 days	260	285
<b>Total</b>	<b>757</b>	<b>784</b>

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*Movement in the allowance for impairment*

	<i>31.3. 2018</i>	<i>31.12. 2017</i>
	<i>BGN'000</i>	<i>BGN'000</i>
<b>Balance at 1 January</b>	<u>-</u>	<u>56</u>
Recoverable impairment		(56)
<b>Balance at 31 March/31 December</b>	<u>-</u>	<u>-</u>

**24. OTHER SHORT-TERM RECEIVABLES AND ASSETS**

*Other receivables and prepayments* of the Group include:

	<i>31.3.2018</i>	<i>31.12. 2017</i>
	<i>BGN'000</i>	<i>BGN'000</i>
<i>Court and awarded receivables</i>	<i>11,288</i>	<i>8,165</i>
<i>Impairment of court receivables</i>	<u><i>(2,559)</i></u>	<u><i>(2,559)</i></u>
Court and awarded receivables, net	8,729	5,606
Tax recovery	6,848	8,075
Receivables from NHIF	4,146	3,915
Loans granted to third parties	2,808	3,219
Prepayments	1,454	1,915
Receivables on deposits placed as guarantees	608	439
Amounts granted to investment intermediaries	123	125
Other	1,733	1,661
<b>Total</b>	<u><b>26,449</b></u>	<u><b>24,955</b></u>

Part of the court and awarded receivables originate mainly in relation to sales to state hospitals. Repayment schedules have been agreed or are in a process of agreement for most of them. For this reason, the management of the Group made an assessment that only a partial impairment was necessary for the above receivables.

*Taxes refundable* include:

	<i>31.3.2018</i>	<i>31.12.2017</i>
	<i>BGN'000</i>	<i>BGN'000</i>
VAT	2,888	4,235
Excise duties	3,747	3,625
Income tax	207	210
Local taxes and charges	6	5
<b>Total</b>	<u><b>6,848</b></u>	<u><b>8,075</b></u>

*Prepayments* include:

<i>31.3.2018</i>	<i>31.12.2017</i>
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	<i>BGN'000</i>	<i>BGN'000</i>
Subscriptions	601	736
Insurance	532	664
Licence and patent fees	108	53
Advertisements	25	52
Vouchers	24	44
Rentals	22	71
Other	142	295
<b>Total</b>	<b>1,454</b>	<b>1,915</b>

The loans granted to third parties, amounting to BGN 2,808 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 4.3% and 4.7% (2017: between 4.3% and 4.7%).

**25. CASH AND CASH EQUIVALENTS**

	<i>31.3.2018</i>	<i>31.12.2017</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Cash at current bank accounts	21,354	17,554
Impairment of cash at current bank accounts	(166)	(166)
Cash in the cashier	2,241	2,337
Short-term deposits	1,583	2,863
Short-term blocked funds	37	26
<b>Cash and cash equivalents presented in the consolidated statement of cash flows</b>	<b>25,049</b>	<b>22,614</b>
Blocked cash under transactions for acquisition of a subsidiary	10,537	10,537
Blocked cash under court cases and issued bank guarantees	309	177
<b>Cash and cash equivalents presented in the consolidated statement of financial position</b>	<b>35,895</b>	<b>33,328</b>

The available cash and cash equivalents of the Group are mainly denominated in BGN, UAH and EUR (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 0.01% to 10.5%).

As at 31.3.2018 the blocked cash amounting to 10,537 thousand BGN in terms of Escrow account, under the contract for acquisition of shares by Lekovit OOD, Serbia and the companies PharmaStore, Bulgaria (31 December 2017: BGN 10,537 thousand).

The short-term blocked funds amounting to BGN 37 thousand (31 December 2017: BGN 26 thousand), represent mainly blocked funds under performance guarantees.

## 26. EQUITY

### *Share capital*

As at 31 March 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 9,034,166 at the amount of BGN 33,839 thousand (31 December 2017: 9,032,980 shares at the amount of BGN 33,834 thousand).

*Statutory reserves* at the amount of BGN 51,666 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 31,730 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 *available-for-sale financial assets reserve*, amounting to BGN 4,130 thousand – a positive figure (31 December 2017: BGN 4,109 thousand – a positive figure), has been set aside from the effects of subsequent measurement of available-for-sale investments to fair value (including the consolidated share of the change in this reserve in associates on their valuation under the equity method).

