CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	Notes		2016 BGN'000	2015 BGN'000
Revenue	3		877 085	874 984
Other operating income/(losses), net	4		9 483	(2 678)
Changes in inventories of finished goods and work in progress			(994)	4 207
Raw materials and consumables used	5		(82 906)	(86 396)
Hired services expense	6		(56 408)	(65 661)
Employee benefits expense	7		(87 159)	(81 501)
Depreciation and amortisation expense	16, 17		(28 705)	(26 326)
Carrying amount of goods sold			(571 132)	(568 590)
Other operating expenses	8, 9		(14 313)	(11 599)
Profit from operations			**44 951**	**36 440**
Impairment of non-current tangible and intangible assets	10		(967)	-
Finance income	11		7 014	6 828
Finance costs	12		(12 721)	(21 640)
Finance income / (costs), net			**(5 707)**	**(14 812)**
Gain/(loss) from associates and joint ventures	13		8 972	(1 275)
Gain on acquisition and disposal of subsidiaries	44.1		14 860	7 222
Profit before income tax			**62 109**	**27 575**
Income tax expense	14		(7 207)	(4 975)
Net profit for the year			**54 902**	**22 600**
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Gain on revaluation of property, plant and equipment	16, 18		11 802	-
Remeasurements of defined benefit pension plans	31		(128)	(317)
Income tax relating to items of other comprehensive income that will not be reclassified	14		(1 504)	5
			10 170	**(312)**
Items that may be reclassified to profit or loss:				
Net change in fair value of available-for-sale financial assets			1 466	139
Exchange differences on translating foreign operations			2 573	(39)
			4 039	**100**
Other comprehensive income for the year, net of tax	15		**14 209**	**(212)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			**69 111**	**22 388**
Net profit for the year attributable to:				
Equity holders of the parent			50 638	21 314
Non-controlling interests			4 264	1 286
Total comprehensive income for the year attributable to:				
Equity holders of the parent			63 147	22 816
Non-controlling interests			5 964	(428)
Earnings per share	28	**BGN**	**0.39**	**0.17**

The accompanying notes on pages 5 to 144 form an integral part of the consolidated financial statements.

Executive Director: *Ognian Donev, PhD*

Finance Director: *Boris Borisov*

Preparer: *Lyudmila Bondzhova*

AUDITED BY AFA
27/04/2017

СОФАРМА АД БЪЛГАРИЯ

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

	Notes	31 December 2016 BGN'000	31 December 2015 BGN'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	321 215	315 005
Intangible assets	17	34 601	24 127
Goodwill	17	9 885	11 375
Investment property	18	9 483	10 562
Investments in associates and joint ventures	19	18 715	5 224
Available-for-sale investments	20	5 721	7 424
Long-term receivables from related parties	21	10 028	20 505
Other long-term receivables	22	4 149	3 546
Deferred tax assets	30	2 802	3 716
		416 599	**401 484**
Current assets			
Inventories	23	171 791	163 129
Trade receivables	24	215 583	205 589
Receivables from related parties	25	14 982	27 434
Other short-term receivables and assets	26	17 727	14 505
Cash and cash equivalents	27	22 539	23 486
		442 622	**434 143**
TOTAL ASSETS		**859 221**	**835 627**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		134 798	134 798
Reserves		62 708	48 855
Retained earnings	28	259 984	222 238
		457 490	**405 891**
Non-controlling interests		**33 733**	**51 749**
TOTAL EQUITY	28	**491 223**	**457 640**
LIABILITIES			
Non-current liabilities			
Long-term bank loans	29	25 924	38 876
Deferred tax liabilities	30	11 752	7 952
Retirement benefit obligations	31	4 539	4 199
Finance lease liabilities	32	2 582	1 957
Government grants	33	9 011	9 343
Other non-current liabilities		34	165
		53 842	**62 492**
Current liabilities			
Short-term bank loans	34	170 842	190 785
Factoring agreement liabilities	37	20 033	-
Current portion of long-term bank loans	29	9 478	14 784
Trade payables	35	92 053	87 440
Payables to related parties	36	566	2 366
Payables to personnel and for social security	38	10 093	8 894
Tax payables	39	5 949	6 368
Other current liabilities	40	5 142	4 858
		314 156	**315 495**
TOTAL LIABILITIES		**367 998**	**377 987**
TOTAL EQUITY AND LIABILITIES		**859 221**	**835 627**

The accompanying notes on pages 5 to 144 form an integral part of the consolidated financial statements.

The consolidated financial statements on pages 1 to 144 were approved for issue by the Board of Directors of Sopharma AD and signed on 27 April 2017 by:

Executive Director: *Ognian Donev, PhD*

Finance Director: *Boris Borisov*

Preparer: *Lyudmila Bondzhova*

СОФАРМА АД БЪЛГАРИЯ

AUDITED BY AFA
27/04/2017

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

	Notes	2016 BGN'000	2015 BGN'000
Cash flows from operating activities			
Cash receipts from customers		906 890	1 002 450
Cash paid to suppliers		(819 238)	(786 997)
Cash paid to employees and for social security		(81 499)	(76 275)
Taxes paid (except income taxes)		(62 780)	(62 297)
Taxes refunded (except income taxes)		4 478	5 889
Income taxes (paid)/refunded		(5 551)	(3 272)
Interest and bank charges paid on working capital loans		(7 188)	(7 537)
Foreign currency exchange gains/(losses), net		(543)	(1 926)
Other proceeds/(payments), net		(3 337)	(2 725)
Net cash flows (used in)/from operating activities		**(68 768)**	**67 310**
Cash flows from investing activities			
Purchases of property, plant and equipment		(14 217)	(17 792)
Proceeds from sales of property, plant and equipment		733	439
Purchases of intangible assets		(4 010)	(4 794)
Proceeds from sales of intangible assets		15	-
Purchases of available-for-sale investments		(2 194)	(2 109)
Proceeds from sale of available-for-sale investments		2 543	581
Proceeds from dividends under available-for-sale investments		56	8
Consideration paid on acquisition of subsidiaries, net of cash received	44.1	(6 110)	(15 604)
Proceeds from disposal of subsidiaries, net of cash granted	45.1	20 484	3 275
Purchases of investments in associates and joint ventures	19	(2 531)	(8 135)
Proceeds/(payments) on transactions with non-controlling interests, net	44.2, 45.2	(21 935)	(2 826)
Loans granted to related parties		(1 903)	(13 390)
Loan repayments by related parties		20 274	25 902
Loans granted to third parties		(1 187)	(3 215)
Loan repayments by third parties		741	1 965
Interest received on loans and deposits		2 486	2 796
Other proceeds/(payments), net		(107)	-
Net cash flows used in investing activities		**(6 862)**	**(32 899)**
Cash flows from financing activities			
Proceeds from short-term bank loans (overdraft), net		32 201	23 059
Repayment of short-term bank loans (overdraft), net		(58 790)	(49 397)
Proceeds from long-term bank loans		2 694	4 993
Repayment of long-term bank loans		(15 838)	(13 003)
Proceeds under factoring agreement	2.18, 37	132 375	-
Interest and charges paid under factoring agreement		(923)	-
Loans received from third parties		779	590
Repayment of loans to third parties		(190)	(311)
Interest and charges paid under investment purpose loans		(2 304)	(1 916)
Payment of finance lease liabilities		(2 212)	(1 865)
Treasury shares		(852)	(448)
Dividends paid		(12 085)	(3 983)
Government grants		-	5 685
Net cash flows from/(used in) in financing activities		**74 855**	**(36 596)**
Net decrease in cash and cash equivalents		**(775)**	**(2 185)**
Cash and cash equivalents at 1 January		23 114	25 299
Cash and cash equivalents at 31 December	27	**22 339**	**23 114**

The accompanying notes on pages 5 to 144 form an integral part of the consolidated financial statements.

Executive Director: *Ognian Donev, PhD*

Finance Director: *Boris Borisov*

Preparer: *Lyudmila Bondzhova*

СОФАРМА АД БЪЛГАРИЯ

AUDITED BY AFA
27/04/2017

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Notes	Share capital	Treasury shares	Statutory reserves	Revaluation reserve - property, plant and equipment	Available-for-sale financial assets reserve	Translation of foreign operations reserve	Retained earnings	Total	Non-controlling interests	Total equity
		Attributable to equity holders of the parent									
		BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Balance at 1 January 2015	28	132 000	(18 095)	33 555	23 754	1 190	(4 335)	203 260	371 329	60 308	431 637
Changes in equity for 2015											
Effect of treasury shares acquisition		-	(518)	-	-	-	-	-	(518)	-	(518)
Effects of restructuring		2 798	-	8 785	172	-	-	607	12 362	(12 362)	-
Distribution of profit for:		-	-	2 916	-	-	-	(2 916)	-	-	-
* *statutory reserves*		-	-	2 916	-	-	-	(2 916)	-	-	-
* *dividend*		-	-	-	-	-	-	-	-	-	-
Effects assumed by non-controlling interests on:		-	-	-	-	-	-	(98)	(98)	4 231	4 133
* *acquisition (disposal) of subsidiaries and joint ventures*	45	-	-	-	-	-	-	-	-	11 195	11 195
* *distribution of dividends*		-	-	-	-	-	-	-	-	(4 017)	(4 017)
* *increase in the interest in subsidiaries*	44	-	-	-	-	-	-	(1 198)	1 100	(2 296)	(1 196)
* *decrease in the interest in subsidiaries*	45	-	-	-	-	-	-	1 100	(1 198)	(651)	(1 849)
Total comprehensive income for the year, including:		-	-	-	-	140	1 620	21 056	22 816	(428)	22 388
* *net profit for the year*		-	-	-	-	-	-	21 314	21 314	1 286	22 600
* *other comprehensive income, net of taxes*		-	-	-	-	140	1 620	(258)	1 502	(1 714)	(212)
Transfer to retained earnings		-	-	-	(481)	-	152	329	-	-	-
Balance at 31 December 2015	28	134 798	(18 613)	45 256	23 445	1 330	(2 563)	222 238	405 891	51 749	457 640
Changes in equity for 2016											
Effect of treasury shares acquisition		-	(888)	-	-	-	-	52	(836)	-	(836)
Effects of restructuring								25	25		25
Distribution of profit for:		-	-	2 585	-	-	-	(11 630)	(9 045)	-	(9 045)
* *statutory reserves*		-	-	2 585	-	-	-	(2 585)	-	-	-
* *dividend*		-	-	-	-	-	-	(9 045)	(9 045)	-	(9 045)
Effects assumed by non-controlling interests on:		-	-	-	-	-	-	(1 692)	(1 692)	(23 980)	(25 672)
* *acquisition (disposal) of subsidiaries and joint ventures*	45	-	-	-	-	-	-		-	*(3 233)*	*(3 233)*
* *distribution of dividends*		-	-	-	-	-	-		-	*(3 212)*	*(3 212)*
* *increase in the interest in subsidiaries*	44	-	-	-	-	-	-	*(1 772)*	*(1 772)*	*(17 643)*	*(19 415)*
* *decrease in the interest in subsidiaries*	45	-	-	-	-	-	-	*80*	*80*	*108*	*188*
Total comprehensive income for the year, including:		-	-	-	9 313	1 478	1 846	50 510	63 147	5 964	69 111
* *net profit for the year*		-	-	-				50 638	50 638	4 264	54 902
* *other comprehensive income, net of taxes*		-	-	-	9 313	1 478	1 846	(128)	12 509	1 700	14 209
Transfer to retained earnings		-	-	-	(481)	-	-	481	-	-	-
Balance at 31 December 2016	28	134 798	(19 501)	47 841	32 277	2 808	(717)	259 984	457 490	33 733	491 223

The accompanying notes on pages 5 to 144 form an integral part of the consolidated financial statements.

Executive Director: *Ognian Donev, PhD*

Finance Director: *Boris Borisov*

Preparer: *Lyudmila Bondzhova*

СОФАРМА АД • БЪЛГАРИЯ •

AUDITED BY АFA
24/04/2017

1. BACKGROUND INFORMATION ON THE GROUP

Sopharma Group (the Group) is comprised of the parent company and its thirty nine (31 December 2015: thirty seven) subsidiaries. In addition, the Group has investments in seven joint ventures (31 December 2015: in seven joint ventures). At the reporting date of the consolidated annual financial statements, the Group has investments in two associates (31 December 2015: in three associates).

Parent company

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

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

Subsidiaries

The Group subsidiaries as at 31 December 2016 are as follows:

- Sopharma Trading AD – a business entity registered in Bulgaria by Decision No. 3594/16.10.1998 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.;
- Electron commerce 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. 20120924105551/24.09.2012 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. 201501191300026/19.01.2015 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;

This is a translation from Bulgarian of the consolidated financial statements of Sopharma Group for year 2016.

- Sopharmacy 2 EOOD – a business entity registered in Bulgaria by Decision No. 20150617110324/17.06.2015 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. 20151202165822/02.12.2015 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. 20160229093338/29.02.2016 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. 20160301155620/01.03.2016 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. 20140127170842/27.01.2014 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 2016, the name of the company was Pharma Online EOOD);
- Medica AD - a business entity registered in Bulgaria under Company File No. 99/1991 of Blagoevgard District Court, with a seat and address of management: Sofia, Oborishte Region, 82, Knyaz Alexander Dondukov Blvd.;
- Veta Pharma AD – business entity registered in Bulgaria under Company File No. 581/05.04.1999 of Veliko Tarnovo District Court, with a seat and address of management: Veliko Tarnovo, 32, Dulga Luka St.;
- Medica – Zdrave EOOD – represents Medica AD in the tenders and the concluding of contracts with hospitals, registered in Bulgaria under Company File No. 7432/2001 of Sofia City Court, with a seat and address of management: Sofia, Lagera Residential Complex, block 38, entr. C, floor 1, ap. 1. On 2 August 2015, a decision of the sole owner was entered in the Commercial Register for staring company's liquidation procedure;
- Sopharma Poland Z.O.O., Poland, in liquidation – a business entity registered in Poland by Decision No. KRS 0000178554/04.11.2003 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. 10691020000029051/07.08.2012 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. 133/15.04.1994 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.;
- SIA Briz, Latvia – a business entity registered in Latvia by Decision No. 000302737 / 18.09.1991 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 / 24.09.2004 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 / 29.12.1999 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 / 07.07.2009, with a seat and address of management: Belarus, Minsk, Esenina St., d. 16, ap. 1H;
- ODO Alean, Belarus – a business entity registered in Belarus by Decision No. 100160720 / 29.05.2001 in the Minsk City Executive Committee in the Unified State Register of Legal Entities and Individual Entrepreneurs, with a seat and address of management: Belarus, Minsk, Tashkentskaya St., d. 16, unit 1;
- OOO Farmacevt Plus, Belarus – a business entity registered by the Minsk City Executive Committee on 24.11.2000 / 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;
- UAB TBS Pharma, Lithuania – a business entity, registered by the Lithuanian Register of Legal Entities on 01.03.2013 / 303011389, with a seat and address of management: Lithuania, Vilnius, 8 Vytauto / 7 Liubarto St., POB 08118;
- ODO Vestpharm, Belarus – a business entity registered in Belarus by Decision No. 590002202 of Grodno City Executive Committee, with a seat and address of management: Belarus, Grodno, Dombroskogo St., d. 47, k. 3;
- ODO BelAgroMed, Belarus – a business entity registered in Belarus by Decision No. 009126 / 29.06.2001 of Grodno City Executive Committee, with a seat and address of management: Belarus, Grodno, 17 Sentyabrya St.;
- TOO Sopharma Kazakhstan, Kazakhstan – a business entity registered in Kazakhstan by Decision No. 5286-1910-04-TOO / 06.11.2014 of the Ministry of Justice, Auezovski Region, with a seat and registered address: Kazakhstan, Almaty, Auezovski Region, Mamyr Microdistrict - 4, d. 190;
- OOO Danapharm, Belarus – a business entity registered in Belarus by Decision dated 09.04.2004 of Brest Regional Executive Committee, with a seat and address of management: Belarus, Brest, 53, Masherova Blvd.;

- OOO Galenapharm, Belarus – a business entity registered in Belarus by Decision dated 12.06.2013 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 / 14.09.2000 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 25.09.2008 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 17.10.2012 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 20, Bakinskaya St.;
- OOO Mobil Line, Belarus – a business entity registered in Belarus by Decision dated 16.03.2010 of Borisov Regional Executive Committee, with a seat and address of management: Belarus, Minsk District, Borisov, 63, Krasnoznamennaya St.;
- ODO SalusLine, Belarus – a business entity registered in Belarus by Decision No. 287 / 05.05.2006 of Grodno City Executive Committee, with a seat and address of management: Belarus, Grodno, 6, Vilenskaya St.

On 16 February 2016, the Group, through its subsidiary SOOO Brititrade – Belarus, acquired 50% of the capital of OOO Mobil Line – Belarus and as a result the parent acquired control and the company was classified as a subsidiary.

On 24 March 2016, Medica Balkans S.R.L. – Romania, a subsidiary through Medica AD, was terminated by liquidation and deleted from the Commercial Register;
On 9 May 2016, the Group disposed of its interest in the subsidiary Ivančić and Sinovi d.o.o. – Serbia.
On 5 December 2016, the Group disposed of its interest in the subsidiary OOO NPK Biotest – Belarus.

On 18 November 2016, a registration was made on the merger of UP Alphamed – Belarus into ODO Alenpharm-plus – Belarus through combining of the assets and liabilities of both companies. The operations of the merged-in company UP Alphamed – Belarus were terminated and all of its rights and obligations at the time of merger were assumed by ODO Alenpharm-plus – Belarus.
As a result of the merger, the Group acquired the majority stake of the capital of ODO SalusLine – Belarus and the classification of the latter was changed from an associate into a subsidiary.

On 26 February 2015 an entry was made in the Commercial Register at the Registry Agency on the merger of Bulgarian Rose Sevtopolis AD ('transforming company') into Sopharma AD within the meaning of Art. 262 and the following of the Commercial Act. The transforming company was terminated without liquidation and all of its assets were transferred to Sopharma AD ('receiving company'). The date 1 January 2015 was accepted as a date for accounting for the merger.

On 14 May 2015, the Group sold 75% of its interest in the capital of Extab Corporation, USA, while retaining 5% of its interest, which by virtue of a signed agreement was transferred on 28 September 2015 into 5% interest in the capital of Extab Pharma Inc., USA. As a result of the transaction, the Group had also disposed of its indirect interest in Extab Pharma Limited, United Kingdom – a subsidiary thereof until 14 May 2015 through Extab Corporation, USA.

As at 31 December 2015, the investment in Sopharma USA – USA was written-off since the activities of the company had been suspended in the USA.

Joint ventures

The joint ventures of the Group as at 31 December 2016 are as follows:

- OOO Vivaton Plus, Belarus – a business entity registered in Belarus by Decision No. 590004353 of Grodno City Executive Committee, with a seat and address of management: Belarus, Grodno, Kletskova Pr., d. 13 B, office 2;
- OOO Med-dent, Belarus – a business entity registered in Belarus by Decision No. 0018240 / 11.03.2013 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 / 30.10.2000 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 / 17.07.2003 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 5-45 Storojevskaya St.;
- ZAO Interpharm, Belarus - a business entity registered in Belarus in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 300000556, with a seat and address of management: Belarus, Vitebsk, Stroitelei Square, bl. 3 ap. 2;
- OOO Ivem & K, Belarus – a business entity registered in Belarus by Decision dated 27.07.2001 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 20, Bakinskaya St.;
- OOO Ariens, Belarus – a business entity registered in Belarus by Decision No. 605 / 30.12.1996 of Vitebsk Regional Executive Committee, with a seat and address of management: Belarus, Polotsk, Shkolnaya St.

Associates

The associates of the Group as at 31 December 2016 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.;
- OOO Zdorovei, Belarus – a business entity registered in Belarus by Decision dated 04.06.2014 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 20, Bakinskaya St.

1.1. Ownership and management of the parent company

Sopharma AD is a public company under the Bulgarian Public Offering of Securities Act. Starting from November 2011, the shares of the company are being traded in the Warsaw Stock Exchange.
The shareholding structure of the parent company as at 31 December 2016 is as follows:

	%
Donev Investments Holding AD	24.78
Telecomplect Invest AD	20.15
Rompharm Company OOD	18.04
Sopharma AD (treasury shares)	4.20
Other legal persons	28.92
Natural persons	3.91
	100.00

Sopharma AD has a one-tier management system with a five-member Board of Directors. Company's management in the form of Board of Directors is composed as at 31 December 2016 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
Vasil Piralkov	Member

1.2. Structure of the Group and principal activities

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

Subsidiaries ***Companies in Bulgaria***	**31.12.2016** ***Interest %***	**31.12.2015** ***Interest %***	***Date of acquisition of control***	***Date of disposal of control***
Sopharma Trading AD*	72.58	72.13	08.06.2006	
Pharmalogistica AD	84.93	78.37	15.08.2002	
Electroncommerce EOOD	100.00	100.00	09.08.2005	
Biopharm Engineering AD	97.15	97.15	10.03.2006	
Sopharma Buildings REIT	40.39	40.75	04.08.2008	
Momina Krepost AD	93.54	92.78	01.01.2008	
Unipharm AD *	77.89	52.06	27.10.2010	
Phyto Palauzovo AD	95.00	95.00	21.09.2012	
Sopharmacy EOOD**	72.58	72.13	19.01.2015	
Sopharmacy 2 EOOD**	72.58	72.13	05.06.2015	
Sopharmacy 3 EOOD**	72.58	72.13	02.12.2015	
Sopharmacy 4 EOOD**	72.58	-	29.02.2016	
Sopharmacy 5 EOOD**	72.58	-	01.03.2016	
Sopharmacy 6 EOOD**	72.58	72.13	03.12.2015	
Medica AD	97.96	66.72	26.10.2015	
Medica-Zdrave EOOD (in liquidation)**	97.96	66.72	26.10.2015	
Veta Pharma AD	68.05	-	11.11.2016	

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

This is a translation from Bulgarian of the consolidated financial statements of Sopharma Group for year 2016.

Subsidiaries ***Companies abroad***	**31.12.2016** ***Interest*** ***%***	**31.12.2015** ***Interest*** ***%***	***Date of acquisition of control***	***Date of disposal of control***
SIA Briz	66.13	66.13	10.11.2009	
SOOO Brititrade **	52.90	51.91	10.11.2009	
PAO Vitamini	99.56	99.56	18.01.2008	
Ivančić and Sinovi d.o.o.	-	51	10.04.2008	08.05.2016
Sopharma Warsaw SP. Z.O.O.	100.00	100.00	23.11.2010	
Sopharma Trading d.o.o. Belgrade**	72.58	72.13	05.06.2015	
Sopharma Poland Z.O.O. – in liquidation	60.00	60.00	16.10.2003	
Medica Balkans S.R.L. **	-	66.72	26.10.2015	24.03.2016
OOO Tabina **	62.82	58.86	08.04.2011	
SOOO Brizpharm **	46.26	39.41	20.12.2012	
ODO Alean **	62.96	64.81	07.02.2013	
OOO Sopharma Ukraine	100.00	100.00	07.08.2012	
OOO Farmacevt Plus **	42.98	42.98	31.05.2013	
UAB TBS Pharma**	33.73	33.73	01.03.2013	
ODO Vestpharm **	62.96	62.82	04.07.2013	
OOO NPK Biotest **	-	46.29	02.09.2013	05.12.2016
ODO BelAgroMed **	62.96	50.26	30.07.2013	
TOO Sopharma Kazakhstan	100.00	100.00	06.11.2014	
OOO Danapharm**	48.94	48.14	28.02.2015	
OOO Galenapharm**	48.94	48.14	28.02.2015	
ODO Medjel**	48.94	48.14	28.02.2015	
ODO Alenpharm-plus**	48.94	48.14	30.06.2015	
OOO Farmatea**	22.39	33.73	30.11.2015	
OOO Mobil Line**	48.94	-	16.02.2016	
ODO SalusLine**	48.74	-	18.11.2016	

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

- Unipharm AD is a subsidiary to Sopharma AD, the control thereon being acquired and exercised through the direct participation of the parent company in the ownership of Unipharm AD with 77.88 % and the indirect participation of the parent company with 0.01 % through the subsidiary Medica AD holding 0.01% of the capital of Unipharm AD;
- 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 72.14% and the indirect participation of the parent company with 0.42% through

the subsidiary Medica AD holding 0.43% of the capital of Sopharma Trading AD and 0.02% through the subsidiary Unipharm AD holding 0.03% 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;
- Phyto Palauzovo is a direct subsidiary after the merger of Bulgarian Rose-Sevtopolis AD into Sopharma AD (as from 1 January 2015);
- 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 Pharma Online 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;
- Medica-Zdrave EOOD (in liquidation) is a subsidiary of Medica AD whereas the latter holds 100% of the capital of Medica-Zdrave EOOD;
- 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, whereas the latter holds 95% of the capital of OOO Tabina;
- SOOO Brizpharm, Belarus, is a subsidiary through SIA Briz, Latvia, whereas the latter holds 69.25% of the capital of SOOO Brizpharm;
- ODO Alean, Belarus, is a subsidiary through Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 76% and SOOO Brititrade holds 24% of the capital of ODO Alean;
- OOO Farmacevt Plus, Belarus, is a subsidiary through SIA Briz, Latvia, whereas the latter holds 65% 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;
- ODO Vestpharm, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 76% and SOOO Brititrade holds 24% of the capital of ODO Vestpharm;

- ODO BelAgroMed, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 76% and SOOO Brititrade holds 24% of the capital of ODO BelAgroMed;
- ODO Danapharm, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 10% and SOOO Brititrade holds 80% of the capital of ODO Danapharm;
- ODO Galenapharm, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 10% and SOOO Brititrade holds 80% of the capital of ODO Galenapharm;
- ODO Medjel, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 10% and SOOO Brititrade holds 80% of the capital of ODO Medjel;
- ODO Alenpharm-plus, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 10% and SOOO Brititrade holds 80% of the capital of ODO Alenpharm-plus;
- ODO Farmatea, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary OOO Farmacevt Plus, Belarus, whereas SIA Briz holds 2% and OOO Farmacevt Plus holds 49% of the capital of ODO Farmatea;
- ODO Mobil Line, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 10% and SOOO Brititrade holds 80% of the capital of ODO Mobil Line;
- ODO SalusLine, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, and its subsidiary ODO Alenpharm-plus, Belarus, whereas SIA Briz holds 10%, SOOO Brititrade holds 80% and ODO Alenpharm-plus holds 5% of the capital of ODO SalusLine.

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 / 28.10.2015, 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;
- Medica AD – production and trade in dressing and sanitary-hygienic materials, finished drug forms, products for dentistry and food supplements;
- 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 plants;
- Medica-Zdrave EOOD (in liquidation) – represents Medica AD in the tenders and the concluding of contracts with hospitals;
- 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;
- PAO Vitamini, Ukraine – production and trade in pharmaceuticals;
- Sopharma Trading d.o.o. Belgrade, Serbia – consulting activities;
- 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;
- OOO Sopharma Ukraine, Ukraine – trade in pharmaceuticals and market and public opinion research;
- Briz SIA, Latvia – trade in pharmaceuticals;
- SOOO Brititrade, Belarus – trade in pharmaceuticals;
- OOO Tabina, Belarus – trade in pharmaceuticals;
- SOOO Brizpharm, Belarus – trade in pharmaceuticals;
- ODO Alean, Belarus – trade in pharmaceuticals;
- OOO Farmacevt Plus, Belarus – 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;
- ODO Vestpharm, Belarus – retail trade in pharmaceuticals and medical equipment;
- ODO BelAgroMed, Belarus – retail trade in medicinal products and pharmaceuticals;
- TOO Sopharma Kazakhstan, Kazakhstan – trade in pharmaceuticals;
- OOO Danapharm, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- OOO Galenapharm, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;

- ODO Medjel, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- ODO Alenpharm-plus, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- OOO Farmatea, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- ODO Mobil Line, Belarus – retail trade in pharmaceuticals and medical equipment;
- ODO SalusLine, Belarus – retail trade in pharmaceuticals and medical equipment.

The parent company and the subsidiaries Sopharma Trading AD, Medica AD, Medica-Zdrave EOOD (in liquidation), 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, Sopgarmacy 5 EOOD, Sopharmacy 6 EOOD and Veta Pharma AD 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 – in Serbia; SIA Briz – in Latvia; SOOO Brititrade, OOO Tabina, ODO Alean, SOOO Brizpharm, OOO Farmacevt Plus, ODO Vestpharm, ODO BelAgroMed, OOO Danapharm, OOO Galenapharm, ODO Medjel, ODO Alenpharm-plus, OOO Farmatea, OOO Mobil Line and ODO SalusLine – in Belarus; UAB TBS Pharma – in Lithuania, TOO Sopharma Kazakhstan – in Kazakhstan, and Medica Balkans S.R.L., terminated through liquidation of 24 March 2016 – in Romania.
As at 31 December 2016, the interest of the Group in ***joint ventures*** is as follows:

- OOO Vivaton Plus, Belarus, a joint venture through SIA Briz, Latvia – 50% interest jointly with Apteka Group Holding. 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 December 2012.
- 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.
- ZAO Interpharm, Belarus, a joint venture through SIA Briz, Latvia – 50% interest jointly with a legal entity. 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 31 December 2014.

- OOO Ivem & K, Belarus, a joint venture through OOO Farmacevt Plus and SOOO Brititrade, which hold together 50% of the capital of OOO Ivem & K. 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 1 December 2015.
- OOO Ariens, Belarus, a joint venture through OOO Farmacevt Plus, which holds 50% of the capital of OOO Ariens. 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 1 December 2015.

As at 31 December 2016, the interest of the Group in ***associates*** is as follows:

- OOO Zdorovei, Belarus – 10.75% interest (25% nominal interest through OOO Farmacevt Plus). The principal activities of the associate include wholesale trade in food additives and articles with medical designation. The company has been an associate for the Group since 9 December 2015.
- Doverie Obedinen Holding AD – 30.22% interest of Sopharma AD. The principal activities of the company include acquisition, management, assessment and sale of shares in Bulgarian and foreign companies – legal entities. The company has been an associate for the Group since 21 December 2016.

At the date of these consolidated annual financial statements, the average number of Group's personnel was 4,543 workers and employees (2015: 4,258).

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 2014 – 2016, are presented in the table below:

Indicator	**2014**	**2015**	**2016**
USD/BGN average for the year/period	1.47437	1.76441	1.76833
USD/BGN at end of the year/period	1.60841	1.79007	1.85545
PLN/BGN average for the year/period	0.46760	0.46754	0.44846
PLN/BGN at end of the year/period	0.45376	0.46128	0.44347
RSD/BGN average for the year/period	0.01669	0.01620	0.01589
RSD/BGN at end of the year/period	0.01617	0.01608	0.01584
UAH/BGN average for the year/period	0.12837	0.08186	0.06916
UAH/BGN at end of the year/period	0.10169	0.07458	0.06881
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
1000 BYR/BGN average for the year/period	0.14410	0.11167	-
1000 BYR/BGN at end of the year/period	0.13554	0.09629	-
1 BYN/BGN average for the year/period	-	-	0.89057
1 BYN/BGN at end of the year/period	-	-	0.95429
KZT/BGN average for the year/period	0.00863	0.00829	0.00518
KZT/BGN at end of the year/period	0.00880	0.00527	0.00555

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

On 1 July 2016 the official currency of the Republic of Belarus – Belarusian Ruble was denominated and the currency code was changed from BYR to BYN. The nominal value of money was decreased at a ratio 10,000 to 1.

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE GROUP

2.1. Basis for the preparation of the consolidated financial statements

The consolidated financial statements 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 2016 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 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 2016, 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.

The new and/or amended standards and interpretations include:

- *IAS 1 (amended) "Presentation of Financial Statements" – regarding disclosure initiative (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC);* This amendment is an important clarification of the standard itself with a focus on preparers of financial statements when they need to exercise judgment for the materiality of particular information and its presentation in the preparation of financial statements, i.e. the including or not of specific information, presentation approach for the statement of financial position and the statement of comprehensive income – aggregation or separate presentation, approach in the arrangement of notes as well as the presentation of some particular items in the financial statements;
- *IAS 16 (amended) "Property, Plant and Equipment" and IAS 41 (amended) "Agriculture" – regarding bearer plants (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC).* This amendment introduces a measurement and accounting approach for fruit-bearing plants (bearer plants) that applies the principle for property, plant and equipment (PPE) used in IAS 16 rather than the approach prescribed by IAS 41 (i.e. applying the cost model with an option to choose the revaluation model after reaching maturity) because their involvement in agricultural produce is similar to that of PPE in the industrial production process;

- *IAS 16 (amended) "Property, Plant and Equipment" and IAS 38 (amended) "Intangible Assets" – regarding the acceptable methods of depreciation and amortisation (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC).* This clarification specifies that the method for calculating the depreciation or amortisation of an asset, based on a ratio to expected revenue, in the generation of which it is involved, is not regarded an appropriate method for measuring the economic benefits consumed as a result of the use of this asset (allowed only in very rare cases as an exception);
- *IAS 19 (as revised in 2011) "Employee Benefits" (in force for annual periods beginning on or after 1 July 2014 – endorsed by EC for annual periods as of 1 February 2015).* This amendment relates to clarification regarding the treatment of contributions from employees or third parties to defined benefit plans in accordance with the formal terms of the respective plan. The amendment clarifies that these contributions should be treated as a reduction in the service cost by being allocated to the period of service, when they are linked to the number of employee's years of service, and should be deducted from the service cost in the period in which the related services are rendered, when the contributions are independent of the number of years of service;
- *IAS 27 (amended) "Separate Financial Statements" – regarding the equity method in separate financial statements (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC).* This amendment restores the option of IAS 27 that allows entities to use the equity method to account for and measure the investments in subsidiaries, associates and joint ventures in their separate financial statements;
- *IFRS 10 (amended) "Consolidated Financial Statements", IFRS 12 (amended) "Disclosure of Interests in Other Entities" and IAS 28 (amended) "Investments in Associates and Joint Ventures" – regarding exemptions from consolidation for investment entities (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC).* This amendment addresses issues that have arisen in the context of applying the consolidation exception for companies with status of parents, namely: (1) whether and how an investment entity should account for a subsidiary at fair value if the subsidiary provides investment services to third parties or supporting services to the investment entity itself; (2) the interaction between amendments for investment entities and the exemption from consolidation under IFRS 10; (3) whether a non-investment entity should apply the fair value accounting of its joint ventures or associates that are investment entities;
- *IFRS 11 (amended) "Joint Arrangements" – regarding acquisitions of interests in joint operations (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC).* This amendment clarifies mainly that when an investor acquires interest in a joint operation, which in substance constitutes a business, this requires the application of the requirements and rules of IFRS 3 for business combinations;
- *IFRS 14 "Regulatory Deferral Accounts" (in force for annual periods beginning on or after 1 January 2016 – EC has postponed the endorsement process for this interim standard until the issue of the final standard).* This is a new standard with status of an interim standard, applicable only for entities, which will adopt IFRS for the first time as a reporting framework, and it is effective until

the completion of the project for a new comprehensive standard intended to address such type of rate-regulated activities. It is not applied by entities that already apply IFRS;

- *Annual Improvements to IFRSs 2010-2012 Cycle (December 2013) – improvements to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38 (in force for annual periods beginning on or after 1 July 2014 – endorsed by EC for annual periods as of 1 February 2015).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items or transactions: (a) change in the definition of 'vesting period' and 'market conditions' and add of separate definitions for 'performance condition' and 'service condition' (IFRS 2); (b) clarification on the accounting for a contingent consideration in a business combination that meets the definition for 'financial instrument' (as a financial liability or equity instrument) and its measurement at fair value at the end of each reporting period, including the effects of that in the statement of comprehensive income (IFRS 3, IFRS 9, IAS 39 and IAS 37); (c) requirement for disclosure on the judgments and criteria applied in the aggregation of operating segments for segment reporting purposes (IFRS 8); (d) additional clarification on the adjustment technique regarding the gross carrying amount and accumulated depreciation in cases of revalued assets whereas setting a requirement for consistency with the revaluation approach of the carrying amount of the respective asset (IAS 16, IAS 38); (e) clarification that an entity providing key management personnel services to another entity it is also a related party thereto (IAS 24);
- *Annual Improvements to IFRSs 2012-2014 Cycle (September 2014) – improvements to IFRS 5, IFRS 7, IAS 19, IAS 34 (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items or transactions: (1) additional clarifications that an entity may reclassify an asset from ‘held for sale’ to ‘held for distribution to owners’ (and vice versa) and this is not treated as a change in the original plan of disposal as well as in the date of classification as per IFRS 5; (2) additional guidance to clarify whether a servicing contract for a fully derecognised transferred financial asset constitutes in substance a continuing involvement in a transfer for the purposes of determining the scope of the disclosures required, as well as clarification on the applicability of the disclosure requirements regarding the offsetting of financial assets and financial liabilities in condensed interim financial statements (IFRS 7); (3) clarification regarding the requirement of the standard that high quality corporate bonds, used to estimate the discount rate for post-employment benefits, should be issued in the same currency as the benefits to be paid to the respective employees, i.e. the depth of the market should be assessed at currency level (IAS 19); and (4) clarification on the disclosure requirement 'elsewhere in the interim report', i.e. that this means the presentation of information in any place in the interim financial statements but also presentation elsewhere in the greater interim

report, including interim report of the management, provided that a cross-reference exists between the interim financial statement and wherever the disclosures are included (IAS 34).

At the issue date of these financial statements, there are several new standards and interpretations as well as amended standards and interpretations, issued but not yet in force for annual periods beginning on or after 1 January 2016, which have not been adopted for early application.

The management of the Group has concluded that out of them the following are likely to have a potential impact in the future for changes in the accounting policies and the classification and values of reporting items in the financial statements of the Group for subsequent periods, namely:

- *IFRS 7 (amended) "Financial Instruments: Disclosures" – regarding the relief from the requirement to restate comparatives and the related thereto disclosures when applying IFRS 9 (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* The amendment is related to a relief from the requirement to restate the comparative financial statements and the option to present modified disclosures on the transition from IAS 39 to IFRS 9 (when this happens) depending on the date of the standard application by the Group and whether it chooses the option to restate prior periods.
- *IFRS 9 "Financial Instruments" (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC).* This is a new standard for financial instruments. It is ultimately intended to replace IAS 39 in its entirety. The replacement project has passed through three phases: Phase 1: Classification and measurement of financial assets and financial liabilities; Phase 2: Hedge accounting; and Phase 3: Impairment methodology. At present, IFRS 9 has been issued four times: in November 2009, October 2010, November 2013 and finally in July 2014. Phase 1: Classification and measurement of financial assets and financial liabilities – by the first issues it replaces those parts of IAS 39 that refer to the classification and measurement of financial instruments. It sets out new principles, rules and criteria for classification, measurement and derecognition of financial assets and liabilities, including hybrid contracts. IFRS 9 introduces a requirement that financial assets are to be classified based on entity's business model for their management and on the contractual cash flow characteristics of the respective assets. It establishes two primary measurement categories for financial assets: amortised cost and fair value. The new rules will lead to changes mainly in the accounting for financial assets as debt instruments and financial liabilities designated at fair value through current profit or loss (for credit risk). A specific feature of the classification and measurement model for financial assets at fair value is the addition of a new category – fair value through other comprehensive income (for certain debt and capital instruments). Phase 2: Hedge accounting – a new chapter to IFRS 9 has been added for this purpose whereby a new hedge accounting model is introduced that permits consistent and complete reflection of all financial and non-financial risk exposures, subject to hedge transactions, and also, better presentation of risk management activities in the financial statements and especially, their relation to hedge transactions, and the scope and type of documentation to be used. In addition, the requirements to the structure, contents and presentation approach for hedge disclosures have been improved. Furthermore, an option is introduced fair value changes of own debts, measured at fair

value through profit or loss, in the part thereof due to changes in the Group's own credit quality, to be presented in other comprehensive income rather than in profit or loss. The entities that apply IAS 39 will be able to apply this option but they will also be able to continue applying the requirements for fair value hedge accounting of an interest rate exposure under IAS 39 even when IFRS 9 becomes effective. Phase 3: Impairment methodology – the amendment introduces the application of the 'expected loss' model. Under this model all expected credit losses of an amortisable financial instrument (asset) shall be recognised in three stages, depending on its credit quality change, and not only if a trigger event has occurred as per the current model under IAS 39. The three stages are: upon the initial recognition of the financial asset – impairment for the 12-month period or for the full lifetime of the asset; and respectively – upon the occurrence of the actual impairment. They also set out how to measure impairment losses and respectively the application of the effective interest rate;

- *IFRS 10 (amended) "Consolidated Financial Statements" and IAS 28 (amended) "Investments in Associates and Joint Ventures" – regarding the sale or contribution of assets between an investor and its associate or joint venture (in force for annual periods beginning on or after 1 January 2016 – the EC endorsement procedure has been postponed for an indefinite period).* This amendment arises as a result of the existing inconsistency between the requirements and rules of IFRS 10 and IAS 28 (as revised in 2011) regarding transactions between an investor and its associate or joint venture. It basically clarifies that in transactions, representing in substance a sale or contribution of an aggregate of assets but not constituting a business, gains or losses are recognised partially to the extent attributable to other equity holders, while in transactions, representing in substance a sale or contribution of assets but constituting a business within the meaning of IFRS 3 – gains or losses are recognised in full;
- *IFRS 15 "Revenue from Contracts with Customers" (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC).* This is an entirely new standard. It introduces a single complex of principles, rules and approaches for recognition, accounting for and disclosure of information about the nature, amount, timing and uncertainties related to revenue and cash flows arising from contracts with customers. It will supersede all current standards related to revenue recognition, mainly IAS 18 and IAS 11. The main principle of the new standard is to provide a stepwise model whereby revenue amount and timing reflect the obligation characteristics and performance of each of the parties to the transaction. The key components include: (a) contracts with customers that are commercial in their substance and assessment of the probability for collecting contractual amounts by the entity in line with the terms and conditions of the particular contract; (b) identification of the separate performance obligations under the contract for providing of a good or service, that is distinct from the other assumed contractual commitments/promises, from which the customer would obtain benefits; (c) transaction price determination – the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer – special attention is paid to the variable component of price, the financing component, as well as the non-cash consideration; (d) allocation of the transaction price

to separate performance obligations under the contract – usually on a stand-alone sale price of each component; and (e) the point of time or the period of revenue recognition – when an entity satisfies a performance obligation by transferring control of a promised good or service to the customer, which could occur at a point in time or over time. . The expectation is that the introduction of this standard may lead to the following changes: (a) in complex contracts with bundled sales of goods and services a clear distinction will be required between the goods and services of each component and provision of the contract; (b) probability for a change in the time of sale recognition; (c) expanding of disclosures; and (d) introduction of additional rules for recognising the revenue from a particular type of contracts – licences; consignment; one-time collection of preliminary fees; guarantees and other similar. The standard allows a full retrospective approach or a modified retrospective approach from the beginning of the current reporting period with particular disclosures for prior periods. The additionally issued clarifications to the standard provide explanations on the new key principles – the identification of the separate contractual performance obligations, differentiation between a principal and an agent, licensing; and add transitional reliefs;