The *translation of foreign operations reserve*, amounting to BGN 233 thousand – a negative 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 293,967 thousand at 31 March (31 December 2017: BGN 281,509 thousand), include also the recognised accumulated actuarial loss at the amount of BGN 2,304 thousand (31 December 2017: BGN 2,304 thousand), stated upon remeasurements of defined benefit pension plans in relation with the amendment to IAS 19 *Employee Benefits*.

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**27. LONG-TERM BANK LOANS**

	<i>Contracted loan amount</i>	<i>Maturity</i>	<i>31.3. 2018</i>				<i>31.12. 2017</i>		
			<i>Non-current portion</i>	<i>Current portion</i>		<i>Non-current portion</i>	<i>Current portion</i>		<i>Total</i>
				<i>BGN'000</i>	<i>BGN'000</i>		<i>BGN'000</i>	<i>BGN'000</i>	
<i>Credit lines and working capital loans</i>									
BGN	16,000	30.06.2024	12,494	2,666	15,160	13,109	2,462	15,571	
BGN	4,250	16.04.2023	885	158	1,043	885	209	1,094	
EUR	590	31.10.2021	913	126	1,039	825	141	966	
EUR	300	05.06.2020	293	235	528	352	234	586	
BGN	120	25.08.2020	40	18	58	40	24	64	
RSD	6,000	25.03.2019	-	25	25	6	25	31	
<i>Investment-purpose loans</i>									
EUR	32,000	15.04.2021	14,916	7,163	22,079	16,691	7,172	23,863	
EUR	12,000	24.04.2024	17,603	3,359	20,962	18,472	3,350	21,822	
EUR	172	28.02.2021	129	67	196	146	72	218	
EUR	2,000	30.06.2018	-	244	244	-	569	569	
EUR	565	25.10.2018	-	151	151	-	220	220	
<b>Total</b>			<b>47,273</b>	<b>14,212</b>	<b>61,485</b>	<b>50,526</b>	<b>14,478</b>	<b>65,004</b>	

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 31*).

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%, and for bank loans in a Serbian dinar - BELIBOR to 0.5% ( for EURIBOR plus a margin of up to 3.5% or fixed at 2.35%, for BGN loans - up to 4.1% fixed for Serbian dinar - 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 14*);
- Special pledges on:
  - machinery and equipment (*Note 14*);
  - inventories (*Note 21*);
  - trade receivables (*Note 22*).

**28. RETIREMENT BENEFIT OBLIGATIONS**

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

<b>31.3.2018</b>	<b>31.12.2017</b>
<b>BGN '000</b>	<b>BGN '000</b>

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Long-term retirement benefit obligations	5,227	5,177
Long-term benefit obligations for tantieme	176	281
<b>Total</b>	<b>5,403</b>	<b>5,458</b>

*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 March 2018, the long-term benefit obligations to personnel include also the amount of BGN 176 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 2020 (2017: until 2020).

**29. FINANCE LEASE LIABILITIES**

As at 31 March, 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:

<i>Term</i>	<i>31.3. 2018</i>	<i>31.12. 2017</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Up to one year ( <i>Note 37</i> )	1,186	1,271

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Over one year	1,818	1,950
<b>Total</b>	<b>3,004</b>	<b>3,221</b>

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

<i>Term</i>	<i>31.3. 2018</i>	<i>31.12. 2017</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Up to one year	1,266	1,360
From one to three years	1,887	2,030
	<u>3,153</u>	<u>3,390</u>
Future finance costs under finance leases	(149)	(169)
<b>Total</b>	<b>3,004</b>	<b>3,221</b>

The lease payments due within the next 12 months are presented in the consolidated statement of financial position as 'other current liabilities' (Note 37).