- *IFRS 15 "Revenue from Contracts with Customers" – clarifications (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* These clarifications refer to (a) identifying performance obligations on the basis of distinct promises to transfer goods or services; (b) identifying whether an entity is a principal or an agent in the transfer of goods or services (principal versus agent considerations); and (c) licences transfer. In addition, this amendment also provides some relief in the transition to the new standard;
- *IFRS 16 "Leases" (in force for annual periods beginning on or after 1 January 2019 – not endorsed by EC).* This standard has an entirely new concept. It establishes new principles for the recognition, measurement and presentation of a lease by introducing a new model with the objective to ensure a more faithful and adequate representation of such transactions both for lessee and lessor. The standard will supersede the effective so far standard related to leases – IAS 17. (a) The main principle of the new standard is the introduction of a single lessee accounting model – an asset will be recognised for all contracts with duration of more than 12 months in the form of a 'right-of-use', which will be subsequently depreciated over the duration of the contract, and respectively, a financial liability will be stated for the lease liability under the contracts. This is the significant change in the current accounting practice. The standard allows an exception and retaining the old practice for leases of low-value assets and short-term leases; (b) There would not be any significant changes with the lessors and they would continue to account for leases as per the old standard IAS 17 – operating and finance. As far as the new standard introduces a more thorough concept, a more detailed analysis of contractual terms should be carried out on their part as well and it is possible that grounds for reclassification of particular lease transactions may occur for them (lessors), too. The new standard requires more extensive disclosures. Company's management is in a process of research on the possible effects and the cases of rental and lease contracts with customers where changes will be required in the accounting policies applied so far;

- *IAS 7 (amended) "Statement of Cash Flows" – regarding disclosure initiative (in force for annual periods beginning on or after 1 January 2017 – not endorsed by EC).* This amendment is an important clarification of the standard itself with a focus on the information provided to the users of financial statements in order to improve their understanding of the liquidity and the financing activities of the entity. The amendment requires that additional disclosures and clarifications be prepared in regards to the changes of liabilities of the entity from: (a) changes arising from financing activities as a result of transactions leading to changes in cash flows; or (b) changes resulting from non-cash transactions such as acquisitions and disposals, interest accrual, foreign currency exchange gains and losses, changes in fair values and other similar. Changes in the financial assets should be included in this disclosure if the resulting cash flows are presented under financing activities (e.g. in certain hedge transactions). It is allowable to include also changes in other items as part of the disclosure if they are presented separately;
- *IAS 12 (amended) "Income Taxes" (in force for annual periods beginning on or after 1 January 2017 – not endorsed by EC) – recognition of deferred tax assets for unrealised losses.* This amendment clarifies deferred tax assets in cases where an asset is measured at fair value and that fair value is below the tax base. The amendment clarifies that: (a) temporary differences arise regardless of whether the carrying amount of the asset is less than its tax base; (b) the respective entity should assess, when estimating its future taxable profits, whether it could deduct an amount higher than the carrying amount of the asset or not; (c) if, according to the tax legislation, there are restrictions for the use of taxable profits against which particular deferred tax assets can be recovered, the review and assessment of deferred tax assets recoverability should be made in combination with the remaining deferred tax assets of the same type; and (d) the deductions for tax purposes resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets;
- *IAS 40 (amended) "Investment Property" – regarding transfers of investment property (in force for annual periods beginning on or after 1 July 2018 – not endorsed by EC).* The amendment refers to an additional clarification regarding the terms and criteria that allow transfers of property to, or from, the category 'investment property'. More specifically, when the subject of transfer represents buildings under construction with a change in their use. Such transfers are possible and allowable only when the property meets, or respectively, ceases to meet, the criteria and definition of investment property – then it is deemed that evidence exists for a change in its use. A change in the intents and plans of the management are not regarded as evidence for a change in use;
- *Annual Improvements to IFRSs 2014-2016 Cycle (December 2016) – improvements to IFRS 12 (in force for annual periods beginning on or after 1 January 2017 – not endorsed by EC), IFRS 1 and IAS 28 (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application of the rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items or transactions: (a) the scope and

requirements to the disclosures in IFRS 12 shall apply also to entities that are classified under IFRS as held for sale, as held for distribution or as discontinued operations; (b) removal of certain exemptions in the application of IFRS 1; and (c) the choice of venture capital funds or other similar entities to measure their investments in associates or joint ventures at fair value through profit or loss and this choice is available on an investment-by-investment basis, upon initial recognition (IAS 28);

- *IFRIC 22 (amended) "Foreign Currency Transactions and Advance Consideration" (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* This Interpretation applies to the accounting for a foreign currency transaction or part of it on the receipt of advance consideration before the entity recognises the related asset, expense or income. In these cases the entities shall recognise an asset for the advance consideration (advance consideration paid on supply of assets or services) or a liability for deferred income (advance consideration received from clients on sales) and they are treated as non-monetary. Upon receipt of such advance consideration in a foreign currency, the transaction date shall be used to determine the exchange rate while in case of multiple payments the entity shall determine a date of the transaction for each individual payment.

In addition, with regard to the stated below amended/revised standards, issued but not yet in force for annual periods beginning on 1 January 2016, the management has concluded that they are unlikely to have a potential impact for changes in the accounting policies, and in the classification and value of reporting items in Company's financial statements, namely:

- *IFRS 4 (amended) "Insurance Contracts" (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* This amendment is related to the need to synchronise the reporting of companies that issue insurance contracts, which fall within the scope of IFRS 9, by providing two approaches to account for income or expenses arising from designated financial assets – the overlay approach and the deferral approach.

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 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; Ivančić and Sinovi d.o.o. (a subsidiary up to 9 May 2017) and Sopharma Trading d.o.o. Belgrade – the Serbian legislation; SIA Briz – the Latvian legislation; UAB TBS Pharma – the Lithuanian legislation; SOOO Brititrade, OOO Tabina, SOOO Brizpharm, OOO Farmacevt Plus, ODO Alean, OOO NPK Biotest (a subsidiary up to 5 December 2016), ODO BelAgroMed, ODO Vestpharm, OOO Danapharm, OOO Galenapharm, ODO Medjel, ODO Alenpharm-plus, OOO Farmatea, OOO Mobil Line (a subsidiary as from 16 February 2016) and ODO SalusLine (a subsidiary as from 23 November 2016) – the Belarusian legislation; the joint ventures: OOO Vivaton Plus, OOO Med-dent, BOOO SpetzApharmacia, OOO Bellerophon, ZAO Interpharm, OOO Ivem & K and OOO Ariens – the Belarusian legislation ; the associates: ODO SalusLine (an associate up to 22 November 2016), OOO Zdorovei, OOO Mobil Line (an associate up to 15 February 2016) – the Belarusian legislation; Sopharma Poland Z.O.O. (in liquidation), Sopharma Warsaw SP. Z.O.O. – the Polish legislation; Medica Balkans S.R.L. (terminated through liquidation on 24 March 2016) – the Romanian legislation and TOO Sopharma Kazakhstan – the legislation of Kazakhstan). The companies keep their accounting ledgers in the respective local currency – Belarusian Ruble (BYN), Ukraine Hryvnia (UAH), Serbian Dinar (RSD), Euro (EUR), Polish Zloty (PLN) and Kazakhstan Tenge (KZT).

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 2.32, Note 14, Note 16, Note 17, Note 18 and Note 19.*

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 Vivaton Plus, OOO Med-dent, OOO Bellerophon, BOOO SpetzApharmacia, ZAO Interpharm,OOO Ivem & K and OOO Ariens – 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: OOO Zdorovei – Belarus and Doverie Obedinen Holding AD. *(Note 1.2).*

2.3. Consolidation principles

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

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

2.3.1. Consolidation of subsidiaries

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

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

2.3.2. Acquisition of subsidiaries

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

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

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

2.3.3. Disposal of subsidiaries

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

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

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

2.3.4. Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with holders of the common equity of the Group. The effects from sales of parent company's shares, without loss of control, to holders of non-controlling interests are not treated as components of the current profit or loss of the Group but as movements directly in its equity components, usually to the 'retained earnings' reserve. And vice versa, when the parent company purchases additional shares from holders of non-controlling interest, without acquisition of control, the difference between the consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is also directly recognised in the consolidated statement of changes in equity, usually to the 'retained earnings' reserve.

When the Group ceases to have control, joint control and significant influence, any retained minority investment as interest in the capital of the respective entity, is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. Respectively, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of all components related to the initial investment (in a subsidiary, joint venture or associate).

2.3.5. Consolidation of associates and joint ventures

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

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

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

2.4. Comparatives

In these consolidated financial statements, the Group presents comparative information for one prior year.

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

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 Kazakstan Tenge, of the subsidiaries in Ukraine (PAO Vitamini, OOO Sopharma Ukraine) – the Ukrainian Hryvnia, of the subsidiaries in Serbia (Ivančić and Sinovi d.o.o. – a subsidiary up to 9 May 2016, and Sopharma Trading d.o.o. Belgrade) – 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, ODO Alean, SOOO Brizpharm, OOO Farmacevt Plus, ODO Vestpharm, OOO NPK Biotest – a subsidiary up to 5 December 2016, ODO BelAgroMed, OOO Danapharm, OOO Galenapharm, ODO Medjel, ODO Alenpharm-plus, OOO Mobil Line, OOO Farmatea and ODO SalusLine) – the Belarusian Ruble.

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 its becomes unlikely that the points under the programme will be used.

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

The gains 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 2016 and 2015, 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

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 2.32)* 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. 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*.

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 and bonus schemes

Sopharma AD

In accordance with Articles of Association of the parent company and upon a decision for approval of the General Meeting of Shareholders, the Executive Director is entitled to one-off payment (tantieme) at the amount of up to 1% of Company's net profit and is empowered to determine the circle of employees among whom to distribute up to 2% of company's profit for the year as a bonus for each calendar year. When a certain portion is required to be deferred for a period of more than 12 months, this portion is measured at present value at the reporting date and is stated within non-current liabilities in the statement of financial position in the item 'payables to personnel'.

Sopharma Trading AD

In accordance with the Articles of Association, the Executive Director is entitled to one-off payment (tantieme) at the amount of 1% of Company's net profit if the following two conditions are present simultaneously – a positive financial result for the respective year and a decision of the General Meeting. The payment of an amount not less that 40% of the tantieme is deferred over a period not shorter than three years (in equal monthly instalments). For the remaining personnel, including managing staff, the amount of bonuses is accrued in the period when worked-out.

The amounts of this type of remuneration are recognised after a decision of the General Meeting of Shareholders and are presented in the statement of financial position under 'payables to personnel'.

Momina Krepost AD

In accordance with the Articles of Association and following a decision of the General Meeting of Shareholders, the Executive Director is entitled to one-off payment (tantieme) at the amount of 1% of company's net profit.

Medica AD

In accordance with Articles of Association of the company, the Executive Director is entitled to one-off payment (tantieme) at the amount of 1% of company's net profit in case of a positive financial result reported for the past financial year and subject to a decision of the General Meeting of Shareholders.

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) at the ratio 60:40 (2015: 60:40).

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

For companies abroad

The rates of the social security contributions in Poland are approved by the Law on the National Social Security System, in Ukraine – Law on Pension Provision, in Serbia – the Law on Labour in the Republic of Serbia, in Latvia – the Law on Social Security, in Lithuania – Law on National Social Security, in Belarus – the Law on the Mandatory Contributions to the Fund for Social Security of the Population of the Ministry of Labour and Social Security, and in Kazakhstan – Law of the Republic of Kazakhstan on Social Security Obligations. 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 7 and BGN 14). 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 and Belarus.

In their nature these are unfunded defined benefit schemes.

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

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

Termination benefits

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

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

2.24. Share capital and reserves

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

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

- at least one tenth of the profit, which should be allocated to the Fund until its amount reaches one tenth of the share capital or any larger amount as may be decided by the General Meeting of Shareholders;

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

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

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

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

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

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

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

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

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 2.32).*

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 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).*

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 2016 is 10 % (2015: 10%).

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

Country	***Tax rate***	
	2016	***2015***
Ukraine	18%	18%
Serbia	15%	15%
Latvia	15%	15%
Belarus	18%	18%
Lithuania	15%	15%
Poland	19%	19%
Kazakhstan	20%	20%

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.

As at 31December 2016, the deferred income taxes of the Group companies are assessed at the rate, valid for 2017, which is 10% for the Bulgarian companies, while those of the subsidiaries, joint ventures and associates abroad are as follows:

Country	***Tax rate 2017***
Ukraine	18%
Serbia	15%
Latvia	15%
Belarus	18%
Lithuania	15%
Poland	19%
Kazakhstan	20%

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. Segment reporting

The Group identifies its reporting segments and discloses segment information in accordance with the organisational and reporting structure used by the management of the parent company for current general monitoring and management of the Group and its components. Operating segments are business components, which are regularly measured by key members of the management who take operating decisions by using financial and operating information prepared specifically for the segment for the purposes of current monitoring and assessment of performance and allocating Group's resources.

Group's operating segments are currently monitored and directed separately as each of them represents a separate business area that bears various business risks and rewards. The operating segments by which the Group's management monitors, measures and controls the risks and returns thereof are identified in line with the main business activities performed with pharmaceuticals, namely: production and trade.

Information by operating segments

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

Segment assets, liabilities, respective revenue, expenses and results include those that are and can be directly attributable to the respective segment as well as such that can be allocated on a reasonable basis, including inter-segment ones. Usually they include: (a) for revenue – sales of finished products and goods; (b) for expenses - raw materials and consumables used, depreciation and amortisation and production staff remuneration, carrying amount of goods sold; (c) for assets – property, plant and equipment, inventories, receivables from related parties, trade receivables and cash and cash equivalents; (d) for liabilities – current payables to personnel and for social security, payables to related parties, trade payables and bank loans for direct financing (long-term and short-term).

Capital expenditures (investments) by business segments are differentiated expenses incurred in the period of acquisition or construction of segment non-current assets, which are expected to be used for more than one period.

The Group manages its investments in securities, certain trade accounts and financial resources granted as well as taxes at Group and separate company level but they are not allocated at segment level.

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

Intersegmental transfers: segment revenue, segment expense and segment results include internal transfers between business segments. These transfers are stated at competitive market prices charged to non-related clients for similar goods and are eliminated at consolidated financial statements level.

The investments in joint ventures and associates recorded under the equity method are excluded from the assets by segment and the revenue by segment. They are presented as part of unallocated assets and the income therefrom is presented in 'gains/(losses) from joint ventures and associates, net'.

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

In addition, the Group discloses information regarding important clients when the amount of achieved revenue from a client exceeds 10% of the total amount of consolidated revenue earned from Group's operations.

2.31. Fair value measurement

Some of Group's assets and liabilities are measured and presented and/or just disclosed at fair value for financial reporting purposes. These include: (a) <u>on a recurring (annual) basis</u> – *certain trade and other receivables and payables, 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) <u>on a non-recurring (periodical) basis</u> – *non-financial assets such as property, plant and equipment.*

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

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 direct 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 consolidated 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 certain adjustments; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Group applies mainly Level 2 and Level 3 fair value.

For assets and liabilities that are recognised at fair value in the consolidated financial statements on a recurring basis, the Group determines at the date of the consolidated financial statement 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.

Internal rules and procedures for measuring the fair value of various types of assets and liabilities have been developed centrally in the parent company. For the purpose, a specifically designated individual, subordinated to the Finance Director of the Group, organised the performance of the overall valuation process and also coordinates and observes the work of the external appraisers.

The Group uses the expertise of external certified appraisers to determine the fair value of the following assets and liabilities: 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 Finance Director and/or Chief Accountant, Executive Director and the Board of Directors of the respective company and the Finance Director of the Group.

In accordance with Group accounting policy, at the end of each reporting period the specifically designated individual, engaged with measurements, performs a general analysis of collected in advance information about the movement in the values of assets and liabilities of the Group companies 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 of the assessment of the fair value measurement procedure are presented to the audit committee and to the independent auditors of the respective companies as well as to the Finance Director and the independent auditors of the Group.

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

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

2.32.1. 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 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.

As a result of this analysis, it has taken a decision for not recognising deferred tax assets at the amount of BGN 5,942 thousand in the consolidated financial statements (2015: BGN 4,243 thousand) (*Note 30*).

2.32.2. 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 in 2016, impairment of inventories at the amount of BGN 2,693 thousand has been recognised in the consolidated statement of comprehensive income (within profit or loss for the year) (2015: BGN 4,072 thousand) *(Note 9).*

2.32.3. 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 24, 25 and 26).*

The amount of the accrued impairment for 2016 (net of the reversed ones) is BGN 843 thousand (2015: BGN 2,873 reversed impairment net of the recognised) *(Note 9).*

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

The management made detailed analysis of the reports of the certified appraisers, including the sensitivity tests. As a result thereof, the Group stated revaluation and recognised a new revaluation reserve at the amount of BGN 10,298 thousand, net of taxes (*Note 15*), and recorded current impairment loss at the amount of BGN 314 thousand *(Note 9)*.

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.

2.32.5. 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.

As a result of the calculations made, a liability has been stated for long-term employee benefits at the amount of BGN 4,539 thousand (31 December 2015: BGN 4,199 thousand) *(Note 31)*.

2.32.5. 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.

2.32.7. 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 December 2016 (31 December 2015: none) *(Note 40)*.

3. REVENUE

Group revenue includes:

	2016	*2015*
	BGN'000	***BGN'000***
Goods	645,372	628,123
Finished products	231,713	246,861
Total	**877,085**	**874,984**

	2016	*2015*
	BGN'000	***BGN'000***
Sales of goods by type		
Tablet dosage forms	305,214	296,705
Ampoule dosage forms	179,055	179,330
Syrup dosage forms	40,051	35,902
Drops	30,069	36,063
Consumables and dressing materials	23,833	21,133
Ointments	18,379	18,549
Cosmetics	9,900	9,307
Food supplements and herbs	7,983	3,191
Other	30,888	27,943
Total	**645,372**	**628,123**

	2016	*2015*
	BGN'000	***BGN'000***
Sales of finished products by type		
Tablet dosage forms	150,105	166,200
Ampoule dosage forms	32,291	33,364
Syrup dosage forms	9,734	11,097
Consumables, dressing materials and apparatuses	8,949	956
Lyophilic products	7,316	9,579
Ointments	6,220	8,015
Inhalation products	2,546	3,433
Syringes	1,128	2,242
Drops	1,496	1,185
Other	11,928	10,790
Total	**231,713**	**246,861**

4. OTHER OPERATING INCOME AND LOSSES, NET

Other operating income and losses, net include:

	2016	***2015***
	BGN'000	***BGN'000***
Services rendered	4,823	7,160
Government grants	1,187	1,037
Social activities and events	837	795
Rentals	792	942
Gain on sale of non-current assets	372	36
Net gain/(loss) on exchange differences under trade receivables and payables and current accounts	297	(14,257)
Liabilities written-off	222	11
Gain on change in the fair value of investment property *(Note 18)*	102	85
Gain on sale of materials	57	49
Income from penalties	-	204
Other	794	1,260
Total	**9,483**	**(2,678)**

The services rendered include:

	2016	***2015***
	BGN'000	***BGN'000***
Advertising and marketing	1,850	1,205
Pre-distribution income	1,133	672
Laboratory analyses	193	2,133
Other	1,647	3,150
Total	**4,823**	**7,160**

5. MATERIALS AND CONSUMABLES USED

Expenses on materials include:

	2016	***2015***
	BGN'000	***BGN'000***
Basic materials	59,028	63,379
Electric energy	5,974	5,273
Spare parts, laboratory and technical materials	5,329	5,051
Heat power	2,760	3,775
Fuels and lubricating materials	2,342	2,595
Auxiliary materials	2,335	1,486
Impairment of materials *(Note 9)*	898	1,231
Water	607	591
Scrapped materials	535	187
Other	3,098	2,828
Total	**82,906**	**86,396**

Expenses on basic materials include:

	2016	***2015***
	BGN'000	***BGN'000***
Substances (active ingredients)	29,149	30,144
Packaging materials	8,857	11,396
Liquid and solid chemicals	6,936	8,270
Herbs	2,550	3,455
Ampoules	2,054	2,115
Polypropylene, polyethylene, polystyrene	1,416	1,345
Aluminium foil	1,422	991
Other	6,644	5,663
Total	**59,028**	**63,379**

6. HIRED SERVICES EXPENSE

Hired services expense includes:

	2016	***2015***
	BGN'000	***BGN'000***
Advertising and marketing services	13,705	19,248
Rentals	7,276	7,102
Consulting services	5,405	6,541
Forwarding and transportation services	4,457	5,492
Buildings and equipment maintenance	3,864	4,771
Manufacturing of medicinal products	2,354	1,961
Subscription fees	2,335	2,177
Bank and regulatory charges	1,993	1,498
Local taxes and charges	1,934	2,523
Communication services	1,556	998
Security	1,529	1,510
Insurance	1,409	1,249
Motor vehicles repair	1,061	865
Services under civil contracts	1,004	1,431
Medical services	822	820
Services on medicinal products registration	706	1,001
Taxes on expenses	572	653
Service fees	554	223
Destruction of pharmaceuticals	440	320
Clinical trials	407	1,349
Licence fees and charges	387	414
Commission fees	375	366
Documentation translation	307	284
Other	1,956	1,403
Total	**56,408**	**65,661**

The expenses accrued for the year on statutory audit of the individual and consolidated financial statements amount to BGN 413 thousand (2015: BGN 360 thousand), on tax consultations – BGN 410 thousand (2015: BGN 79 thousand) and on other services unrelated to audit – BGN 3 thousand (2015: BGN 34 thousand), which services are performed by the registered auditor.

7. EMPLOYEE BENEFITS EXPENSE

	2016	***2015***
	BGN'000	***BGN'000***
Current wages and salaries	68,037	62,544
Social security/health insurance contributions	12,499	12,850
Social benefits and payments	4,059	3,715
Accruals for unused paid leaves	942	777
Tantieme	768	792
Social security/health insurance contributions on leaves	150	133
Other remuneration	-	28
Accruals for long-term retirement benefits to personnel *(Note 31)*	704	662
Total	**87,159**	**81,501**

8. OTHER OPERATING EXPENSES

	2016	***2015***
	BGN'000	***BGN'000***
Receivables written-off	3,307	2,852
Entertainment allowances	3,032	2,986
Charged/(reversed) impairment of current assets, net *(Note 9)*	2,637	(32)
Scrap and shortages of goods	2,433	1,056
Business trip costs	1,463	1,678
Training	739	881
Donations	434	784
Other	268	1,394
Total	**14,313**	**11,599**

9. IMPAIRMENT OF CURRENT ASSETS

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

	2016	***2015***
	BGN'000	***BGN'000***
Impairment of receivables	*3,136*	*921*
Reversed impairment of receivables	*(2,252)*	*(1,409)*
Net change in the impairment of receivables *(Notes 9, 24, 25 and 26)*	884	(488)
(Reversed)/charged impairment of receivables under advances granted	(35)	(11)
Impairment of finished products	1,829	2,424
Impairment of goods	(34)	417
Impairment of court receivables *(Note 26)*	(7)	(2,374)
	2,637	**(32)**
Impairment of materials *(Note 5)*	898	1,231
Total impairment of current assets	**3,535**	**1,199**

10. IMPAIRMENT OF NON-CURRENT TANGIBLE AND INTANGIBLE ASSETS

The expenses on impairment of non-current tangible and intangible assets include:

	2016	***2015***
	BGN'000	***BGN'000***
Impairment of goodwill *(Note 17)*	592	-
Impairment of property, plant and equipment *(Note 16)*	314	-
Iimpairment of intangible fixed assets	61	
Total	**967**	**-**

11. FINANCE INCOME

Finance income includes:	***2016***	***2015***
	BGN'000	***BGN'000***
Interest income on past due trade receivables	4,702	3,801
Interest income on loans granted	1,792	2,766
Net gain on transactions with investments in securities	322	161
Income from equity investments (dividends)	178	6
Interest income on bank deposits	20	94
Total	**7,014**	**6,828**

12. FINANCE COSTS

Finance costs include:	***2016***	***2015***
	BGN'000	***BGN'000***
Interest expense on loans received	8,831	8,868
Net loss on exchange differences under loans in foreign currency	1,074	4,637
Interest expense under factoring agreement	953	-
Bank fees and charges on loans and guarantees	859	834
Impairment of receivables under trade loans granted	542	-
Interest expense on finance lease	341	409
Effects from derivatives	109	-
Impairment of cash with banks under special supervision	8	6,438
Impairment of available-for-sale investments	4	454
Total	**12,721**	**21,640**

The impairment of cash with banks under special supervision abroad is related to the fact that a bank in Ukraine, in which the subsidiaries operating in the country had available cash, was placed under a special supervision in 2015. The management of the Group has no expectations for recovery of these amounts.
The net exchange losses on loans in foreign currency for 2016 are mainly result of the devaluation of the Ukrainian Hryvnia (UAH) against the Bulgarian Lev by about 8% as at 31 December 2016 as compared to 31 December 2015 (27% as at 31 December 2015 compared to 31 December 2014).

13. GAINS/LOSSES FROM ASSOCIATES AND JOINT VENTURES

	2016	***2015***
	BGN'000	***BGN'000***
Share in the gains/(losses) from associates, net	9,801	(679)
Share in the (losses)/gains from joint ventures	(829)	(596)
	8,972	**(1,275)**

Gains/(losses) from associates include:	***2016***	***2015***
	BGN '000	***BGN '000***
Share of the Group in the current loss of associates	(13)	(64)
Effect of valuation of previously held shares shares on acquisition of significant influence over Group companies	928	212
Profit from the acquisition of an associate	8,886	-
Effect of fair value measurement of previously held shares on acquisition of control over Group companies	-	(827)
Total	**9,801**	**(679)**

(Losses)/gains from joint ventures include:	***2016***	***2015***
	BGN '000	***BGN '000***
Impairment of an investment in a joint venture	(105)	(360)
Share of the Group in the current (loss)/profit of joint ventures	(157)	(236)
Effect of fair value measurement of previously held shares on acquisition of control over Group companies	(567)	**-**
Total	**(829)**	**(596)**

14. INCOME TAX EXPENSE

Consolidated statement of comprehensive income (profit or loss for the year)	**2016** ***BGN '000***	**2015** ***BGN '000***
Taxable profit of the Group companies for the year	31,324	33,060
Revaluation reserve included as an increase in the annual tax return	(254)	(349)
Taxable profit for the year	31,070	32,711
Current income tax expense for the year – 10%, 15%, 18%, 19%, 20% (2015: 10%, 15%, 15.35%, 18%, 19%, 20%)	5,394	4,450
Deferred income taxes		
Origination and reversal of temporary differences	1,813	525
Total income tax expense carried to the consolidated statement of comprehensive income (within profit or loss for the year)	**7,207**	**4,975**

Reconciliation of income tax expense applicable to the consolidated accounting profit or loss	**2016**	**2015**
	BGN '000	***BGN '000***
Accounting profit for the year	62,109	27,575
Income tax – 10%, 15%, 18%, 19%, 20% (2015: 10%, 15%, 15.35%, 18%, 19%, 20%)	6,785	1,977
Unrecognised amounts under the tax return		
Related to increases	3,611	5,121
Related to decreases	(6,209)	(3,757)
Tax loss for the current year on which no deferred tax assets are recognised	2,770	1,634
Recognised deferred taxes on temporary differences from prior periods	250	-
Total income tax expense carried to the consolidated statement of comprehensive income (within profit or loss for the year)	**7,207**	**4,975**

The tax effects regarding items of other comprehensive income are as follows:

	2016			2015		
	BGN '000			BGN '000		
	Pre-tax amount	**Tax benefit/ (expense)**	**Amount net of tax**	**Pre-tax amount**	**Tax benefit/ (expense)**	**Amount net of tax**
Items that will not be reclassified to profit or loss						
Profit on revaluation of property, plant and equipment	11,802	(1,504)	10,298	-	-	-
Remeasurements of defined benefit pension plans	(128)	-	(128)	(317)	5	(312)
	11,674	**(1,504)**	**10,170**	**(317)**	**5**	**(312)**
Items that may be reclassified to profit or loss						
Net change in the fair value of available-for-sale financial assets	1,467	-	1,467	139	-	139
Exchange differences on translating foreign operations	2,571	-	2,571	(39)	-	(39)
	4,039	**-**	**4,039**	**100**	**-**	**100**
Other comprehensive income for the year	**15,713**	**(1,504)**	**14,209**	**(217)**	**5**	**(212)**

15. OTHER COMPREHENSIVE INCOME

Other components of comprehensive income include:

	Items of other comprehensive income attributable to the Group		**Items of other comprehensive income attributable to non-controlling interests**		**Total items of other comprehensive income**	
	2016	***2015***	***2016***	***2015***	***2016***	***2015***
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Items that will not be reclassified to profit or loss						
Gains/losses on revaluation of property, plant and equipment	10,706	-	1,096	-	11,802	-
Remeasurements of defined benefit pension plans	(128)	(263)	(0)	(54)	(128)	(317)
Items that may be reclassified to profit or loss						
Net change in fair value of available-for-sale financial assets:	1,478	140	(12)	(1)	1,466	139
Gains arising during the year	*1,485*	*432*	*(12)*	*(1)*	*1,473*	*431*
Less: Reclassification adjustments for (gains) /losses included in profit or loss for the current year	(7)	*(292)*	-	-	*(7)*	*(292)*
Net exchange rate changes from foreign operations recalculation	1,846	1,620	727	(1,659)	2,573	(39)
Exchange differences on translating foreign operations	*(192)*	*1,620*	*727*	*(1,659)*	535	*(39)*
Less: Reclasification adjustment of exchange differences on translating foreign operations included in profit or loss for the current year	*2,038*	-	-	-	*2,038*	-
Income tax relating to items of other comprehensive income	(1,393)	5	(111)	-	(1,504)	5
Other comprehensive income for the year	**12,509**	**1,502**	**1,700**	**(1,714)**	**14,209**	**(212)**

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		*Plant and equipment*		*Other*		*Assets in progress*		*Total*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Book value										
Balance at 1 January	**208,413**	**194,562**	**211,048**	**194,434**	**42,519**	**41,923**	**17,724**	**12,624**	**479,704**	**443,543**
Additions	1,417	648	4,822	4,662	3,980	3,047	11,930	18,883	22,149	27,240
Acquired assets in newly acquired subsidiaries	2,301	11,263	2,185	5,640	302	423	-	111	4,788	17,437
Effect from remeasurement to fair value	1,985	-	1,801	-	10	-	-	-	3,795	-
Effects of foreign currency restatements	(103)	(498)	(114)	(813)	2	(315)	(18)	(390)	(233)	(2,016)
Disposals	(96)	(128)	(2,808)	(2,429)	(3,955)	(2,672)	(237)	(1,400)	(7,096)	(6,629)
Written-off book value of assets on disposal of subsidiaries	(3,642)	-	(2,627)	-	(2,585)	-	(1,633)	-	(10,487)	-
Allowance for impairment	86	-	(344)	-	(56)	-	-	-	(314)	-
Transfer to property, plant and equipment	11,438	2,439	8,730	9,552	1,572	113	(21,741)	(12,104)	-	-
Transfer to investment property	1,199	127	-	2	-	-	-	-	1,199	129
Balance at 31 December	**222,998**	**208,413**	**222,692**	**211,048**	**41,789**	**42,519**	**6,026**	**17,724**	**493,505**	**479,704**
Accumulated depreciation and impairment										
Balance at 1 January	**33,942**	**27,553**	**103,685**	**91,883**	**27,066**	**25,066**	**6**	**4**	**164,699**	**144,506**
Depreciation charge for the year	7,658	6,154	13,263	13,123	4,429	4,270	-	2	25,350	23,549
Effect from remeasurement to fair value	(1,104)	-	(6,270)	-	(633)	-	-	-	(8,007)	-
Effects of foreign currency restatements	52	236	64	315	17	43	2	-	135	594
Written-off depreciation	(2)	(1)	(2,715)	(1,636)	(3,371)	(2,313)	(3)	-	(6,091)	(3,950)
Written-off depreciation of assets on disposal of subsidiaries	(527)	-	(2,399)	-	(870)	-	-	-	(3,796)	-
Balance at 31 December	**40,019**	**33,942**	**105,628**	**103,685**	**26,638**	**27,066**	**5**	**6**	**172,291**	**164,699**
Carrying amount at 31 December	**182,979**	**174,471**	**117,064**	**107,363**	**15,151**	**15,453**	**6,021**	**17,718**	**321,215**	**315,005**
Carrying amount at 1 January	**174,471**	**167,009**	**107,363**	**102,551**	**15,453**	**16,857**	**17,718**	**12,620**	**315,005**	**299,037**

As at 31 December 2016, the tangible fixed assets of the Group include: land amounting to BGN 48,676 thousand (31 December 2015: BGN 47,340 thousand) and buildings of carrying amount BGN 134,303thousand (31 December 2015: BGN 127,131 thousand).

Tangible fixed assets in progress as at 31 December include:

- buildings reconstruction – BGN 3,694thousand (31 December 2015: BGN 3,186 thousand);
- expenses on new buildings construction – BGN 1,029 thousand (31 December 2015: BGN 10,898 thousand);
- advances granted – BGN 723 thousand (31 December 2015: BGN 3,372 thousand);
- supply of equipment – BGN 487 thousand (31 December 2015: BGN 24 thousand);
- other – BGN 88 thousand (31 December 2015: BGN 237 thousand).

Finance lease

The carrying amount of the tangible fixed assets (motor vehicles) of the Group obtained under finance lease as at 31 December 2016 is BGN 4,682 thousand (31 December 2015: BGN 3,699 thousand).

Operating lease

The Group has leased fixed tangible assets with carrying amount of BGN 3,296 thousand as at 31 December 2016 to related parties (31 December 2015: BGN 3,396 thousand). In addition, tangible fixed assets at carrying amount of BGN 818 thousand have been leased to third parties as at 31 December 2016 (31 December 2015: BGN 391 thousand).

Other data

The following encumbrances have been constituted on tangible fixed assets of the Group as at 31 December 2016 in relation to received loans *(Notes 29 and 34)* as follows:

- Land and building with a carrying amount respectively of BGN 25,659 thousand and BGN 72,449 thousand (31 December 2015: respectively, BGN 17,806 thousand and BGN 73,697 thousand)
- Pledges on facilities with carrying amount of BGN 2,771 thousand (31 December 2015: BGN 549 thousand);
- Pledges on equipment, transportation vehicles and furniture and fixtures – BGN 48,490 thousand (31 December 2015: BGN 33,440 thousand);
- Pledges on assets in progress – BGN 1,189 thousand (31 December 2015: BGN 681 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 thereof are stated as follows:

	Land and buildings	*Plant and equipment*	*Other*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Revaluation to fair value as at 31 December, carried to the statement of comprehensive income (within profit or loss for the year) *(Note 4 and Note 10)*	86	(344)	(56)	(314)
Revaluation to fair value, carried to the statement of comprehensive income (within other comprehensive income) *(Note 15)*	3,089	8,070	643	11,802
Total	**3,175**	**7,726**	**587**	**11,488**

(a) Fair value hierarchy

The established fair values of zoned land plots with terms to entrance into the deal within 12 months, located in Sofia and in the district cities of the country, have been assessed as inputs, used in the valuation technique, as being such of Level 2.

The fair values of the remaining property, plant and equipment have been categorised hierarchically as Level 3 fair values.

The revaluation of property, plant and equipment is on a non-recurring basis (periodically – every five years) and is due to the application of the revaluation model under IAS 16.

The table below presents information on the fair value of property, plant and equipment as at 31 December 2016 and the respective levels in the fair value hierarchy.

Group of assets	***Level 2***	***Level 3***	***Total***
	BGN '000	***BGN '000***	***BGN '000***
Agricultural land plots	-	*10,965*	*10,965*
Zoned land plots	*26,048*	*7,235*	*33,283*
Buildings	*3,688*	*110,914*	*114,602*
Total land and buildings	**29,736**	**129,114**	**158,850**
Plant and equipment	**231**	**96,632**	**96,863**
Fruit plants	-	*134*	*134*
Other assets	-	*17,985*	*17,985*
Total other assets	**-**	**18,119**	**18,119**
Total	**29,967**	**243,865**	**273,832**

(b) Valuation methods and techniques and significant unobservable inputs

The tables below show a description of the valuation methods and techniques, used in measuring the fair value of the separate groups of assets within the property, plant and equipment for 2016 as well as the significant unobservable inputs separately for Level 2 and Level 3:

Groups of assets Level 2	**Valuation approaches and techniques**	**Significant unobservable inputs**
Zoned land plots	*Market approach* Valuation technique: Market comparables method – market prices of identical and similar properties in location and designation	* Discount factor * Transaction costs *Adjusted market prices to reflect the specifics of the valued property – location, area, term to entrance into deal, rate of return.* * Corrections for comparability
Buildings	Valuation techniques: Market analogue method - market or bid prices of comparable properties	Corrections for comparability
Plant and equipment	Valuation techniques: Market analogue method	Adjustments for comparison between the evaluated asset and selected analogs

Groups of assets Level 3	**Valuation approaches and techniques**	**Significant unobservable inputs and quantitative parameters**
Agricultural land plots	*a. Market approach* Valuation technique: Method of market comparisons of agricultural land deals in the regions of the land valued *b. Income approach* Capitalised rental income	* Average data for offer prices and rentals of agricultural land from specialised websites by regions – areas, municipalities, districts (zemi.bg, nivi.bg, etc.); * Average prices of agricultural land and rentals by region as per NSI data; * Price index of agricultural land: - 1.35% as per NSI data; * Price index of agricultural land rentals: 2.89% as per NSI data; * Term to entrance into deals (rent and/or sale) with agricultural land – from 6 to 12 months (accepted 9 months as average); * Weight ratio between the methods used – 40% for the the method of market comparisons and 60% for the capitalised rental income, due to assessed higher reliability of the comparative data on rent. *Adjusted market prices to reflect the specifics of the valued property ¬ location, area, term to entrance into deal, rate of return.*

Zoned land plots	*Market approach* Valuation technique: Market comparables method – market prices of identical and similar properties in location and designation	* Term to entrance into the deal – from 12 to 18 months * Price index of immovable properties with production, storage and servicing purpose: -1.20% * Correction ratios for comparability *Adjusted market prices to reflect the specifics of the valued property ¬ location, area, term to entrance into deal, rate of return.*
Buildings	*Cost approach* Valuation technique: Method based on the costs of asset construction or replacement - depreciated replacement cost method on the basis of combined application of the following techniques: 1) Determine depreciated replacement cost on the basis of indexed historical cost of the asset; 2) Determine depreciated replacement cost on the basis of current expenses on construction or replacement.	* Inflation price index depending on the period between the time of placing the asset in service and the current time of valuation * Price index in the construction sector: 1.44 % as per NSI data * Market price index of production, storage and servicing facilities: – 1.20% * Weight ratio of the techniques used individually for each asset in line with the assessment of the reliability of the used inputs and the specific features of the asset *Adjusted prices for construction of identical projects and purchase prices of comparable items*
Plant, equipment and other assets	*Cost approach – amortised revesed amount*	* Inflation price index as per Eurostat data depending on the period between the time of placing the asset in service and the current time of valuation * Correction ratios for functional and economic depreciation. *Adjusted prices for construction of identical projects and purchase prices of analogues of the respective type of machinery and equipment.*

17. INTANGIBLE ASSETS

	Goodwill		*Intellectual property rights*		*Software*		*Other*		*Assets in progress*		*Total*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Book value												
Balance at 1 January	**20,560**	**20,103**	**21,114**	**11,978**	**10,254**	**10,357**	**5,122**	**3,346**	**3,466**	**1,096**	**60,515**	**46,880**
Additions	106	1,533	411	93	2,003	344	510	623	1,239	3,451	**4,269**	**6,044**
Acquired assets in newly acquired subsidiaries	-	-	10,647	10,662	-	83	-	-	-	56	**10,647**	**10,801**
Effects of foreign currency restatements	(135)	(1,076)	45	(1,037)	(1)	(151)	(5)	(317)	-	(2)	**(95)**	**(2,583)**
Transfer	-	-	47	(6)	3,144	74	20	1,470	(3,211)	(1,538)	-	-
Written-off book value of assets on disposal of subsidiaries	(869)	-	(1,051)	-	(332)	-	(1,154)	-	(60)	-	**(3,466)**	-
Disposals	-	-	(546)	(576)	(25)	(453)	-	-	(109)	402	**(680)**	**(627)**
Balance at 31 December	**19,662**	**20,560**	**30,667**	**21,114**	**15,042**	**10,254**	**4,493**	**5,122**	**1,442**	**3,465**	**71,189**	**60,515**
Accumulated amortisation and impairment												
Balance at 1 January	**9,185**	**9,185**	**8,056**	**6,685**	**5,771**	**5,228**	**1,971**	**1,564**	**30**	**30**	**25,013**	**22,692**
Amortisation charge for the year	-	-	1,955	1,546	924	993	688	407	-	-	**3,567**	**2,946**
Allowance for impairment	592	-	61	-	-	-	-	-	-	-	**653**	-
Effects of foreign currency restatements	-	-	11	135	-	-	3	-	-	-	**16**	**135**
Written-off amortisation of assets on disposal of subsidiaries	-	-	(1,160)	-	(117)	-	(759)	-	(5)	-	**(2,041)**	-
Amortisation written-off	-	-	(480)	(310)	-	(450)	-	-	(25)	-	**(505)**	**(760)**
Balance at 31 December	**9,777**	**9,185**	**8,445**	**8,056**	**6,578**	**5,771**	**1,903**	**1,971**	**-**	**30**	**26,703**	**25,013**
Carrying amount at 31 December	**9,885**	**11,375**	**22,222**	**13,058**	**8,464**	**4,483**	**2,590**	**3,151**	**1,442**	**3,435**	**44,486**	**35,502**
Carrying amount at 1 January	**11,375**	**10,918**	**13,058**	**5,293**	**4,483**	**5,129**	**3,151**	**1,782**	**3,435**	**1,066**	**35,503**	**24,188**

Intangible assets in progress as at 31 December include:

- expenses on acquisition of software – BGN 1,215 thousand. (31 December 2015: BGN 3,169 thousand)
- advances granted – BGN 48 thousand (31 December 2015: BGN 156 thousand);
- expenses on permits for use of medicinal products – BGN 25 thousand (31 December 2015: BGN 36 thousand);
- other – 37 thousand (31 December 2015: BGN 74 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, the largest share belongs to internally created trademarks, which have not been capitalised in the consolidated statement of financial position.

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

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

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

Goodwill impairment

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

The calculations were made by the management of the Group with the assistance of an independent certified appraiser and a detailed review was performed on the availability of events and facts that could serve as indicators for changes in the assumptions and assessments made at 31 December 2016.

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 of recoverable amount were as follows:

- growth rate within a three (or five) year period – from 0% to 55%;
- growth after the projected period upon calculation of terminal value – 0% to 5%;
- discount rate (based on WACC) – from 5.60% to 36.90%;
- Interest rate (price of debt) – from 2.3% to 16.5%.

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 tests and judgments of Group's management for impairment of recognised goodwill were made through the prism of its projections and intents as to the future economic benefits, expected by the Group from its subsidiaries including through the use of their internally created trademarks, commercial and industrial experience and the generated thereby and expected for the future volumes of revenue, ensuring position in the Bulgarian and international markets (development and retaining), the expectations for future sales and restructuring of the activities, etc.

As a result of the performed analyses, the Group management has concluded that as at 31 December 2015 there are no conditions for recognition of additional impairment of the recognised goodwill. As at 31 December 2016, there is recognised goodwill impairment at the total amount of BGN 592 thousand for 4 subsidiaries in Belarus.