**30. GOVERNMENT GRANTS**

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

	<i>31.3. 2018</i>	<i>31.12. 2017</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Government grants, non-current portion	8,073	8,250
Government grants, current portion (Note 30)	810	867
<b>Total</b>	<b>8,883</b>	<b>9,117</b>

The government grants received as at 31 March are to the following Group companies:

	<i>31.3. 2018</i>	<i>31.12. 2017</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Sopharma AD	5,859	5,986
Biopharm Engineering AD	1,918	1,953
Veta Pharma AD	605	638
Unipharm AD	501	540
<b>Total</b>	<b>8,883</b>	<b>9,117</b>

The government grants are received under European Operational Programmes mainly in relation to the acquisition of machinery and equipment (Notes 14). The current portion of the grants, amounting to BGN 810 thousand (31 December 2017: BGN 867 thousand), will be recognised as current income over the

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following 12 months from the date of the consolidated statement of financial position and is presented as 'other current liabilities' (*Note 37*).

**31. SHORT-TERM BANK LOANS**

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

<i>Currency</i>	<i>Contractual amount</i>	<i>Due date</i>	<i>31.3. 2018</i>	<i>31.12. 2017</i>
	<i>'000</i>		<i>BGN'000</i>	<i>BGN'000</i>
<i>Bank loans (overdraft)</i>				
EUR	26,000	31.10.2018	45,407	42,567
BGN	20,000	21.04.2018	17,803	11,775
EUR	7,500	25.04.2018	10,753	10,742
BGN	10,000	31.12.2018	10,000	10,001
EUR	5,000	25.04.2018	9,764	9,757
BGN	10,000	31.05.2018	9,732	2,860
EUR	3,500	02.09.2018	6,605	6,319
EUR	3,000	25.04.2018	5,867	5,862
EUR	2,000	21.09.2018	3,912	3,912
EUR	2,000	26.06.2018	3,912	3,520
EUR	1,000	22.12.2018	1,956	1,173
EUR	1,000	30.12.2018	1,956	1,076
UAH	77,000	20.04.2018	1,202	1,752
EUR	600	15.07.2018	1,156	608
EUR	500	06.03.2019	978	978
EUR	500	11.03.2019	978	-
EUR	10,000	31.10.2018	782	13,614
EUR	400	09.11.2018	782	782
BYN	350	23.06.2018	288	292
EUR	400	15.06.2018	195	-
EUR	1,000	19.06.2018	161	115
BYN	150	26.05.2018	112	108
EUR	500	19.06.2018	98	519
BYN	230	30.04.2018	63	175
BYN	75	31.05.2018	61	60
RSD	20,000	04.10.2018	40	-
BYN	345	20.02.2020	36	274
USD	50	30.06.2018	33	-
USD	30	30.12.2019	7	-
EUR	1,500	25.11.2018	-	2,847
BYN	183	07.06.2018	-	152
			<b>134,639</b>	<b>131,840</b>

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<i>Currency</i>	<i>Contractual amount</i> <i>'000</i>	<i>Due date</i>	<i>31.3. 2018</i> <i>BGN'000</i>	<i>31.12. 2017</i> <i>BGN'000</i>
<i>Credit lines</i>				
EUR	8,434	28.02.2018	15,908	15,908
BGN	10,000	28.02.2018	10,000	10,000
BYN	10,500	20.02.2021	8,625	-
BGN	10,000	30.10.2018	8,383	9,244
EUR	3,400	04.03.2019	6,111	5,797
EUR	3,000	01.11.2019	4,152	8,821
BYN	6,009	02.07.2019	2,185	2,256
EUR	5,000	31.08.2018	2,138	5,594
BYN	1,200	01.06.2019	963	1,009
BYN	961	19.01.2019	782	831
BYN	486	31.07.2020	395	416
BGN	1,000	20.12.2018	395	288
BYN	345	29.11.2018	281	287
BYN	185	31.01.2021	151	-
BYN	150	31.10.2020	122	122
BYN	150	07.06.2019	106	121
BYN	100	10.02.2020	77	79
BYN	1,849	24.05.2019	-	1,552
			<b>60,774</b>	<b>62,325</b>
<b>Total</b>			<b>195,413</b>	<b>194,165</b>

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 2.3%, or fixed to 12%, or EONIA plus a mark-up of up to 2.1% or BELIBOR plus a mark-up of up to 0.5%; for loans in BGN – interest is based on SOFIBOR plus a mark-up of up to 2.95%; for loans in BYN – fixed rate of 15%; and for loans in UAH – fixed rate of 18.6%; for USD 12% and for RSD 7% (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 14*);
- raw materials, consumables and finished products (*Note 21*);
- trade receivables (*Note 22*).