18. INVESTMENT PROPERTY

	31.12.2016	*31.12.2015*
	BGN '000	*BGN '000*
Balance at 1 January	**10,562**	**10,606**
Additions	18	-
Disposals	-	(13)
Net loss on fair value adjustment, included in profit or loss *(Note 4)*	102	98
Transfer to property, plant and equipment *(Note 16)*	(1,199)	(129)
Balance at 31 December	**9,483**	**10,562**

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

Group of assets	*31.12.2016*	*31.12.2015*
	BGN '000	*BGN '000*
Warehouse premises	3,921	3,801
Offices	2,722	3,921
Production buildings	2,440	2,440
Recreational fascilities	400	400
Total	**9,483**	**10,562**

There are no established encumbrances on investment property as at 31 December 2016 – mortgage of offices (31 December 2015: BGN 1,199 thousand).

Fair value measurement

Fair value hierarchy

The fair values of the groups of investment properties are categorised as Level 2 fair values based on the inputs to the valuation technique used. The investment property remeasurement to fair value is recurring and is due to the application of the fair value model under IAS 40. It is performed regularly at the end of each reporting period. Fair value is determined with the assistance of independent certified appraisers.

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

	Warehouse premises	***Offices***	***Production buildings***	***Recreational fascilities***	***Total***
Balance at 1 January 2015	**3,787**	**3,900**	**2,492**	**427**	**10,606**
Disposals	-	-	(13)	-	(13)
Net change in fair value through profit or loss – unrealised	14	21	90	(27)	98
Transfer to property, plant and equipment	-	-	(129)	-	(129)
Balance at 31 December 2015	**3,801**	**3,921**	**2,440**	**400**	**10,562**
Purchases and capitalised costs	18	-	-	-	18
Net change in fair value through profit or loss – unrealised	102	-	-	-	102
Transfer to property, plant and equipment	-	(1,199)	-	-	(1,199)
Balance at 31 December 2016	**3,921**	**2,722**	**2,440**	**400**	**9,483**

Valuation techniques and significant unobservable inputs

The table below shows a description of the valuation techniques, used in measuring the fair value of all groups of Level 2 investment properties as well as the used significant unobservable inputs:

Groups of assets (Level 2)	**Valuation approaches and techniques**	**Significant unobservable inputs**
Warehouse premises Production buildings	*a. Income approach* Valuation technique: Method of capitalised rental income as application of discounted cash flows (main valuation technique) *b. Cost approach* Valuation technique: Method of replacement costs – depreciated recoverable amount (ancillary supportive valuation technique)	a. Weighted rate of return b. Term to entrance into rental deals Adjusted prices for construction of identical properties and purchase prices of machinery and equipment, similar to those attached
Offices Recreational fascilities	*a. Income approach* Valuation technique: Method of capitalised rental income as application of discounted cash flows (main valuation technique) *b. Market approach* Valuation technique: Market multiples method (supportive valuation technique)	a. Weighted rate of return b. Term to entrance into rental deals Comparability adjustments

19. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31.12.2016	*31.12.2015*
	BGN '000	*BGN '000*
Investments in associates	15,033	1,536
Investments in joint ventures	3,682	3,688
Total	**18,715**	**5,224**

19.1. Acquisition of interest in an associate

As at 31 December 2016, the Group has significant influence in the following companies:

Company	**% interest**	**Acquisition cost BGN'000**	**Date of shares acquisition**
Doverie Obedinen Holding AD	30.22	15,033	21.12.2016
OOO Zdorovei (through OOO Farmacevt Plus – 25%)	16.25	-	31.12.2015

The principal activities of Doverie Obedinen Holding AD include acquisition, management, assessment and sale of shares in Bulgarian and foreign companies. The holding includes 24 subsidiaries.

On 21 December 2016 Sopharma AD aquires an additional 2,871,011 shares of the capital of Doverie Obedinen Holding AD, which grants significant impact on the consolidated net assets of the DOH Group.

OOO Zdorovei has the trade in pharmaceutical products as principal activities.

As at 31 December 2015, the Group had significant influence in the following companies:

Company	**% interest**	**Acquisition cost BGN '000**	**Date of shares acquisition**
OOO Mobil Line (through SOOO Brititrade – 30%)	33.55	513	28.02.2015
ODO SalusLine (through SOOO Brititrade – 25%)	29.63	1,023	28.02.2015
OOO Zdorovei (through OOO Farmacevt Plus – 25%)	16.25	-	31.12.2015

All three associates have the trade in pharmaceutical products as principal activities.

On 23 November 2016, the Group, through restructuring of the subsidiary ODO Alenpharm-plus – Belarus, acquired the majority stock of the capital of OOO SalusLine – Belarus and as a result the status of the latter was transformed into 'a subsidiary'.

On 16 February 2016, the Group, through its subsidiary SOOO Brititrade – Belarus, acquired 50% of the capital of OOO Mobil Line – Belarus and as a result the latter was transformed into a subsidiary.
In 2015, the Group acquired, though its subsidiary OOO Farmacevt Plus – Belarus, an indirect share in OOO Zdorovei – Belarus by purchasing 25% of its capital (an associate).
On 26 October 2015 Sopgarma AD acquired 3,080,000 shares of Medica AD and as a result the latter was transformed into a subsidiary.
The movement of the investments in associates is presented below:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Balance at 1 January	**1,536**	**7,672**
Acquisition of shares	2,414	1,502
Share in the current profit/(loss) for the period	-	(64)
Transfer to investments in subsidiaries	(1,536)	(7,672)
Transfer from available-for-sale investments	2,805	254
Effects of foreign currency restatements	-	(329)
Effect of revaluation of previously held shares at fair value	928	212
Profit from the acquisition of an associate	8,886	-
Effects of transactions with companies of the Group	-	(39)
Balance at 31 December	**15,033**	**1,536**

Group's share in the results of the associates and their aggregated assets (including goodwill) and liabilities is as follows:

31 December 2016	**Share in assets**	**Share in liabilities**	**Share in revenue**	**Share in profit/(loss)**	**Interest**
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***%***
Doverie Obedinen Holding AD*	36,608	21,575	-	-	30.22
OOO Zdorovei	295	298	-	-	16.25

**Consolidated indicators*

31 December 2015	**Share in assets**	**Share in liabilities**	**Share in revenue**	**Share in profit/(loss)**	**Interest**
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***%***
OOO Mobil Line	552	192	679	(18)	33.55
ODO SalusLine	1,173	407	1,206	(46)	29.63
OOO Zdorovei	126	120	-	-	16.25

The investment in associates as at 31 December 2016 does not include recognised goodwill (31 December 2015: BGN 464 thousand).

19.2. Acquisition of interest in joint ventures

The joint ventures as at 31 December 2016 are as follows:

Company	**% interest**	**Acquisition cost BGN '000**	**Date of shares acquisition**
OOO Ivem & K	36.25%	678	31.12.2015
OOO Ariens	32.50%	97	31.12.2015
OOO Vivaton Plus	50%	102	20.12.2012
OOO Med-dent	50%	265	17.12.2013
OOO Bellerophon	50%	299	21.11.2014
BOOO SpetzApharmacia	50%	1,169	20.01.2014
ZAO Interpharm	50%	1,072	31.12.2014

The joint ventures as at 31 December 2015 are as follows:

Company	**% interest**	**Acquisition cost BGN '000**	**Date of shares acquisition**
OOO Ivem & K	38.50%	558	31.12.2015
OOO Ariens	32.50%	86	31.12.2015
OOO Vivaton Plus	50%	121	20.12.2012
OOO Med-dent	50%	372	17.12.2013
OOO Bellerophon	50%	281	21.11.2014
BOOO SpetzApharmacia	50%	1,096	20.01.2014
ZAO Interpharm	50%	1,174	31.12.2014

The principal activities of the acquired joint venture are disclosed in *Note 1*.

On 30 November 2015, the Group acquired indirectly unterest in OOO Ariens and OOO Ivem & K in Belarus by purchasing 50% of their capital (joint control). The shares in OOO Ariens were acquired by the subsidiary OOO Farmacevt Plus – Belarus, while those in OOO Ivem & K – by the subsidiaries OOO Farmacevt Plus – Belarus and OOO Tabina – Belarus.

The movement of investments in joint ventures is presented below:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Balance at 1 January	**3,688**	**4,715**
Acquisition of shares	68	644
Capital increase	271	-
Share in the current loss for the period	(157)	(236)
Effects of transactions with companies of the Group	(64)	14
Effects of foreign currency restatements	(19)	(1,089)
Allowance for impairment	(105)	(360)
Balance at 31 December	**3,682**	**3,688**

19.3. General information on the associates

As of 31 December 2016 the group has significant influence in two entities. In the consolidated financial statement the investments in the associates are evaluated by the equity method and are as follows:

Company name	*Principal activities*	*Country*	*Carrying amount*	*Ownership interest share / Voting rights share*	*Carrying amount*	*Ownership interest share / Voting rights share*
			31.12.2016	***31.12.2016***	***31.12.2015***	***31.12.2015***
Doverie Obedinen Holding AD	Acquisition, management, valuation and sale of shares in Bulgarian and foreign companies	Bulgaria	15,033	*30.22%-*	-	-
OOO Mobil Line	Trade in pharmaceuticals	Belarus		-	514	*33.55%*
ODO SalusLine	Trade in pharmaceuticals	Belarus		-	1,022	*29.63%*
OOO Zdorovei	Trade in pharmaceuticals	Belarus	-	*16.25-*	-	*16.25%*
			15,033		**1,536**	

The table below presents summarised financial information on each associate, which is material for the Group:

Financial indicators	**Doverie Obedinen Holding AD***	***OOO Zdorovei***
Summarised information from the statement of financial position	***31.12.2016***	***31.12.2016***
	BGN'000	***BGN'000***
Current assets	43,958	1,458
Non-current assets	132,851	360
Current liabilities	(43,708)	(1,741)
Non-current liabilities	(32,186)	(92)
Net assets	**100,915**	**(15)**

**Consolidated indicators*

Summarised information from the statement of comprehensive income	***01.01-31.12.2016***	***01.01-31.12.2016***
	BGN'000	***BGN'000***
Revenue	126,861	3,094
Net profit for the year	9,101	(50)
Other comprehensive income for the year, net of tax	1,229	-
Total comprehensive income for the year	10,330	(50)

Financial indicators	*OOO Mobil Line*	*ODO SalusLine*	*OOO Zdorovei*
Summarised information from the statement of financial position	***31.12.2015***	***31.12.2015***	***31.12.2015***
	BGN '000	***BGN '000***	***BGN '000***
Current assets	432	864	579
Non-current assets	1,212	3,096	199
Current liabilities	(361)	(836)	(650)
Non-current liabilities	(210)	(539)	(89)
Net assets	**1,073**	**2,585**	**39**
Summarised information from the statement of comprehensive income	***01.01-31.12.2015***	***01.01-31.12.2015***	***01.01-31.12.2015***
	BGN '000	***BGN '000***	***BGN '000***
Revenue	2,025	4,069	2
Net profit for the year	(55)	(155)	-
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	(55)	(155)	-

The table below presents the reconciliation between the summarised financial information on the material interests in associates and their carrying amount at 31 December, included in these consolidated financial statements:

31.12.2016	**Doverie Obedinen Holding AD**	**Zdorovei**
	BGN'000	***BGN'000***
Net assets	49,742	(15)
Group's share (%)	30.22%	16.25%
Group's share in the net assets	22,059	(2)
Other adjustments	-	2
Carrying amount of the investment	**15,033**	**-**

31 December 2015	**Mobil Line**	**SalusLine**	**Zdorovei**
	BGN '000	*BGN '000*	*BGN '000*
Net assets	1,073	2,585	39
Group's share (%)	33.55%	29.63%	16.25%
Group's share in the net assets	360	766	6
Goodwill	156	254	(6)
Other adjustments	(2)	2	-
Carrying amount of the investment	**514**	**1,022**	**-**

19.4. General information on the joint ventures

At 31 December, the Group exercises a joint control on seven companies. The investments in joint ventures have been measured in the consolidated financial statements by applying the equity method and are as follows:

Company name	*Principal activities*	*Country*	*Carrying amount of the investment*	*Ownership interest share*	*Carrying amount of the investment*	*Ownership interest share*
			31.12.2016	*31.12.2016*	*31.12.2015*	*31.12.2015*
OOO Vivaton Plus	Trade in pharmaceuticals	Belarus	102	50.00%	121	50.00%
OOO Med-dent	Trade in pharmaceuticals	Belarus	265	50.00%	372	50.00%
BOOO SpetzApharmacia	Trade in pharmaceuticals	Belarus	1,169	50.00%	1,097	50.00%
OOO Bellerophon	Trade in pharmaceuticals	Belarus	299	50.00%	281	50.00%
ZAO Interpharm	Trade in pharmaceuticals	Belarus	1,072	50.00%	1,173	50.00%
OOO Ivem & K	Retail trade	Belarus	678	36.25%	558	38.50%
OOO Ariens	Trade in pharmaceuticals	Belarus	97	32.50%	86	32.50%
			3,682		**3,688**	

The table below presents summarised financial information on each joint venture, which is material for the Group.

	31.12.2016							*31.12.2015*						
Financial indicators	***OOO Vivaton Plus***	***OOO Med-dent***	***BOOO Spetz Apharmacia***	***OOO Bellerophon***	***ZAO Interpharm***	***OOO Ivem & K***	***OOO Ariens***	***OOO Vivaton Plus***	***OOO Med-dent***	***BOOO Spetz Apharmacia***	***OOO Bellerophon***	***ZAO Interpharm***	***OOO Ivem & K***	***OOO Ariens***
Summarised information from the statement of financial position	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Current assets, including:	616	353	720	268	965	2,370	661	494	144	650	261	870	2,026	535
Cash and cash equivalents	*23*	*20*	*31*	*31*	*37*	*77*	*25*	*11*	*8*	*32*	*13*	*24*	43	12
Non-current assets	172	19	299	131	1,790	1,011	125	225	8	274	155	2,021	1,027	138
Current liabilities, including:	(917)	(280)	(526)	(113)	(603)	(2,967)	(843)	(799)	(108)	(606)	(218)	(495)	(2,748)	(809)
Current financial liabilities (excluding trade and other payables and provisions)	*(50)*	*(15)*	*(37)*	*(10)*	*(44)*	*(147)*	*(32)*	*(45)*	(5)	(31)	(12)	(69)	(129)	(21)
Non-current liabilities, including:	(16)		(58)	(79)	(312)	(119)	(15)	(29)	-	(53)	(25)	(354)	(131)	(17)
Non-current financial liabilities (excluding trade and other payables and provisions)	*(16)*		*(14)*	*(22)*	*(312)*	*(119)*	*(15)*	*(29)*	-	*(20)*	*(25)*	*(354)*	(131)	(17)
Net assets	**(145)**	**92**	**435**	**207**	**1,840**	**295**	**(72)**	**(109)**	**44**	**265**	**173**	**2,042**	**174**	**(153)**
Summarised information from the statement of comprehensive income	***2016 BGN '000***	***2016 BGN '000***	***2016 BGN '000***	***2016 BGN '000***	***2016 BGN '000***	***2016 BGN '000***	***2016 BGN '000***	***2015 BGN '000***	***2015 BGN '000***	***2015 BGN '000***	***2015 BGN '000***	***2015 BGN '000***	***2015 BGN '000***	***2015 BGN '000***
Revenue	3,486	1,493	3,471	1,631	5,121	8,232	2,347	1,786	1,479	3,707	2,012	5,380	9	2
Depreciation and amortisation expense on tangible and intangible assets	*(75)*	-	*(40)*	*(20)*	*(215)*	*(73)*	*(14)*	*(40)*	*(54)*	*(17)*	*(25)*	*(270)*	-	-
Interest income	-	-				*16*								
Interest cost			*(9)*			*(169)*	*(61)*	-	-	-	-	-	-	-
Income tax expense	*10*	*(3)*	*(4)*	*2*	*34*	*(14)*		*5*	*2*	*(2)*	2	*44*	-	-
Net profit/(loss) for the year	(36)	4	(17)	(12)	(170)	(207)	104	(44)	(41)	(71)	(29)	(244)	-	-
Other comprehensive income for the year, net of tax	-	-						-	-	-	-	-	-	-
Total comprehensive income for the year	(36)	4	(17)	(12)	(170)	(207)	104	(44)	(41)	(71)	(29)	(244)	-	-

The table below presents the reconciliation between the summarised financial information on the material interests in joint ventures and their carrying amount at 31 December, included in these consolidated financial statements:

31 December 2016	***OOO Ivem & K***	***OOO Ariens***	***OOO Vivaton Plus***	***OOO Meddent***	***BOOO SpetzApharmacia***	***OOO Bellerophon***	***ZAO Interpharm***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Net assets	295	(72)	(145)	92	435	207	1,840	2,652
Group's share (%)	36.25%	32.50%	50.00%	50.00%	50.00%	50.00%	50.00%	
Group's share in the net assets	107	(24)	(72)	45	217	104	921	1,298
Goodwill	328	105	25	94	667	237	78	1,534
NCI's share in the investment	289	30	149	127	291	(45)	73	914
Adjustments from transactions with companies of the Group	(46)	(14)	-	(1)	(6)	3	-	(64)
Carrying amount of the investment	**678**	**97**	**102**	**265**	**1,169**	**299**	**1,072**	**3,682**

31 December 2015	***OOO Ivem & K***	***OOO Ariens***	***OOO Vivaton Plus***	***OOO Meddent***	***BOOO SpetzApharmacia***	***OOO Bellerophon***	***ZAO Interpharm***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Net assets	174	(153)	(107)	88	265	173	2,042	2,482
Group's share (%)	38.50%	32.50%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Group's share in the net assets	67	(50)	(53)	44	133	87	1,021	1,249
Goodwill	331	106	19	169	205	205	69	1,105
NCI's share in the investment	160	30	145	161	750	(8)	83	1,320
Adjustments from transactions with companies of the Group	-	-	10	(2)	9	(3)	-	14
Carrying amount of the investment	**558**	**86**	**121**	**372**	**1,097**	**281**	**1,173**	**3,688**

19.5. Cash outflows from acquisition of joint ventures and associates

In 2016:

Cash flows on acquisition of shares:	***BGN'000***
Joint venture (OOO SpetzApharmacia)	86
Joint venture (OOO Bellerophon)	23
Associate (Doverie Obedinen Holding AD)	2,058
Joint venture (OOO Ivem & K)	331
Joint venture (OOO Ariens)	33
	2,531

In 2015:

Cash flows on acquisition of shares:	***BGN '000***
Joint venture (OOO Ariens)	91
Joint venture (OOO Ivem & K)	562
Associate (OOO Mobil Line)	724
Associate (OOO SalusLine)	1,356
Associate (OOO Zdorovei)	-
Associate (Medica AD)	3,979
Associate (OOO Alenpharm-plus)	1,423
	8,135

20. AVAILABLE-FOR-SALE INVESTMENTS

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

	Country	*31.12.2016*	*Interest*	*31.12.2015*	*Interest*
		BGN '000	*%*	*BGN '000*	*%*
Lavena AD	Bulgaria	2,883	11.29	1,567	11.03
Olainfarm AD	Latvia	1,796	0.77	1,553	0.77
Extab Pharma Inc. – USA	USA	290	5.00	290	5.00
OOO Pharmico	Belarus	172	2.00	172	2.00
Hydroizomat AD	Bulgaria	131	10.65	132	10.65
ODO DKM-Pharm	Belarus	100	2.00	100	2.00
BTF Expat Bulgaria	Bulgaria	82	0.32	-	-
OOO Set Aptek	Belarus	70	2.00	70	2.00
Sopharma Properties REIT	Bulgaria	64	0.07	39	0.05
Todorov AD	Bulgaria	37	4.98	22	4.74
Doverie Obedinen Holding AD	Bulgaria	-	-	2,805	19.88
Elana Money Market Fund	Bulgaria	-	-	257	1.14
MF Elana Eurofund	Bulgaria	-	-	252	6.34
Elana Agrocredit AD	Bulgaria	-	-	67	1.26
Other		96		98	11.03
Total		**5,721**		**7,424**	

The other available-for-sale investments as at 31 December 2016, amounting to BGN 96 thousand (31 December 2015: BGN 98 thousand), include a number of minority interests of the Group in the capital of five companies (31 December 2015: six companies).