As at 31 March 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 52,047 thousand (31 December 2017: BGN 44,726 thousand), established as collateral under received by the Group bank loans and issued bank guarantees (*Notes 27, 31 and 38*).

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**32. TRADE PAYABLES**

*Trade payables* include: **31.3.2018** **31.12.2017**  
**BGN'000** **BGN'000**

Payables to suppliers	135,972	134,556
Advances from clients	858	612
<b>Total</b>	<b>136,830</b>	<b>135,168</b>

The *payables to suppliers* refer to: **31.3.2018** **31.12.2017**  
**BGN'000** **BGN'000**

Suppliers outside Bulgaria	86,417	96,674
Suppliers from Bulgaria	49,555	37,882
<b>Total</b>	<b>135,972</b>	<b>134,556</b>

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.

**33. PAYABLES TO RELATED PARTIES**

The *payables to related parties* refer to:

	<b>31.3.2018</b>	<b>31.12.2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Payables to companies related through a main shareholder	1,086	403
Payables to companies related through key managing personnel	243	291
Payables to main shareholding companies	58	21
Payables to joint ventures and associates companies	34	-
Payables to companies controlled by an associate	14	42
<b>Total</b>	<b>1,435</b>	<b>757</b>

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

	<b>31.3.2018</b>	<b>31.12.2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Payables on supply of goods and materials	1,157	468
Supply of services	278	252
Obligation to supply fixed assets	-	37
<b>Total</b>	<b>1,435</b>	<b>757</b>

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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.

**34. 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 25,000 thousand. The transferred invoices are paid in advance up to 90% (ninety percent) of their value with VAT included.

The interest rate is in the range of 1M SOFIBOR + 1.80% on a monthly basis.

As at 31 March 2018 the obligation under the factoring contract amounts to BGN 15,493 thousand (31.12.2017: BGN 19,403 thousand).

Total funding provided in 2018 amounts to BGN 37,350 thousand. (31 March 2017: BGN 36,829 thousand) (Note 2.25).

**35. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY**

*Payables to personnel and for social security* include:

	<b>31.3.2018</b>	<b>31.12.2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Payables to personnel, including:	10,562	10,317
<i>current wages and salaries</i>	4,899	4,499
<i>tantieme</i>	3,424	3,328
<i>accruals on unused compensated leaves</i>	2,239	2,490
Payables for social security/health insurance, including:	2,381	2,578
<i>current payables for social security contributions</i>	2,076	2,227
<i>accruals on unused compensated leaves</i>	305	351
<b>Total</b>	<b>12,943</b>	<b>12,895</b>

**36. TAX PAYABLES**

*Tax payables* include:

	<b>31.3.2018</b>	<b>31.12.2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
VAT	2,768	4,305

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Profit tax	1,671	1,471
Individual income taxes	838	839
Taxes on expenses	399	563
Withholding tax	20	15
Other	278	182
<b>Total</b>	<b>5,974</b>	<b>7,375</b>

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

<b>Company</b>	<b>Full-scope tax audit</b>	<b>VAT inspection</b>	<b>Inspection under the social security legislation</b>
Sopharma AD	31.12.2011	30.11.2011	30.09.2013
Sopharma Trading AD	31.12.2011	31.12.2011	31.12.2004
Sopharmacy EOOD	none	30.09.2017	none
Sopharmacy 2 EOOD	none	30.09.2017	none
Sopharmacy 3 EOOD	none	30.11.2017	none
Sopharmacy 4 EOOD	none	30.11.2017	none
Sopharmacy 5 EOOD	none	31.10.2017	none
Sopharmacy 6 EOOD	none	31.01.2018	none
Sopharmacy 7 EOOD	none	28.02.2018	none
Sopharmacy 8 EOOD	none	31.01.2018	none
Sopharmacy 9 EOOD	none	28.02.2018	none
PharmaStore 1 EOOD	none	31.01.2018	none
PharmaStore 2 EOOD	none	28.02.2018	none
PharmaStore 3 EOOD	none	31.01.2018	none
PharmaStore 4 EOOD	none	31.01.2018	none
PharmaStore 5 EOOD	none	31.01.2018	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	28.02.2018	none
Electroncommerce EOOD	31.12.2005	30.04.2006	none
Unipharm AD	31.12.2011	31.12.2011	31.12.2017
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
ODO Alean (merged into ODO Medjel)	28.02.2011	28.02.2011	28.02.2010
SOOO Brizpharm	31.12.2012	31.12.2012	none

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ODO Vestpharm (merged into SaliusLine ODO)	30.04.2005	30.04.2005	31.03.2004
ODO BelAgroMed (merged into SaliusLine ODO)	28.02.2003	28.02.2003	30.05.2005
OOO Vivaton Plus	29.02.2012	29.02.2012	29.02.2012
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
Medica AD(merged into Sopharma AD)	31.12.2002	31.01.2013	31.01.2016
OOO Mobil Line(merged into Medjel ODO)	31.03.2010	31.03.2010	31.03.2006
OOO Ivem & K	30.04.2008	30.04.2008	30.11.2007
OOO NPKF Ariens	31.12.2011	31.12.2011	31.12.2010
ODO Medjel	30.04.2013	30.04.2013	31.12.2012
Veta Pharma AD	none	31.12.2017	30.06.2016
ODO SalusLine	31.10.2007	31.10.2007	31.03.2016
ZAO Interfarm	30.04.2013	30.04.2013	none
OOO Ariens	31.12.2016	31.03.2017	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 10 EOOD, OOO Farmacevt Plus, TOO Sopharma Kazakhstan, Sopharma Trading D.o.o. Belgrade, OOO Farmatea, UAB TBS Pharma, OOO Galenapharm, OOO Zdorovei, OOO Ivem i K, Rap Pharma International OOD and PharmaStore 4 OOD have not been subject to full-scope tax audits, VAT audits and inspections under the social security regulations.

**37. OTHER CURRENT LIABILITIES**

<i>Other current liabilities</i> include:	<b>31.3.2018</b>	<b>31.12.2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Unpaid conditional liability in relation to acquisition of shares in a subsidiary	8,589	8,603
Finance lease liabilities ( <i>Note 29</i> )	1,186	1,271

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Government grants ( <i>Note 30</i> )	810	867
Dividend payables	576	586
Awarded amounts under litigations	301	303
Deductions from work salaries	279	234
Share purchase liabilities	210	376
Trade loans received from third parties	-	157
Other	493	924
<b>Total</b>	<b>12,444</b>	<b>13,321</b>

**38. CONTINGENT LIABILITIES AND COMMITMENTS****Issued and granted guarantees*****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:

	<b>Maturity</b>	<b>Currency</b>	<b>Amount</b>	<b>Debt status</b>	
			<b>Original</b>	<b>31.03. 2018</b>	
			<b>Currency</b>	<b>BGN'000</b>	<b>BGN'000</b>
Sopharma Properties REIT	2024	EUR	22,619	44,240	20,973
Mineralcommerce AD	2018 – 2021	BGN	726	726	504
<b>Total</b>					<b>21,477</b>

**Bank guarantees*****Sopharma Trading AD***

The bank guarantees issued for the Company amounted to BGN 12,481 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.

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The bank guarantees have been issued by:

	<b>31.03.2018</b>	<b>31.12.2017</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Raiffeisenbank EAD	4,738	4,801
SG Expressbank AD	4,074	4,837
ING Bank N.V.	3,669	3,789
	<b>12,481</b>	<b>13,427</b>

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 21*).
- Special pledge on receivables from clients with a carrying amount of BGN 2,347 thousand (31 December 2017: BGN 2,347 thousand) (*Note 22*).

***Unipharm AD***

The following have been issued as at 31 March 2018: bank guarantees at the amount of BGN 166 thousand within the loan agreement limit.

Under a contract for issuing multiple bank guarantees, dated 23 February 2012, special pledges have been established on Company's assets as follows:

- Pledge on current and future movables (materials, finished products, goods) with a carrying amount of BGN 400 thousand;
- Pledge on current and future payment accounts opened with DSK Bank EAD.