The investments in Extab Pharma 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 December 2016 are as follows:

	Number of shares held	*Fair value per share*	*31.12.2016*	*Number of shares held*	*Fair value per share*	*31.12.2015*
			BGN '000			*BGN '000*
Lavena AD	30,100	95.78	2,883	108,500	13.55	1,553
Olainfarm AD	108,500	16.55	1,796	29,393	51.78	1,567
Hydroizomat AD	318,889	0.41	131	161,014	0.14	22
BTF Expat Bulgaria	74,550	1.10	82	-	-	-
Sopharma Properties REIT	12,000	5.33	64	-	-	-
Todorov AD	169,468	0.22	37	9,220	4.23	39
Doverie Obedinen Holding AD	-	-	-	3,725,145	0.81	2,805
MF Elana Eurofund	-	-	-	1,667	0.15	257
Chimimport AD	-	-	-	958	0.15	252
Elana Money Market Fund	-	-	-	318,301	0.41	132
Monbat AD	-	-	-	64,350	1.03	67
Chimimport AD	-	-	-	1,000	1.38	1
Total			**4,993**			**6,695**

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

Available-for-sale investments	***Fair value***	***(Level 1)***	***(Level 2)***	***(Level 3)***
	31.12.2016			
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***
Lavena AD	2,883	-	2,883	-
Olainfarm AD	1,796	1,796	-	-
Hydroizomat AD	131	131	-	-
BTF Expat Bulgaria	82	82	-	-
Sopharma Properties REIT	64	64	-	-
Todorov AD	37	37	-	-
Total	**4,993**	**2,110**	**2,883**	**-**

Available-for-sale investments	*Fair value 31.12.2015*	*Level 1*	*Level 2*	*Level 3*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Doverie Obedinen Holding AD	2,805	-	-	2,805
Lavena AD	1,567	-	1,567	-
Olainfarm AD	1,553	1,553	-	-
Elana Money Market Fund	257	257	-	-
MF Elana Eurofund	252	252	-	-
Hydroizomat AD	132	-	132	-
Elana Agrocredit AD	67	67	-	-
Sopharma Properties REIT	39	39	-	-
Todorov AD	22	22	-	-
Chimimport AD	1	1	-	-
Total	**6,695**	**2,191**	**1,699**	**2,805**

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

Available-for-sale investments	*Level 1*	*Level 2*	*Level 3*	*Total*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Balance at 1 January 2015	**1,636**	**1,508**	**2,760**	**5,904**
Purchases	356	95	894	1,345
Issue of shares	70	-	-	70
Sales	-	(41)	-	(41)
Transfer to Investments in Associates	(180)	(74)	-	(254)
Realised gain/(loss) included in the current profit and loss for the year in the item *Finance costs – Net loss on transactions with securities*	7	-	-	7
Unrealised loss included in the current profit and loss for the year *(Note 14)*	(4)	(70)	(401)	(475)
Unrealised gain/(loss), net, included in other comprehensive income *(Note 15)*	306	281	(448)	139
Balance at 31 December 2015	**2,191**	**1,699**	**2,805**	**6,695**
Purchases	517	328	-	845
Issue of shares	230	-	-	230
Sales	(1,246)	(228)	-	(1,474)
Transfer to investments in associates			(2,805)	(2,805)
Transfers from Level 2 to Level 1	132	(132)	-	-
Realised gain/(loss) included in the current profit and loss for the year in the item *Finance income – Net gain on transactions with securities*	23	9	-	32
Unrealised loss included in the current profit and loss for the year *(Note 14)*	(2)	6	-	4
Unrealised gain/(loss), net, included in other comprehensive income *(Note 15)*	265	1,201	-	1,466
Balance at 31 December 2013	**2,110**	**2,883**	**-**	**4,993**

Valuation techniques and significant unobservable inputs

The table below shows the valuation techniques applied for fair value measurement at Level 2 and Level 3 as well as the used significant unobservable inputs:

21. LONG-TERM RECEIVABLES FROM RELATED PARTIES

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

	31.12.2016	*31.12.2015*
	BGN '000	*BGN '000*
Long-term loans granted to related parties	9,797	20,213
Receivable under a long-term rental deposit granted	231	292
Total	**10,028**	**20,505**

The long-term loans are granted to associate (as at 31 December, 2015 long-term loans are granted to companies related through key management personnel).

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

Currency	*Contracted amount '000*	*Maturity*	*Interest %*	*31.12.2016*		*31.12.2015*	
				BGN'000	*BGN'000 including interest*	*BGN'000*	*BGN'000 including interest*
EUR	16,177	1.12.2018	5.00%	9,797	*48*	13,074	*18*
EUR	3,272	1.12.2018	5.00%	-	-	7,139	*739*
Total				**9,797**	**48**	**20,213**	**757**

The long-term loans granted to related parties are intended to support the financing of these companies' activities under common strategic objectives. They are secured by pledges on securities (shares).

The deposit receivable, received from company related through key management personnel, related with a rent under a concluded rental contract for administrative offices with validity term on 1 August 2022.

22. OTHER LONG-TERM RECEIVABLES

The ***other non-current receivables*** of the Group as at 31 December include:

	31.12.2016	*31.12.2015*
	BGN'000	*BGN'000*
Receivables on sold investment in a subsidiary	3,389	3,258
Loans granted	380	240
Other	380	48
Total	**4,149**	**3,546**

The receivables related to sold investment in a subsidiary are with a deferred payment and expected maturity on 31 December 2018 – the date when the regulatory actions for registration of medicinal products permits are expected to be completed.

The loans at the amount of BGN 380 thousand granted by the Group as at 31 December 2016 are to third parties (31 December 2015: BGN 240 thousand), without collateral and with an agreed annual interest of 8% (31 December 2015: 8%) and mature on 14 November 2021.

23. INVENTORIES

Inventories include:	***31.12.2016*** ***BGN'000***	***31.12.2015*** ***BGN'000***
Goods	95,180	78,904
Materials	32,744	34,916
Finished products	27,504	38,159
Semi-finished products	10,339	5,262
Work in progress	6,024	5,888
Total	**171,791**	**163,129**

Goods *by type* are as follows:	***31.12.2016*** ***BGN'000***	***31.12.2015*** ***BGN'000***
Tablet dosage forms	45,629	36,501
Ampoule dosage forms	13,567	11,046
Syrups	7,646	6,977
Cosmetics	5,637	2,305
Consumables and dressing materials	4,671	5,172
Drops	4,001	3,425
Food supplements	3,708	473
Ointments	3,003	2,979
Suppositories	1,714	1,156
Goods in transit	280	4,262
Other	5,324	4,608
Total	**95,180**	**78,904**

The ***finished products*** include:

	31.12.2016	*31.12.2015*
	BGN'000	***BGN'000***
Tablet dosage forms	16,209	22,493
Ampoule dosage forms	3,894	5,811
Syrups	1,422	3,265
Other	5,979	6,590
Total	**27,504**	**38,159**

Materials by type are as follows:	***31.12.2016***	***31.12.2015***
	BGN'000	***BGN'000***
Basic materials	29,727	29,501
Materials in transit	483	3,078
Auxiliary materials	887	505
Technical materials	493	496
Spare parts	424	379
Other	730	957
Total	**32,744**	**34,916**

Basic materials by type are as follows:	***31.12.2016***	***31.12.2015***
	BGN'000	***BGN'000***
Substances (active ingredients)	14,963	15,832
Chemicals	3,666	4,370
Vials, tubes and ampoules	2,732	3,032
Packaging materials	2,732	1,962
Herbs	2,278	1,201
PVC and aluminium foil	1,130	1,492
Other	2,226	1,612
Total	**29,727**	**29,501**

As at 31 December 2016, there were established special pledges on inventories at the amount of BGN 64,693 thousand (31 December 2015: BGN 82,439 thousand) as collateral under received by the Group bank loans and issued bank guarantees *(Notes 29, 34 and 41).*

24. TRADE RECEIVABLES

Trade receivables include:	***31.12.2016***	***31.12.2015***
	BGN'000	***BGN'000***
Receivables from clients	*214,616*	*206,204*
Impairment of uncollectable receivables	*(2,483)*	*(2,165)*
Receivables from clients, net	212,133	204,039
Advances to suppliers	*3,577*	*1,712*
Impairment of advances	*(127)*	*(162)*
Advances granted, net	3,450	1,550
Total	**215,583**	**205,589**

The ***receivables from clients*** are interest-free and are mainly denominated in BGN and EUR.
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:

	31.12.2016	***31.12.2015***
	BGN'000	***BGN'000***
up to 30 days	72,018	61,638
from 31 to 90 days	50,655	50,279
from 91 to 180 days	5,604	2,980
from 181 to 365 days	3,056	2,807
from 1 to 2 years	10	111
over 2 years	967	1,653
Total	**132,310**	**119,468**

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

	31.12.2016	***31.12.2015***
	BGN'000	***BGN'000***
from 31 to 90 days	20,867	15,651
from 91 to 180 days	15,131	11,956
from 181 to 365 days	13,981	15,597
from 1 to 2 years	7,441	12,162
over 2 years	6,847	6,631
Total	**64,267**	**61,997**

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:

	31.12.2016	***31.12.2015***
	BGN'000	***BGN'000***
from 31 to 90 days	941	2,345
from 91 to 180 days	3,212	3,978
from 181 to 365 days	4,932	8,172
from 1 to 2 years	5,335	7,049
over 2 years	3,619	3,195
Allowance for impairment	(2,483)	(2,165)
Total	**15,556**	**22,574**

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 2.32.3).*

As at 31 December 2016, there are established special pledges on trade receivables at the amount of BGN 75,755 thousand (31 December 2015: BGN 86,876 thousand). They are established as collateral under received by the Group bank loans and issued bank guarantees *(Notes 29, 34 and 41).*

Movement in the allowance for impairment

	31.12.2016	***31.12.2015***
	BGN'000	***BGN'000***
Balance at the beginning of the year	**2,165**	**2,962**
Impairment amount accrued	1,501	1,216
Amounts written-off under uncollectable receivables	(316)	(226)
Reversed impairment	(682)	(1,758)
Impairment written-off on sale of a subsidiary	(132)	(29)
Effect of foreign currency restatements	(5)	-
Transfer to impairment of court and awarded receivables *(Note 26)*	(48)	-
Balance at the end of the year	**2,483**	**2,165**

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

	31.12.2016	***31.12.2015***
	BGN'000	***BGN'000***
Raw materials and consumables	2,239	740
Services	950	475
Goods	215	265
Other	173	232
Allowance for impairment	(127)	(162)
Total	**3,450**	**1,550**

25. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties by type are as follows:	***31.12.2016***	***31.12.2015***
	BGN'000	***BGN'000***
Trade loans granted	11,818	21,545
Receivables on sales of finished products and materials	3,122	5,889
Advances granted	42	-
Total	**14,982**	**27,434**

The ***trade loans granted to related parties*** are unsecured and are to companies related through key management personnel and companies under a common indirect control. They amount to BGN 11,818 thousand (31 December 2015: BGN 21,545 thousand).

The ***granted loans*** are as follows:

Currency	*Contracted amount (original currency)*	*Maturity*	*Interest*	*31.12.2016*		*31.12.2015*	
	'000		*%*	*BGN '000*	*BGN '000 including interest*	*BGN '000*	*BGN '000 including interest*
to companies related through key management personnel							
EUR	7,845	31.12.2017	4.10%	6,292	5	7,982	146
BGN	6,000	31.12.2017	3.50%	4,472	72	4,636	1
EUR	12,557	31.12.2017	3.05%	560	1	8,310	26
BGN	1,300	31.12.2017	5.50%	-	-	503	42
to companies under a common indirect control							
BYN	186	30.6.2017	27.50%	146	-	-	-
BYN	122	28.1.2018	27.50%	104	-	-	-
BYN	70	24.3.2017	20.00%	67	1	-	-
BYN	126	30.6.2017	27.50%	59	-	-	-
BYN	23	28.2.2017	20.00%	22	1	-	-
to a company controlled by an associate							
BGN	190	31.12.2017	3.50%	96	-	114	-
Total:				**11,818**	**80**	**21,545**	**215**

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:

	31.12.2016	***31.12.2015***
	BGN'000	***BGN'000***
up to 30 days	1,597	2,265
from 31 to 90 days	686	1,925
from 91 to 180 days	70	36
from 181 to 270 days	-	114
from 271 to 360 days	-	230
Total	**2,353**	**4,570**

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

	31.12.2016	***31.12.2015***
	BGN'000	***BGN'000***
from 31 to 90 days	194	883
from 91 to 180 days	219	32
from 181 to 365 days	-	145
from 1 to 2 years	-	259
Total	**413**	**1,319**

The ***age structure*** of past due impaired receivables from related parties is as follows:

	31.12.2016	***31.12.2015***
	BGN'000	***BGN'000***
over 1 year	412	-
Allowance for impairment	(56)	-
Total	**356**	**-**

Movement in the allowance for impairment

	31.12.2016	***31.12.2015***
	BGN'000	***BGN'000***
Balance at 1 January	**24**	**141**
Impairment amount	32	-
Impairment of uncollectable receivables written-off	-	(117)
Balance at 31 December	**56**	**24**

26. OTHER SHORT-TERM RECEIVABLES AND ASSETS

Other receivables and prepayments of the Group include:

	31.12.2016	***31.12.2015***
	BGN'000	***BGN'000***
Court and awarded receivables	*5,516*	*4,308*
Impairment of court receivables	*(2,518)*	*(2,379)*
Court and awarded receivables, net	2,998	1,929
Taxes refundable	6,918	5,418
Loans granted to third parties	2,566	2,940
Prepayments	2,055	1,978
Receivables from NHIF	1,001	201
Receivables on deposits placed as guarantees	342	554
Amounts granted to investment intermediaries	101	440
Receivables from investment transactions	38	-
Financial assets at fair value through profit	316	314
Other	1,392	731
Total	**17,727**	**14,505**

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.

The financial assets at fair value through profit, held by the Group, are classified as Level 1 in the fair value hierarchy *(Note 2.14.2)* and consist of 210,958.41 shares in Raiffeisen (Bulgaria) trust fund.

Taxes refundable include:	***31.12.2016***	***31.12.2015***
	BGN'000	***BGN'000***
Excise duties	3,597	2,692
VAT	2,353	1,839
Income tax	966	882
Local taxes and charges	2	5
Total	**6,918**	**5,418**

Prepayments include:	***31.12.2016***	***31.12.2015***
	BGN'000	***BGN'000***
Insurance	825	777
Subscriptions	735	518
Rentals	114	44
Advertisements	48	52
Licence and patent fees	38	43
Vouchers	16	18
Other	279	526
Total	**2,055**	**1,978**

The loans granted to third parties, amounting to BGN 2,566 thousand (31 December 2015: BGN 2,940 thousand), are granted to six entities (2015: eight entities) – counterparts for working capital. The annual interest agreed for these loans for 2016 was between 4.3% and 8% (2015: between 5.05% and 7%).

27. CASH AND CASH EQUIVALENTS

	31.12.2016	***31.12.2015***
	BGN'000	***BGN'000***
Cash at current bank accounts	17,353	23,773
Impairment of cash at current bank accounts *(Note 12)*	(172)	(6,438)
Short-term deposits	3,996	4,300
Cash in hand	1,138	1,393
Short-term blocked funds	24	86
Cash and cash equivalents presented in the consolidated statement of cash flows	**22,339**	**23,114**
Blocked cash under court cases and issued bank guarantees	200	372
Cash and cash equivalents presented in the consolidated statement of financial position	**22,539**	**23,486**

The available cash and cash equivalents of the Group are mainly denominated in BGN, BYN and UAH (31 December 2015: in BGN, UAH and RSD).

The average level of the annual interest on current accounts in BGN and foreign currency is within the range from 0.01% to 1% (2015: from 0.01% to 1%) and that on deposit accounts in BGN and foreign currency is mainly within the range from 0.3% to 17% (2015: from 0.3% to 17%).

The short-term blocked funds as at 31 December 2016, amounting to BGN 24 thousand (31 December 2015: BGN 86 thousand), represent mainly blocked funds under performance guarantees.

28. EQUITY

Share capital

As at 31 December 2016, 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.

Ordinary shares issued and fully paid	*Shares number*	*Share capital net of treasury shares BGN '000*
Balance at 1 January 2015	**126,670,847**	**113,905**
Capital increase	2,797,899	2,798
Treasury shares	(153,342)	(521)
Treasury shares sold	1,350	5
Expense on treasury shares	-	(2)
Balance at 31 December 2015	**129,316,754**	**116,185**
Balance at 1 January 2016	**129,316,754**	**116,185**
Treasury shares	(554,158)	(1,212)
Treasury shares sold	221,723	324
Expense on treasury shares	-	-
Balance at 31 December 2016	**128,798,189**	**115,297**

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.

In 2015 the share capital of Sopharma AD was increased by 2,797,899 new shares with nominal value of BGN 1 each and issue value of BGN 4.14 equal to the fair price of 1 share of Sopharma AD in relation to the merger of Bulgarian Rose Sevtopolis AD into Sopharma AD (takeover). Exchange ratio was set for the purpose, which was calculated on bases of the net assets fair value of both companies.

The ***treasury shares*** are 6,035,303 at the amount of BGN 19,501 thousand (31 December 2015: 5,481,145 shares at the amount of BGN 18,613 thousand).

As at 31 December 2016, the company has shares, held by its subsidiaries and associates, as follows:

- by Unipharm AD – 151,166 shares (31 December 2015: 191,166 shares);
- by Medica AD – none (31 December 2015: 27,573 shares);
- by Sopharma Trading AD – none (31 December 2015: 43,110 shares).

Statutory reserves at the amount of BGN 47,841 thousand (31 December 2015: BGN 45,256 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 32,277 thousand (31 December 2015: BGN 23,445 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 2,808 thousand – a positive figure (31 December 2015: BGN 1,330 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 717 thousand – a negative figure (31 December 2015: BGN 2,563 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 259,984 thousand at 31 December (31 December 2015: BGN 222,238 thousand), include also the recognised accumulated actuarial loss at the amount of BGN 1,729 thousand (31 December 2015: BGN 1,601 thousand), stated upon remeasurements of defined benefit pension plans in relation with the amendment to IAS 19 *Employee Benefits.*

Net earnings per share

	2016	***2015***
Weighted average number of shares	129,056,144	129,156,964
Net profit for the year, attributable to the equity holders of the parent (BGN’000)	50,638	21,314
Net earnings per share (BGN)	**0.39**	**0.17**

29. LONG-TERM BANK LOANS

	Contracted loan amount	Maturity	31.12.2016 Non-current portion	31.12.2016 Current portion	31.12.2016 Total	31.12.2015 Non-current portion	31.12.2015 Current portion	31.12.2015 Total
	'000		BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Credit lines and working capital loans								
BGN	4,250	16.04.2023	1,094	209	1,303	1,304	210	1,514
EUR	1,452	31.12.2017	-	510	510	488	578	1,066
EUR	450	31.12.2017	-	162	162	162	173	335
BGN	120	25.08.2020	64	24	88	88	24	112
EUR	590	31.08.2021	-	70	70	-	-	-
EUR	2,050	17.06.2018	-	-	-	4,052	-	4,052
EUR	2,505	31.10.2016	-	-	-	-	4,946	4,946
BYN	100	25.03.2016	-	-	-	-	92	92
EUR	689	04.01.2016	-	-	-	-	72	72
BYN	30	12.02.2016	-	-	-	-	10	10
BYN	50	25.03.2016	-	-	-	-	49	49
Investment-purpose loans								
EUR	32,000	15.04.2021	23,844	7,185	31,029	30,819	7,380	38,199
EUR	2,000	30.06.2018	489	975	1,464	1,467	974	2,441
EUR	479	25.10.2018	220	276	496	496	276	772
EUR	172	28.02.2021	213	67	280	-	-	-
Total			**25,924**	**9,478**	**35,402**	**38,876**	**14,784**	**53,660**

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 34).*

Part of the agreed long-term loans in 2015 are not included in the liabilities of the Group as at 31 December 2016 due to the loss of control over two of its subsidiaries.

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 4.9%, or fixed to 12%, or BELIBOR of up to 2%; for loans in BGN – interest is based on SOFIBOR plus a mark-up of up to 3.5% (2015: in EUR – EURIBOR plus a mark-up of up to 4.9%, or fixed to 12.5%, or BELIBOR of up to 2%; for loans in BGN – SOFIBOR plus a mark-up of up to 3.5%; and for loans in BYN – up to 36% fixed). Loans are intended for providing working capital.
Investment-purpose loans are intended for purchase of tangible fixed assets and expanding of activities.
The following collateral has been established in favour of the creditor banks:

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

30. DEFERRED TAX ASSETS AND LIABILITIES

The total change in ***deferred tax assets and liabilities*** of the Group for the respective financial year is as follows:

	2016	**2015**
	BGN '000	***BGN '000***
Balance at 1 January	**(4,236)**	**(1,879)**
including: Deferred tax assets	*3,716*	*3,849*
including: Deferred tax liabilities	*(7,952)*	*(5,728)*
Acquired on purchase of a subsidiary	(1,483)	(2,059)
Recognised in profit or loss for the year	(1,813)	(525)
Recognised in other comprehensive income	(1,504)	4
Derecognised on disposal of a subsidiary	160	-
Recognised in the statement of changes in equity and the current tax return	24	67
Translation to presentation currency reserve	(98)	156
Balance at 31 December	**(8,950)**	**(4,236)**
including: Deferred tax assets	*2,802*	*3,716*
including: Deferred tax liabilities	*(11,752)*	*(7,952)*

On recognising deferred tax assets, the probability of a reversal of the individual differences and the abilities of the Group companies to generate sufficient taxable profit in the future, have been taken into account *(Note 2.27).*

The change in the balance of ***deferred tax assets/(liabilities)*** for 2016 by items of temporary differences is as follows:

Deferred tax assets (by temporary differences)	*Balance at 1 January 2015*	*Acquired on purchase of a subsidiary*	*Recognised in profit or loss for the year*	*Recognised in other comprehensive income*	*Derecognised on disposal of a subsidiary*	*Recognised in the statement of changes in equity and the current tax return*	*Translation to presentation currency reserve*	*Balance at 31 December 2016*
	Assets/(Liabilities)							*Assets/(Liabilities)*
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Intangible assets	(88)	-	(110.00)	-	-	-	79	(119)
Available-for-sale investments	58	-	-	-	-	-	-	58
Inventories	2,960	-	(860)	-	-	-	(21)	2,079
Trade receivables	1,928	-	(702)	-	-	-	(1)	1,225
Cash	17	-	-	-	-	-	-	17
Retirement benefit obligations	891	2	39	-	(3)	(4)	(55)	870
Other current liabilities	516	-	1	-	(7)	-	(23)	533
Property, plant and equipment	(8,494)	(14)	(427)	(1,504)	117	(21)	(35)	(10,336)
Intangible assets acquired in business combinations	(2,024)	(1,471)	246	-	53	7	(88)	(3,277)
	(4,236)	**(1,483)**	**(1,813)**	**(1,504)**	**160**	**24**	**(98)**	**(8,950)**

The change in the balance of ***deferred tax assets/(liabilities)*** for 2015 by items of temporary differences is as follows:

Deferred tax assets (by temporary differences)	*Balance at 1 January 2014*	*Acquired on purchase of a subsidiary*	*Recognised in profit or loss for the year*	*Recognised in other comprehensive income*	*Derecognised on disposal of a subsidiary*	*Recognised in the statement of changes in equity and the current tax return*	*Translation to presentation currency reserve*	*Balance at 31 December 2015*
	Assets/(Liabilities)							*Assets/(Liabilities)*
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Intangible assets	171	-	(249)	-	-	-	(10)	(88)
Available-for-sale investments	100	-	(33)	-	-	-	(9)	58
Inventories	4,162	7	(1,209)	-	-	-	-	2,960
Trade receivables	1,100	2	826	-	-	-	-	1,928
Cash	-	-	17	-	-	-	-	17
Retirement benefit obligations	693	21	197	4	-	-	(24)	891
Other current liabilities	375	87	82	-	-		(28)	516
Property, plant and equipment	(7,495)	(632)	(473)	-	-	67	39	(8,494)
Intangible assets acquired in business combinations	(985)	(1,544)	317	-	-	-	188	(2,024)
	(1,879)	**(2,059)**	**(525)**	**4**	**-**	**67**	**156**	**(4,236)**

This is a translation from Bulgarian of the consolidated financial statements of Sopharma Group for year 2016.

31. RETIREMENT BENEFIT OBLIGATIONS

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Long-term retirement benefit obligations	4,314	4,022
Long-term benefit obligations for tantieme	225	177
Total	**4,539**	**4,199**

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 (Serbia up to 31.12.2015)*, 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 7 and BGN 14 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 and Belarus* – 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;

For the purpose of establishing the amount of these obligations to personnel, the Group companies have assigned an actuarial valuation by using the services of a certified actuary.

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

	2016	***2015***
	BGN '000	***BGN '000***
Present value of the obligation at 1 January	**4,022**	**3,575**
Effect from acquisition of subsidiaries	-	154
Effect from disposal of subsidiaries	(14)	-
Current service cost for the year	543	463
Interest cost for the year	161	196
Net actuarial loss recognised for the period	-	17
Past service cost in relation to staff curtailment	-	(14)
Payments made in the year	(490)	(553)
Effect of restatement	(36)	(133)
Remeasurement gains or losses for the year, including:	128	317
Actuarial losses arising from changes in financial assumptions	*88*	*346*
Actuarial losses arising from changes in demographic assumptions	*5*	*258*
Actuarial losses arising from experience adjustments	35	*(287)*
Present value of the obligations at 31 December	**4,314**	**4,022**

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

	2016	***2015***
	BGN '000	***BGN '000***
Current service cost	543	463
Interest cost	161	196
Net actuarial loss recognised for the period	-	17
Past service cost in relation to staff curtailment	-	(14)
Components of defined benefit plan costs recognised in profit or loss *(Note 7)*	**704**	**662**
Remeasurement gains or losses on the retirement benefit obligations, including:	-	
Actuarial losses arising from changes in financial assumptions	88	*346*
Actuarial losses arising from changes in demographic assumptions	5	*258*
Actuarial losses arising from experience adjustments	35	*(287)*
Components of defined benefit plans cost recognised in other comprehensive income *(Note 15)*	**128**	**317**
Total	**832**	**979**

This is a translation from Bulgarian of the consolidated financial statements of Sopharma Group for year 2016.

The following actuarial assumptions were used for calculating the present value of the liabilities for the companies in Bulgaria as at 31 December 2016:

- The discount factor is calculated by using 2.5% annual interest rate as basis. (2015: 2.8 %). The assumption is based on yield data for long-term government securities with 10-year maturity;
- The assumption for the future level of the salaries is based on the information provided by the Company's management and amounts to 5% annual growth compared to the prior reporting period (2015: 5%);
- Mortality rate – in accordance with the table on the total mortality rate of the population in Bulgaria, issued by the National Statistics Institute for the period 2013 – 2015 (2015: 2012 - 2014);
- Staff turnover rate – from 0 % to 20% for the five age groups formed (2015: between 0% and 20%).

This defined benefit plan exposes the Group companies to the following risks: investment risk, interest risk, longevity risk and salary growth related risk: The management of the parent defines them as follows:

- investment risk – as far as this is unfunded plan, the Group companies should monitor and balance currently the forthcoming payments under it with the ensuring of sufficient cash resources. The historical experience and the liability structure show that the annual resource required is not material compared to the commonly maintained liquid funds;
- interest risk – any increase in the yield of government securities with similar term will increase the plan liability;
- longevity risk – the present value of the retirement benefit liability is calculated by reference to the best estimate and updated information about the mortality of plan participants. An increase in life expectancy would result in a possible increase in the liability. A relative stability of this indicator has been observed in the recent years; and
- salary growth related risk – the present value of the retirement benefit liability is calculated by reference to the best estimate of the future increase in plan participants' salaries. Such an increase would increase the plan liability.

The sensitivity analysis of the main actuarial assumptions is based on the reasonably possible changes of these assumptions at the end of the reporting period, assuming that all other assumptions are held constant.

The effects of the change (increase or decrease) by 1% of salary growth, discount rate and staff turnover rate on the amount of the stated current service cost and interest cost for 2017 and respectively, on the present value of the obligation for payment of defined retirement benefits, are assessed as follows:

Effects of changes in the basic assumptions on the amount of stated expenses for 2016:

	Increase	***Decrease***
	BGN '000	*BGN '000*
Change in salary growth	53	(47)
Change in discount rate	(11)	11
Change in staff turnover rate	(40)	44

Effects of changes in the basic assumptions on the amount of the stated liability as at 31 December 2016:

	Increase	***Decrease***
	BGN '000	*BGN '000*
Change in salary growth	52	(45)
Change in discount rate	(7)	10
Change in staff turnover rate	(38)	42

The weighted average duration of the defined benefit obligation to personnel is from 4 to 15 years.
The expected indemnity payments upon retirement under the defined benefit plan for the following five years are as follows:

Forecasted payments	***Old age and lengthof service retirement***	***Disability retirement***	***Total***
	BGN '000	***BGN '000***	***BGN '000***
Payments in 2017	691	18	709
Payments in 2018	328	16	344
Payments in 2019	388	16	404
Payments in 2020	439	16	455
Payments in 2021	370	16	386
	2,216	**82**	**2,298**

Long-term benefit obligations for tantieme

As at 31 December 2016, the long-term benefit obligations to personnel include also the amount of BGN 225 thousand (31 December 2015: BGN 177 thousand), representing a payable to personnel related to tantieme payment for a period of more than 12 months – until 2019 (2015: until 2018).

32. FINANCE LEASE LIABILITIES

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

Term	***31.12.2016***	***31.12.2015***
	BGN'000	***BGN'000***
Up to one year *(Note 40)*	1,104	1,068
Over one year	2,582	1,957
Total	**3,686**	**3,025**

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

Term	*31.12.2016*	*31.12.2015*
	BGN'000	*BGN'000*
Up to one year	1,254	1,226
From one to three years	2,711	2,143
	3,965	3,369
Future finance costs under finance leases	(279)	(344)
Total	**3,686**	**3,025**

The lease payments due within the next 12 months are presented in the consolidated statement of financial position as 'other current liabilities' *(Note 40).*

33. GOVERNMENT GRANTS

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

	31.12.2016	*31.12.2015*
	BGN'000	*BGN'000*
Government grants, non-current portion	9,011	9,343
Government grants, current portion *(Note 40)*	1,224	1,376
Total	**10,235**	**10,719**

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

	31.12.2016	*31.12.2015*
	BGN'000	*BGN'000*
Sopharma AD	6,365	6,868
Biopharm Engineering AD	2,093	2,604
Unipharm AD	879	1,238
Veta Pharma AD	769	-
Medica AD	129	-
Sopharma Trading AD	-	9
Total	**10,235**	**10,719**

The government grants are received under European Operational Programmes mainly in relation to the acquisition of machinery and equipment *(Notes 16 and 41).*

The current portion of the grants, amounting to BGN 1,224 thousand (31 December 2015: BGN 1,376 thousand), will be recognised as current income over the following 12 months from the date of the consolidated statement of financial position and is presented as 'other current liabilities' *(Note 40).*

34. SHORT-TERM BANK LOANS

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

Currency	*Contracted amount '000*	*Maturity*	*31.12.2016 BGN'000*	*31.12.2015 BGN'000*
Bank loans (overdrafts)				
EUR	21,000	31.10.2017	30,425	28,003
EUR	20,000	31.10.2017	11,603	30,491
EUR	7,500	25.04.2017	10,743	10,742
BGN	10,000	31.01.2017	10,001	10,001
EUR	5,000	25.04.2017	9,757	9,757
BGN	20,000	21.04.2017	9,242	-
EUR	10,000	20.03.2017	6,827	2,193
EUR	3,000	25.04.2017	5,862	5,861
EUR	7,000	13.02.2017	5,299	11,184
EUR	2,500	14.09.2017	4,824	976
EUR	3,500	02.09.2017	4,698	5,744
UAH	59,000	31.12.2017	4,060	-
EUR	2,050	31.10.2017	3,712	3,904
EUR	3,090	29.09.2017	2,949	-
EUR	6,000	15.02.2017	2,056	-
BYN	1,528	29.05.2017	1,458	-
BYN	500	21.10.2018	477	-
BYN	350	19.03.2017	314	-
BYN	150	22.02.2017	66	-
BYN	14	31.01.2017	13	-
EUR	10,000	31.01.2016	-	19,553
BGN	5,000	15.08.2017	-	9,787
BGN	293	30.04.2016		180
BGN	500	20.09.2016		70
EUR	5,000	15.08.2016	-	4
			124,386	**148,450**
Credit lines				
EUR	8,434	31.01.2017	15,908	15,872
BGN	10,000	31.01.2017	10,000	9,978
BGN	18,000	30.10.2016	8,005	10,006
EUR	5,000	31.08.2017	2,613	6,479
EUR	3,000	01.11.2019	5,913	-
EUR	2,600	28.05.2019	3,052	-
BGN	1,000	20.12.2018	680	-
BYN	300	30.01.2018	285	-
			46,456	**42,335**
Total			**170,842**	**190,785**

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 3%, or fixed to 25.5%, or EONIA plus a mark-up of up to 2.1%; for loans in BGN – interest is based on SOFIBOR plus a mark-up of up to 3.26%; for loans in BYN – fixed rate of 36.8%; and for loans in UAH – fixed rate of 16.5% (2015: in EUR – EURIBOR plus a mark-up of up to 3%, or fixed to 25.5%, or EONIA plus a mark-up of 2.1%; for loans in BGN – SOFIBOR plus a mark-up of up to 3.26%; for loans in USD – fixed rate of up to 10%; and for loans in BYN – fixed rate of 27%). Loans are intended for providing working capital.

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

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

As at 31 December 2016, 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 18,229 thousand (31 December 2015: BGN 18,229 thousand), established as collateral under received by the Group bank loans and issued bank guarantees *(Notes 29, 34 and 41).*

35. TRADE PAYABLES

Trade payables include:	***31.12.2016***	***31.12.2015***
	BGN'000	***BGN'000***
Payables to suppliers	91,091	87,046
Advances from clients	962	394
Total	**92,053**	**87,440**

The ***payables to suppliers*** refer to:	***31.12.2016***	***31.12.2015***
	BGN'000	***BGN'000***
Suppliers outside Bulgaria	22,123	63,786
Suppliers from Bulgaria	68,968	23,260
Total	**91,091**	**87,046**

The payables to suppliers are regular, interest-free and refer to supplies of materials, goods and services. The average credit period, for which usually no interest is charged on trade payables, is up to 180 days.
The payables to suppliers are denominated in the following currencies:

- in EUR –BGN 47,119 thousand (31 December 2015: BGN 37,456 thousand);
- in BGN – BGN 22,600 thousand (31 December 2015: BGN 23,688 thousand);
- in USD – BGN 2,274 thousand (31 December 2015: BGN 4,024 thousand);
- in BYN – BGN 18,866 thousand (31 December 2015: BGN 20,197 thousand);
- in other currency – BGN 232 thousand (31 December 2015: BGN 1,681 thousand).

36. PAYABLES TO RELATED PARTIES

The ***payables to related parties*** refer to:

	31.12.2016	***31.12.2015***
	BGN'000	***BGN'000***
Payables to subsidiaries and associates	292	151
Payables to companies related through key managing personnel	240	1,702
Payables to main shareholding companies	25	102
Payables to companies related through a main shareholder	9	411
Total	**566**	**2,366**

The payables to related parties by type are as follows:

	31.12.2016	***31.12.2015***
	BGN'000	***BGN'000***
Payables on supply of goods and materials	331	2,348
Supply of services	235	-
Other	-	18
Total	**566**	**2,366**

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.

37. FACTORING AGREEMENT LIABILITIES

The Group entered into a factoring agreement with a financial institution (Factor), dated 19 January 2016, and Factor 2, dated 16 Mrch 2016 for transfer of existing non-callable receivables from clients.

The Factor is entitled to recourse for all amounts paid in advance regardless of whether they are included not in the approved credit limit. The approved credit limit is BGN 20,000 thousand. The transferred invoices are paid in advance up to 90% (ninety per cent) of their amount with VAT included.
The interest for the amounts paid in advance is 1M SOFIBOR + 1.80% on an annual basis.
As of 31 Decmber the payable under the factoring agreement amounts to BGN 20,033 thousand.

Factor 2 has the right of recourse for all advances, whether or not included in the approved credit limit, which varies according to sales to customers and prior approval by the bank.
The interest on the funds transferred shall be the rate of refinancing of the National Bank of the Republic of Belarus plus 7% on an annual basis and shall be withheld monthly at the end of each calendar month. The contract was valid until December 15, 2016, and as of 31 December 2016, the company has discharged all its obligations in relation to it.
In 2016 total funding provided amounts to BGN 132,375 thousand. *(Note 2.18).*

38. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security include:

	31.12.2016	*31.12.2015*
	BGN'000	***BGN'000***
Payables to personnel, including:	8,264	7,310
current wages and salaries	*3,675*	*3,342*
tantieme	*2,895*	*2,486*
accruals on unused compensated leaves	*1,694*	*1,482*
Payables for social security/health insurance, including:	1,829	1,584
current payables for social security contributions	*1,588*	*1,375*
accruals on unused compensated leaves	*241*	*209*
Total	**10,093**	**8,894**

39. TAX PAYABLES

Tax payables include:

	31.12.2016	*31.12.2015*
	BGN'000	***BGN'000***
VAT	4,493	4,976
Taxes on expenses	544	513
Individual income taxes	458	427
Income taxes	385	378
Withholding taxes	5	5
Other	64	69
Total	**5,949**	**6,368**

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

Company	**Full-scope tax audit**	**VAT inspection**	**Inspection under the social security legislation**
Sopharma AD	31.12.2011	30.11.2011	30.09.2013
Sopharma Trading AD	31.12.2011	31.12.2011	31.12.2004
Biopharm Engineering AD	31.12.2014	28.02.2015	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	30.11.2016	none
Electroncommerce EOOD	31.12.2005	30.04.2006	none
Unipharm AD	31.12.2011	31.12.2011	31.08.2013
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	31.12.2010	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	28.02.2011	28.02.2011	28.02.2010
SOOO Brizpharm	31.12.2012	31.12.2012	none
ODO Vestpharm	30.04.2005	30.04.2005	31.03.2004
ODO BelAgroMed	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	31.12.2002	31.01.2013	31.01.2016
OOO Mobil Line	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	31.04.2013	30.04.2013	31.12.2012
Veta Pharma AD	none	30.09.2016	30.06.2016
ODO SalusLine	31.10.2007	31.10.2007	31.03.2016

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, and in Serbia – within a term of ten years.

The companies Phyto Palauzovo AD, OOO Farmacevt Plus, TOO Sopharma Kazakhstan, OOO Farmatea, UAB TBS Pharma, OOO Galenapharm, OOO Danapharm, Sopharma Warsaw SP. Z.O.O. have not been subject to full-scope tax audits, VAT audits and inspections under the social security regulations.

40. OTHER CURRENT LIABILITIES

Other current liabilities include:	***31.12.2016*** ***BGN'000***	***31.12.2015*** ***BGN'000***
Government grants *(Note 33)*	1,224	1,376
Finance lease liabilities *(Note 32)*	1,104	1,068
Share purchase liabilities	860	
Awarded amounts under litigations	343	359
Dividends payable	697	749
Trade loans received from third parties	360	570
Deductions from work salaries	183	178
Other	371	558
Total	**5,142**	**4,858**

This is a translation from Bulgarian of the consolidated financial statements of Sopharma Group for year 2016.

41. CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

Sopharma AD

In relation to the amount of EUR 1,034 thousand (BGN 2,022 thousand) awarded by the Court of Arbitration in Paris, Sopharma AD initiated cases in Poland against former members of the Management Board of the convicted company for caused damages and non-performance of the obligations regarding the bankruptcy of the said company. As at 31 December 2016, the cases are pending in the District Court and the Regional Court of Warsaw.

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:

	Maturity	Currency	Amount		Debt status
			Original		*31.12.2016*
			Currency	BGN'000	BGN'000
Sopharma Properties REIT	2024	EUR	22,619	44,240	28,818
Mineralcommerce AD	2017 – 2021	BGN	701	701	585
Total					**29,403**

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

(a) under loans of companies related through key management personnel:

- Mortgages of real estate – none (31 December 2015: BGN 1,119 thousand) *(Note 16)*;

(b) under loans of third parties:

- Special pledge on inventories – none (31 December 2015: BGN 2,623 thousand) *(Note 23)*.

Bank guarantees

Sopharma Trading AD

The bank guarantees issued for the Company are to secure payments to suppliers of goods, for good performance – ensuring future deliveries of pharmaceutical and medicinal products to hospitals under concluded contracts, customs office guarantees and tender participation.

The bank guarantees have been issued by:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Raiffeisenbank EAD	4,664	5,010
SG Expressbank AD	4,049	3,936
ING Bank N.V.	1,883	3,776
	10,596	**12,722**

The collateral for issued bank guarantees is as follows:

- Special pledge on goods in circulation at the amount of BGN 9,801 thousand (31 December 2015: BGN 9,801 thousand) *(Note 23).*
- Special pledge on receivables from clients with a carrying amount of BGN 2,347 thousand (31 December 2015: BGN 2,347 thousand) *(Note 24).*
- As at 31 December 2016, there is no a special pledge established on PPE (motor vehicles) (31 December 2015: BGN 2 thousand) *(Note 16).*

Unipharm AD

The following have been issued as at 31 December 2016: bank guarantees at the amount of BGN 74 thousand within the loan agreement limit, a bank guarantee for arranging discounts under Ordinance No 10 for medicinal products to the NHIF at the amount of BGN 10 thousand and a bank guarantee at the amount of BGN 20 thousand secured in cash.

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 74 thousand as at 31 December 2016 (31 December 2015: none).

<u>Assets held under safe custody</u>

Sopharma Trading AD

According to concluded pre-distribution contracts, the Company has received goods for safe custody amounting to BGN 4,046 thousand as at 31 December 2016 (31 December 2015: BGN 2,892 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 33 and Note 40)*, related to technological renovation and modernisation of tablet production facilities and implementation of innovative products in the ampoule production section *(Note 16)*. 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.

Sopharma Trading AD

The company is a beneficiary under a government grant contract under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" for the project on Development and Implementation of Information Security Management System Project in accordance with ISO 27001:2007 in the amount of BGN 82 thousand *(Note 33 and Note 40)*.

42. SEGMENT REPORTING

The segment reporting in the Group is organised on the basis of two basic business segments – 'production of pharmaceutical products' and 'distribution of pharmaceutical products (goods)'. The group 'other' includes mainly production and distribution of non-pharmaceutical products.

The ***items of income, expenses and result of business segments*** determined in the Group include:

	Production of pharmaceutical products		*Distribution of pharmaceutical products (goods)*		*Other*		*Elimination*		*Consolidated*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
External sales	223,182	244,911	628,078	604,510	25,825	25,563	-	-	877,085	874,984
Intersegmental sales	104,042	105,758	80	27	693	-	(104,815)	(105,785)	-	0
Total revenue	**327,224**	**350,669**	**628,158**	**604,537**	**26,518**	**25,563**	**(104,815)**	**(105,785)**	**877,085**	**874,984**
Segment result (margin)	**114,228**	**125,582**	**61,684**	**49,385**	**12,986**	**7,731**	**2,353**	**675**	**191,251**	**183,373**
Non-allocated operating income									9,483	(2,678)
Non-allocated operating expenses									(155,783)	(144,255)
Profit from operations									**44,951**	**36,440**
Finance (costs)/income, net									(5,707)	(14,812)
Impairment of non-current assets									(967)	-
Gain (loss) on disposal of subsidiaries									14,860	7,222
Gain (loss) from associates and joint ventures, net									8,972	(1,275)
Profit before income tax									**62,109**	**27,575**
Income tax expense									(7,207)	(4,975)
Net profit for the year									**54,902**	**22,600**
Attributable to share owners of the parent									50,638	21,314
Non-controlling interests									4,264	1,286

The ***assets and liabilities of the business segments*** include:

Assets by business segment	*Production of pharmaceutical products*		*Distribution of pharmaceutical products (goods)*		*Other*		*Total*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Property, plant and equipment	160,021	159,540	44,762	43,021	23,552	22,336	228,336	224,897
Inventories	65,082	82,121	102,081	75,007	4,628	6,001	171,791	163,129
Receivables from related parties	20,476	42,523	3,688	5,380	846	36	25,010	47,939
Trade receivables	26,707	26,992	175,510	166,604	13,366	11,993	215,583	205,589
Cash and cash equivalents	12,158	11,250	8,103	10,097	2,078	1,767	22,339	23,114
Segment assets	**284,444**	**322,426**	**334,144**	**300,109**	**44,470**	**42,133**	**663,058**	**664,668**
Non-allocated assets							196,163	170,959
Total assets							**859,221**	**835,627**

Liabilities by business segment	*Production of pharmaceutical products*		*Distribution of pharmaceutical products (goods)*		*Other*		*Total*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Payables to personnel and for social security	2,080	1,876	3,199	2,743	354	324	5,633	4,943
Trade payables	7,412	11,041	80,601	75,334	4,039	1,065	92,053	87,440
Payables to related parties	380	1,253	151	1,102	35	11	566	2,366
Bank loans	83,901	110,663	122,343	133,782	-	-	206,244	244,445
Segment liabilities	**93,773**	**124,833**	**206,294**	**212,961**	**4,429**	**1,400**	**304,496**	**339,194**
Non-allocated liabilities							63,502	38,793
Total liabilities							**367,998**	**377,987**

The capital expenditures, depreciation/amortisation and non-monetary expenses other than depreciation/amortisation by business segment include:

	Production of pharmaceutical products		*Distribution of pharmaceutical products (goods)*		*Other*		*Total*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Capital expenditures	5,553	10,228	12,235	9,418	530	697	18,318	20,343
Depreciation and amortisation	13,968	13,322	8,701	6,239	1,432	865	24,101	20,426
Non-monetary expenses, other than depreciation and amortisation	1,224	3,677	1,004	(2,478)	7	-	2,235	1,199

The distribution of Group revenue *by type and by geographic area* is as follows:

	Bulgaria		***Europe***		***Other countries***		***Total***	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Sales of finished products	96,590	86,113	113,052	140,884	22,072	19,864	231,714	246,861
Sales of goods	541,040	531,316	104,168	96,575	163	232	645,371	628,123
	637,630	**617,429**	**217,220**	**237,459**	**22,235**	**20,096**	**877,085**	**874,984**

The carrying amount as at 31 December of Group's non-current assets other than financial instruments, *distributed by geographic area*, is as follows:

	Bulgaria		*Europe*		*Other countries*		*Total*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Property, plant and equipment	302,102	293,743	19,009	21,027	104	235	321,215	315,005
Intangible assets	21,786	15,306	12,776	8,765	39	56	34,601	24,127
Goodwill	6,936	6,830	2,949	4,545	-	-	9,885	11,375
Investment property	9,483	9,363	-	1,199	-	-	9,483	10,562
	340,307	**325,242**	**34,734**	**35,536**	**143**	**291**	**375,184**	**361,069**

The total revenue from transaction with the largest clients of the Group and the respective business segment is as follows:

	2016	***%***	***2015***	***%***
	BGN '000		***BGN '000***	
Client 1	163, 194	18%	152,621	17%

Client 1 is an association of a group of enterprises with similar business characteristics, which general principal is the Bulgarian state.