***Electroncommerce EOOD***

The bank guarantees issued for the company amount to BGN 32 thousand as at 31 March 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 4,618 thousand as at 31 March 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 37*), related to technological renovation and modernisation of tablet production facilities and implementation of innovative products in

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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.

#### *Unipharm AD*

The company is a beneficiary under three grant contracts for acquisition of assets. In accordance with the contractual provisions, the tangible and intangible fixed assets, acquired with project funds, should remain within the assets of the beneficiary and the receiving region (Republic of Bulgaria) for a period of minimum five years after execution of the total investment. 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.

## 39. 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.

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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 is as follows:

	<i>31.3.2018</i>	<i>31.12.2017</i>
	<i>BGN '000</i>	<i>BGN '000</i>
<i>Financial assets</i>	<u>295,985</u>	<u>296,015</u>
<b>Loans and receivables, including:</b>	<b>287,740</b>	<b>288,033</b>
Receivables and loans ( <i>Notes 19, 20, 22, 23 and 24</i> )	262,691	265,419
Cash and cash equivalents ( <i>Note 25</i> )	25,049	22,614
<b>Financial assets at fair value through profit</b>	<b>8,245</b>	<b>7,982</b>
<i>Financial liabilities</i>	<i>418,624</i>	<i>427,643</i>
<b>Financial liabilities at amortised cost</b>	<u><b>418,624</b></u>	<u><b>427,643</b></u>
Short-term and long-term bank loans ( <i>Notes 27 and 31</i> )	256,898	259,169
Other loans and liabilities ( <i>Notes 29, 32, 33 and 37</i> )	146,233	149,071
<i>Payables under factoring agreement</i>	15,493	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

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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:

<i>31 March 2018</i>	<i>in BGN BGN '000</i>	<i>in EUR BGN '000</i>	<i>in RSD BGN '000</i>	<i>in BYN BGN '000</i>	<i>in USD BGN '000</i>	<i>in UAH BGN '000</i>	<i>in other curren y BGN '000</i>	<i>Total BGN '000</i>
Available-for-sale financial assets		-		-	-	-	-	-
Loans and receivables, including:	5,105	1,874		161	1,105	-	-	8,245
<i>Receivables and loans</i>	179,421	51,203	30,838	12,200	4,640	2,946	6,492	287,740
<i>Cash and cash equivalents</i>	<u>167,338</u>	<u>43,322</u>	<u>30,597</u>	<u>11,286</u>	<u>3,524</u>	<u>1,540</u>	<u>5,084</u>	<u>262,691</u>
<b>Total financial assets</b>	<u>12,083</u>	<u>7,881</u>	<u>241</u>	<u>914</u>	<u>1,116</u>	<u>1,406</u>	<u>1,408</u>	<u>25,049</u>
	<b>184,526</b>	<b>53,077</b>	<b>30,838</b>	<b>12,361</b>	<b>5,745</b>	<b>2,946</b>	<b>6,492</b>	<b>295,985</b>
Short-term and long-term bank loans								
Other loans and liabilities	88,394	152,991	25	14,286	-	1,202	-	256,898
<b>Total financial liabilities</b>	<u>73,844</u>	<u>49,587</u>	<u>16,090</u>	<u>18,584</u>	<u>2,600</u>	<u>142</u>	<u>879</u>	<u>161,726</u>
	<b>162,238</b>	<b>202,578</b>	<b>16,115</b>	<b>32,870</b>	<b>2,600</b>	<b>1,344</b>	<b>879</b>	<b>418,624</b>

  

<i>31 December 2017</i>	<i>in BGN BGN '000</i>	<i>in EUR BGN '000</i>	<i>in RSD BGN '000</i>	<i>in BYN BGN '000</i>	<i>in USD BGN '000</i>	<i>in UAH BGN '000</i>	<i>in other curren y BGN '000</i>	<i>Total BGN '000</i>
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
<i>Receivables and loans</i>	169,669	43,169	31,491	9,167	4,029	3,432	4,462	265,419
<i>Cash and cash equivalents</i>	<u>10,333</u>	<u>6,840</u>	<u>197</u>	<u>903</u>	<u>1,288</u>	<u>1,566</u>	<u>1,487</u>	<u>22,614</u>
<b>Total financial assets</b>	<u>185,045</u>	<u>51,835</u>	<u>31,688</u>	<u>10,070</u>	<u>6,430</u>	<u>4,998</u>	<u>5,949</u>	<u>296,015</u>
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
<b>Total financial liabilities</b>	<u>130,971</u>	<u>239,949</u>	<u>24,884</u>	<u>26,081</u>	<u>3,199</u>	<u>1,921</u>	<u>638</u>	<u>427,643</u>

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#### *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 available-for-sale 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. The latter are presented in the consolidated statement of financial position at net value after deducting the impairment related to doubtful and bad debts. Such impairment is made where and when events have existed identifying loss due to uncollectability as per previous experience.

In the years of its trade experience, the 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 49% 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

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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 to 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.

#### ***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

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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*

<i>31 March 2018</i>	<i>up to 1 month BGN '000</i>	<i>1 to 3 months BGN '000</i>	<i>3 to 6 months BGN '000</i>	<i>6 to 12 months BGN '000</i>	<i>1 to 2 years BGN '000</i>	<i>2 to 5 years BGN '000</i>	<i>Total BGN '000</i>
Short-term and long-term bank loans	46,011	32,698	18,457	105,494	14,789	44,414	<b>261,863</b>
Other loans and liabilities	97,235	47,624	13,993	1,579	770	902	<b>162,103</b>
<b>Total liabilities</b>	<b>143,246</b>	<b>80,322</b>	<b>32,450</b>	<b>107,073</b>	<b>15,559</b>	<b>45,316</b>	<b>423,966</b>
<i>31 December 2017</i>	<i>up to 1 month BGN '000</i>	<i>1 to 3 months BGN '000</i>	<i>3 to 6 months BGN '000</i>	<i>6 to 12 months BGN '000</i>	<i>1 to 2 years BGN '000</i>	<i>2 to 5 years BGN '000</i>	<i>Total BGN '000</i>
Short-term and long-term bank loans	2,406	55,641	52,120	101,602	14,917	37,881	<b>264,567</b>
Other loans and liabilities	101,644	48,523	10,341	5,552	1,700	966	<b>168,726</b>
<b>Total liabilities</b>	<b>104,050</b>	<b>104,164</b>	<b>62,461</b>	<b>107,154</b>	<b>16,617</b>	<b>38,847</b>	<b>433,293</b>

*Risk of interest-bearing cash flows*

Interest-bearing assets are in the structure of Company's 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

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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.

<i>Interest analysis</i>	<i>interest-free</i>	<i>with floating</i>	<i>with fixed</i>	<i>Total</i>
		<i>interest %</i>	<i>interest %</i>	
<b>31 March 2018</b>	<b>BGN '000</b>	<b>BGN '000</b>	<b>BGN '000</b>	<b>BGN '000</b>
Available-for-sale financial assets	8,245	-	-	8,245
Loans and receivables, including:	238,542	4,832	44,366	287,740
<i>Receivables and loans</i>	223,509	15	39,167	262,691
<i>Cash and cash equivalents</i>	15,033	4,817	5,199	25,049
<b>Total financial assets</b>	<b>246,787</b>	<b>4,832</b>	<b>44,366</b>	<b>295,985</b>
Short-term and long-term bank loans	-	228,108	28,790	256,898
Other loans and liabilities	143,543	17,757	426	161,726
<b>Total financial liabilities</b>	<b>143,543</b>	<b>245,865</b>	<b>29,216</b>	<b>418,624</b>
<i>Interest analysis</i>	<i>interest-free</i>	<i>with floating</i>	<i>with fixed</i>	<i>Total</i>
		<i>interest %</i>	<i>interest %</i>	
<b>31 December 2017</b>	<b>BGN '000</b>	<b>BGN '000</b>	<b>BGN '000</b>	<b>BGN '000</b>
Available-for-sale financial assets	7,982	-	-	7,982
Loans and receivables, including:	234,424	7,294	46,315	288,033
<i>Receivables and loans</i>	224,724	15	40,680	265,419
<i>Cash and cash equivalents</i>	9,700	7,279	5,635	22,614
<b>Total financial assets</b>	<b>242,406</b>	<b>7,294</b>	<b>46,315</b>	<b>296,015</b>
Short-term and long-term bank loans	-	229,924	29,245	259,169
Other loans and liabilities	146,154	21,897	423	168,474
<b>Total financial liabilities</b>	<b>146,154</b>	<b>251,821</b>	<b>29,668</b>	<b>427,643</b>

**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.

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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:

	<b>31.3.2018</b>	<b>31.12.2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<b>Total borrowings, including:</b>	<b>275,395</b>	<b>281,793</b>
<i>Bank loans</i>	256,898	259,169
<i>Loans and finance lease and factoring liabilities</i>	18,497	22,624
<b>Less: Cash and cash equivalents</b>	<b>(25,049)</b>	<b>(22,614)</b>
<b>Net debt</b>	<b>250,346</b>	<b>259,179</b>
<b>Total equity of the Group</b>	<b>517,087</b>	<b>503,110</b>
<b>Total capital of the Group</b>	<b>767,433</b>	<b>762,289</b>
<b>Gearing ratio</b>	0.33	0.34

The liabilities shown in the table are disclosed in *Notes 27, 29, 31 and 34*.

***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 acquisition 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.

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Part of the investments in other companies as minority interests represent an exception to this rule, since neither market nor objective conditions exist so that their fair value could be reliably determined. Therefore, they are presented at acquisition cost (cost).

As far as 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.

**40. RELATED PARTY TRANSACTIONS**

<i>Related parties</i>	<i>Relation type</i>	<i>Relation period</i>	
Telecomplect Invest AD	Main shareholding company		
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
		<i>1 January- 31 March</i>	<i>1 January- 31 March</i>
<i>Supplies from related parties:</i>		<i>2018</i>	<i>2017</i>
		<i>BGN '000</i>	<i>BGN '000</i>
<i>Supply of inventories from:</i>			
Companies related through a main shareholder		2,314	2,114
Companies controlled by an associate		14	5
Companies under a common indirect control related through key management personnel		4	6
<b>Total</b>		<b>2,332</b>	<b>2,125</b>
<i>Supply of services from:</i>			
Companies related through key management personnel		679	621
Companies related through a main shareholder		608	642
Companies controlled by an associate		245	182

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Main shareholder companies	113	61
Associated companies	-	51
	<b>1,645</b>	<b>1,557</b>

**Supply of LTA material assets from:**

Companies related through key management personnel	691	397
	<b>691</b>	<b>397</b>

**Other supplies from:**

Companies related through a main shareholders	-	16
	-	<b>16</b>
	<b>4,668</b>	<b>4,095</b>

**Sales to related parties****Sales of inventories to:**

Joint ventures	1,360	3,020
Companies related through a main shareholder	239	238
Associates	-	323
	<b>1,599</b>	<b>3,581</b>

**Sales of services to:**

Companies controlled by an associated company	69	-
Companies related through a main shareholder	12	52
Companies related through key management personnel	3	3
Associates	-	69
	<b>84</b>	<b>55</b>

**Other sales to:**

Associates	-	55
	-	<b>55</b>

**Interest on loans granted:**

Associates	143	100
Companies controlled by an associate	59	1

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Companies related through key management personnel	23	108
	<u>225</u>	<u>209</u>
	<u>1,908</u>	<u>3,900</u>

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 1,460 thousand (2017: BGN 1,337 thousand).

**41. EVENTS AFTER THE REPORTING PERIOD**

On 15 May 2018 was registered a change of the names of the companies: PharmaStore 1 EOOD, PharmaStore 2 EOOD, PharmaStore 3 EOOD, PharmaStore 4 EOOD and PharmaStore 5 EOOD, subsidiaries through Sopharma Trading AD. The new names of the companies are: Sopharmacy 11 OOD, Sopharmacy 12 EOOD, Sopharmacy 13 EOOD, Sopharmacy 14 EOOD and Sopharmacy 15 EOOD.

On the same date, the companies Sopharmacy 16 EOOD and Sopharmacy 17 EOOD with the sole owner Sopharma Trading AD entered the Commercial Register.

There are no other events beyond the reporting date that require adjustment or disclosure in the consolidated financial statements or in the notes to the consolidated financial statements.