43. FINANCIAL RISK MANAGEMENT

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

The financial risks are currently identified, measured and monitored through various control mechanisms in order to establish adequate prices for the finished products and services of the Group companies and the borrowed thereby capital, as well as to assess adequately the market circumstance of its investments and the forms for maintenance of free liquid funds through preventing undue risk concentrations.
Risk management is currently performed by the management of the parent company and respectively, the managing bodies of the subsidiaries, in line with the policy defined by the Board of Directors of the parent.

The Board of Directors has approved the basic principles of general financial risk management, on the basis of which specific procedures have been established for management of the separate specific types of risk such as currency, price, interest, credit and liquidity risk and the risk of use of non-derivative instruments.

The structure of financial assets and liabilities is as follows:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Financial assets	***276,657***	***292,729***
Loans and receivables, including:	**270,620**	**284,991**
Receivables and loans *(Notes 21, 22, 24, 25 and 26)*	248,281	261,877
Cash and cash equivalents *(Note 27)*	22,339	23,114
Available-for-sale financial assets	**5,721**	**7,424**
Available-for-sale investments *(Note 20)*	**5,721**	7,424
Financial assets at fair value through profit *(Note 26)*	**316**	**314**
Financial liabilities	***324,251***	***339,389***
Financial liabilities at amortised cost	**324,251**	**339,389**
Short-term and long-term bank loans *(Notes 29 and 34)*	206,244	244,445
Other loans and liabilities *(Notes 32, 33, 35, 36 and 40)*	97,974	94,944
Payables under factoring agreement (Note 37)	*20,033*	-

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 – Serbian Dinar (RSD), Polish Zloty (PLN), Lithuanian Lit (LTL), US Dollar (USD), British Pound (GBP) and Kazakhstani Tenge (KZT).

There are forward contracts regarding the deals in Kazakhstani Tenge.

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

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

The import of goods is performed mainly in Euro (EUR). The loans denominated in a foreign currency have been granted mainly in EUR.

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

31 December 2016	***в BGN***	***in EUR***	***in BYN***	***in UAH***	***in USD***	***in other currency***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Available-for-sale financial assets	3,584	1,796	-	-	341	-	5,721
Financial assets at fair value through profit	316	-	-	-	-	-	316
Loans and receivables, including:	199,432	44,006	14,250	4,832	5,343	2,757	270,620
Receivables and loans	*183,632*	*41,750*	*12,424*	*3,365*	*5,086*	*2,024*	248,281
Cash and cash equivalents	*15,800*	*2,256*	*1,826*	*1,467*	*257*	*733*	22,339
Total financial assets	**203,332**	**45,802**	**14,250**	**4,832**	**5,684**	**2,757**	**275,656**
Short-term and long-term bank loans	39,319	160,252	2,613	4,060	-	-	206,244
Other loans and liabilities	46,809	47,639	19,646	148	3,492	273	118,007
Total financial liabilities	**86,128**	**207,891**	**22,259**	**4,208**	**3,492**	**273**	**324,251**

31 December 2015	***в BGN***	***in EUR***	***in BYR***	***in UAH***	***in USD***	***in other currency***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Available-for-sale financial assets	5,529	1,553	-	-	342	-	7,424
Financial assets at fair value through profit	314	-	-	-	-	-	314
Loans and receivables, including:	185,120	66,247	11,759	7,471	6,214	8,180	284,991
Receivables and loans	*170,093*	*64,738*	*10,753*	*5,784*	*4,805*	*5,704*	261,877
Cash and cash equivalents	15,027	1,509	1,006	1,687	1,409	2,476	23,114
Total financial assets	**190,963**	**67,800**	**11,759**	**7,471**	**6,556**	**8,180**	**292,729**
Short-term and long-term bank loans	67,933	167,293	9,148	-	-	71	244,445
Other loans and liabilities	27,673	40,227	20,945	272	4,024	1,803	94,944
Total financial liabilities	**95,606**	**207,520**	**30,093**	**272**	**4,024**	**1,874**	**339,389**

Foreign currency sensitivity analysis

The foreign currency sensitivity of the Group exposures is mainly related with the Ukrainian Hryvnia (UAH) and the Belarusian Ruble (BYN). With regard to the other currencies in which the Group operates or in which other companies of the Group operate (Serbian Dinar, Polish Zloty, US Dollar and Kazakhstani Tenge) the foreign currency risk of the Group is limited, because their exposures in these currencies are relatively small and are more easily regulated by the managing bodies of the respective subsidiaries.

The effect of foreign currency sensitivity to 10 % increase/decrease in current exchange rates of BGN to Belarusian Ruble (BYR), Ukrainian Hryvnia (UAH), US Dollar (USD) and in general to the other foreign currency exposures, based on the structure of foreign currency assets and liabilities at 31 December and on the assumption that the influence of all other variables is ignored, has been measured and presented as impact on the post-tax consolidated financial result and on the equity of the Group.

	2016			2015		
	BYR	**UAH**	**USD**	**BYR**	**UAH**	**USD**
	BGN '000	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**
Financial result	(721)	56	197	(1,650)	648	214
Retained earnings	(721)	56	197	(1,650)	648	214

In case of 10% increase in the exchange rate of Belarusian Ruble to the Bulgarian Lev, the ultimate impact on the (post-tax) profit of the Group for 2016 would be a decrease by BGN 721 thousand (1.31%), while for 2015 it would be an increase by BGN 1,650 thousand (7.3%). The effect in terms of value on Group's equity – through the component 'retained earnings' – would be the same. The Group analyses the currency exposure in this currency and undertakes timely measures to reduce its effects on the results of the Group.

In case of 10% increase in the exchange rate of Ukrainian Hryvnia to the Bulgarian Lev, the ultimate impact on the (post-tax) profit of the Group for 2016 would be an increase by BGN 56 thousand (0.1%), while for 2015 it would be an increase by BGN 648 thousand (2.9%). The effect in terms of value on Group's equity – through the component 'retained earnings' – would be the same.

In case of 10% increase in the exchange rate of USD to BGN, the final effect on post-tax profit of the Company for 2016 would be an increase by BGN 197 thousand (0.36%), while for 2015 it would be an increase by BGN 214 thousand (0.9%). The effect in terms of value on Group's equity – through the component 'retained earnings' – would be the same.

Respectively, on 10% decrease in the exchange rates of UAH, BYR and USD to BGN, the ultimate impact on the (post-tax) profit of the Group would be equal and reciprocal of the stated above.

'Other currencies' include mainly: BGN 2,043 thousand in PLN net financial assets, BGN 2,530 thousand in RSD net financial assets (2015: BGN 2,930 thousand in PLN net financial assets, BGN 2,530 thousand in RSD net financial assets).

The impact of the remaining currencies (other than the Ukrainian Hryvnia, Belarusian Ruble, USD, Euro for 2016) on Group's (post-tax) profit in case of 10% increase in their exchange rates to the Bulgarian Lev is as follows:

	2016		**2015**	
	PLN	**RSD**	**PLN**	**RSD**
	BGN '000		**BGN '000**	
Financial result	165	-	237	215
Retained earnings	165	-	237	215

Respectively, on 10% decrease in the exchange rates of the Polish Zloty and Serbian Dinar to the Bulgarian Lev, the ultimate impact on the (post-tax) profit of the Group would be equal and reciprocal of the stated above.

The effect on equity is of the same amount and in a direction of a decrease and reflects in the component 'retained earnings'.

Group's management is of the opinion that the presented above currency sensitivity analysis based on the balance sheet structure of foreign currency denominated assets and liabilities is representative for the usual currency sensitivity of the Group for the reporting year.

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 39% of Group's trade receivables (31 December 2015: 44%). It is mitigated through implemented procedures for selection and current monitoring of the liquidity and financial stability of these trade partners. On delay in payments of the receivables from these counterparts, the Group has set a period of 30 days after which it starts activities for collection of receivables. With regard to *clients – hospitals*, in case of 30 days of delay after the date on which the credit period expires, interest for delay is being charged and if delinquencies are not settled after further 30 days, a meeting with the management is arranged for the purpose of signing rescheduling agreement. If the agreement is not complied with, legal proceedings are initiated. With regard to *clients – pharmacies*, in case of a 5-day delay after the expiry of the credit period, the subsequent sales under deferred payment terms are suspended. If delinquencies are not settled up yo the 45th day, all sales are ceased and negotiations are held for concluding an agreement. If the agreement is not complied with, legal proceedings are initiated.

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

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

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

As at 31 December 2016, the Group has concentration in trade receivables from a single counterpart that exceeds 10% of the total amount of trade receivables as presented in the consolidated statement of financial position.

The concentration of the first five clients with regard to trade receivables of the Group is as follows:

	31.12.2016	***% credit exposure to total trade receivables***	***31.12.2015***	***% credit exposure to total trade receivables***
	BGN '000	%	***BGN '000***	%
Client 1	16,751	8%	16,786	8%
Client 2	13,792	7%	20,638	10%
Client 3	7,934	4%	12,740	6%
Client 4	6,947	3%	6,675	3%
Client 5	6,232	3%	6,010	3%

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 ensuring their current balancing with inflows, including renegotiation of maturities and optimisation of debt structure, increase and internal restructuring of self-generated funds and their investment.

Maturity analysis

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

Maturity analysis

31 December 2016	*up to 1 month BGN '000*	*1 to 3 months BGN '000*	*3 to 6 months BGN '000*	*6 to 12 months BGN '000*	*1 to 2 years BGN '000*	*2 to 5 years BGN ’000*	*over 5 years BGN '000*	*Total BGN '000*
Short-term and long-term bank loans	37,135	14,702	59,642	71,405	9,453	18,429	-	**210,766**
Other loans and liabilities	60,009	41,989	11,257	1,488	1,130	1,385	-	**117,258**
Total liabilities	**97,144**	**56,691**	**70,899**	**72,893**	**10,583**	**19,814**	**-**	**328,024**

31 December 2015	*up to 1 month BGN '000*	*1 to 3 months BGN '000*	*3 to 6 months BGN '000*	*6 to 12 months BGN '000*	*1 to 2 years BGN '000*	*2 to 5 years BGN ’000*	*over 5 years BGN '000*	*Total BGN '000*
Short-term and long-term bank loans	27,768	20,866	31,504	131,994	13,479	24,367	2,409	**252,387**
Other loans and liabilities	40,430	42,271	9,786	1,415	622	1,180	-	**95,704**
Total liabilities	**68,198**	**63,137**	**41,290**	**133,409**	**14,101**	**25,547**	**2,409**	**348,091**

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 probability of a significant change in interest rate levels in case of variable component updating. Thus the probability for an unfavourable change of cash flows is reduced to a minimum.

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

Interest analysis	*interest-free*	*with floating interest %*	*with fixed interest %*	*Total*
31 December 2016	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	5,721	-	-	5,721
Available-for-sale financial assets through profit	316	-	-	316
Loans and receivables, including:	212,141	7,590	50,889	270,620
Receivables and loans	*205,994*	*15*	*42,272*	248,281
Cash and cash equivalents	*6,147*	*7,575*	*8,617*	*22,339*
Total financial assets	**218,178**	**7,590**	**50,889**	**276,657**
Short-term and long-term bank loans	-	174,982	31,262	206,244
Other loans and liabilities	94,272	23,341	394	118,007
Total financial liabilities	**94,272**	**198,323**	**31,656**	**324,251**

Interest analysis	*interest-free*	*with floating interest %*	*with fixed interest %*	*Total*
31 December 2015	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	7,424	-	-	7,424
Available-for-sale financial assets through profit	314	-	-	314
Loans and receivables, including:	200,803	7,568	76,620	284,991
Receivables and loans	*190,953*	15	*70,909*	261,877
Cash and cash equivalents	*9,850*	7,553	*5,711*	23,114
Total financial assets	**208,541**	**7,568**	**76,620**	**292,729**
Short-term and long-term bank loans	988	233,288	10,169	244,445
Other loans and liabilities	91,716	2,729	499	94,944
Total financial liabilities	**92,704**	**236,017**	**10,668**	**339,389**

The table below demonstrates Group's sensitivity to possible changes in interest rates by 0.5% based on the structure of assets and liabilities as at 31 December and with the assumption that the influence of all other variables is ignored. The effect is measured and presented as impact on the financial result after taxes and respectively, on equity.

Increase / decrease in interest rate	*Impact on post-tax financial result and equity profit/(loss)*	
	2016	**2015**
	BGN '000	**BGN '000**
Increase	(945)	(1,114)
Decrease	945	1,114

Capital risk management

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

The Group currently monitors capital availability and structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by the total amount of employed capital. Net debt is calculated as total borrowings (current and non-current ones) as presented in the consolidated statement of financial position less cash and cash equivalents. Total employed capital is equal the sum of equity (including non-controlling interest) and net debt. It is a characteristic feature for both presented periods that the Group finances its operations both through its own generated profit and by maintaining a certain level of trade and other current payables and loans (bank, commercial ones). In 2016, the strategy of the parent company's management was to maintain the ratio within 25-35% at a Group level (2015: 25-35%).

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

	2016	*2015*
	BGN'000	*BGN'000*
Total borrowings, including:	**229,963**	**247,470**
Bank loans	206,244	244,445
Loans and finance lease and factoring liabilities	23,719	3,025
Less: Cash and cash equivalents	**(22,339)**	**(23,114)**
Net debt	**207,624**	**224,356**
Total equity of the Group	**491,223**	**457,640**
Total capital of the Group	**698,847**	**681,996**
Gearing ratio	**0.30**	**0.33**

The liabilities shown in the table are disclosed in *Notes 29, 32 and 34 and 37.*

Fair values

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

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

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

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.

44. ACQUISITIONS AND INCREASING THE INTERESTS IN SUBSIDIARIES

44.1 Acquisition of subsidiaries

In 2016, the Group, through its subsidiariy Sopharma Trading AD, established the following companies by contribution for 100% of interest in the capital of the companies.

	date of acquisition	effective interest %	amount of capital contribution *BGN '000*
Through Sopharmacy EOOD (Sopharma Trading AD subsidiary)			
Sopharmacy 4 EOOD	29.02.2016	72.58%	5
Sopharmacy 5 EOOD	01.03.2016	72.58%	5

In 2016, the Group acquired the following new subsidiaries:

	date of acquisition	% interest	acquired net assets at fair value *BGN '000*
Veta Pharma AD	11.11.2016	68.05%	9,469
Though its subsidiary SIA Briz			
OOO Mobil Line	16.02.2016	48.14%	1,209
ODO SalusLine	18.11.2016	48.74%	3,306

In 2015, the Group through Sopharma Trading AD established the following companies by contribution for 100% of interest in the capital of the companies.

	date of acquisition	effective interest %	amount of capital contribution
Through Sopharma Trading AD			***BGN '000***
Sopharmacy EOOD	19.01.2015	72.13%	2,105
Sopharma Trading d.o.o. Belgrade	05.06.2015	72.13%	579*
Through Sopharmacy EOOD (subsidiary of Sofarma Trading AD)			
Sopharmacy 2 EOOD	05.06.2015	72.13%	355
Sopharmacy 3 EOOD	02.12.2015	72.13%	350

** capital of BGN 400 thousand was transferred but registered in 2016*

In 2015, the Group acquired the following new subsidiaries:

	date of acquisition	% interest	acquired net assets at fair value
			BGN '000
Medica AD, including Medica Zdrave EOOD	26.10.2015	66.72%	32,216
Through Sopharma Trading AD			
Pharma Online EOOD	03.12.2015	72.13%	541
Though SIA Briz			
OOO Danapharm	28.02.2015	48.14%	596
OOO Galenapharm	28.02.2015	48.14%	1,366
ODO Medjel	28.02.2015	48.14%	580
ODO Alenpharm-plus	30.06.2015	48.14%	3,631
OOO Farmatea	30.11.2015	33.73%	757

The scope of activities of the acquired subsidiaries is disclosed in Note 1. The carrying amounts, as well as the fair values of the net assets at acquisition of the new subsidiaries (Note 2.3.2) are presented below:

In 2016:

	Fair value	***Carrying amount***
	BGN '000	***BGN '000***
Property, plant and equipment *(Note 16)*	4,788	4,786
Intangible assets *(Note 17)*	10,647	4
Inventories	1,536	1,536
Other receivables and assets	1,329	1,329
Cash and cash equivalents	439	439
Loans	(1,328)	(1,328)
Trade payables	(670)	(670)
Other current liabilities	(2,755)	(1,215)
Total net assets	**13,984**	**4,881**

	Total net assets at:		Non-	Share of non-controlling interest		Net assets acquired by the Group	
	Fair value	Carrying amount	controlling interests	Fair value	Carrying amount	Fair value	Carrying amount
	BGN '000	BGN '000	%	BGN '000	BGN '000	BGN '000	BGN '000
Veta Pharma AD	9,469	4,595	32%	3,025	1,468	6,444	3,127
OOOMobil Line	1,209	117	51%	617	60	592	57
ODO SalusLine	3,306	169	51%	1,695	87	1,611	82
	13,984	**4,881**		**5,337**	**1,615**	**8,647**	**3,266**

In 2015:

	Fair value	***Carrying amount***
	BGN '000	***BGN '000***
Property, plant and equipment *(Note 16)*	17,461	16,703
Intangible assets *(Note 17)*	11,929	448
Inventories	8,711	8,711
Other receivables and assets	11,700	11,700
Cash and cash equivalents	1,695	1,695
Loans	(5,319)	(5,318)
Trade payables	(2,258)	(2,258)
Other current liabilities	(4,232)	(2,412)
Total net assets	**39,687**	**29,269**

	Total net assets at:		Non-	Share of non-controlling interest		Net assets acquired by the Group	
	Fair value	Carrying amount	controlling interests	Fair value	Carrying amount	Fair value	Carrying amount
	BGN '000	BGN '000	%	BGN '000	BGN '000	BGN '000	BGN '000
Medica AD, including Medica Zdrave EOOD	32,216	28,402	33%	10,631	9,373	21,585	19,029
Pharma Online EOOD	541	2	28%	151	1	390	1
OOO Danapharm	596	39	52%	309	20	287	19
OOO Galenapharm	1,366	134	52%	708	69	658	65
ODO Medjel	580	69	52%	301	36	279	33
ODO Alenpharm-plus	3,631	547	52%	1,883	284	1,748	263
OOO Farmatea	757	76	66%	502	50	255	26
	39,687	**29,269**		**14,485**	**9,833**	**25,202**	**19,436**

The investment price on the acquisition of subsidiaries and the resulting goodwill at the date of the transaction for acquisition of control by the parent company itself were as follows:

In 2016:

The Group, through Sopharma Trading AD, has paid a share of the capital of Sopharmacy 4 EOOD – BGN 5 thousand and Sopharmacy 5 EOOD – BGN 5 thousand.
In addition, the Group has also the following purchases of subsidiaries:

Acquisition cost	**Veta Pharma AD Bulgaria**	**OOO Mobil Line Belarus**	**ODO SalusLine Belarus**	**Total**
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***
Transfer from associates	-	514	1,023	1,537
Interest by the acquisition of control date	-	-	(12)	(12)
Measurement to fair value of previous interest by the date of acquisition of control	-	(108)	(19)	(127)
Amounts paid in current period	6,549	-	-	6,549
Amounts accrued in current period	-	709	2,137	2,846
Share of the non-controlling interests in the investment on indirect acquisition	-	(686)	(1,767)	(2,453)
Total acquisition cost	**6,549**	**429**	**1,362**	**8,340**
Fair value of the acquired net assets	**(6,443)**	**(583)**	**(1,449)**	**(8,475)**
Goodwill	106	-	-	**106**
Gain on acquisition	-	(154)	(87)	**(241)**

In 2015:

The Group, through Sopharma Trading AD, contributed share of the capital of Sopharmacy EOOD – BGN 2,105 thousand, Sopharmacy 2 EOOD – BGN 355 thousand, Sopharmacy 3 EOOD – BGN 350 thousand, Sopharma Trading d.o.o. Belgrade – BGN 579 thousand.

In addition, the Group has also the following purchases of subsidiaries:

Acquisition cost	Medica AD, including Medica Zdrave EOOD **Bulgaria**	Pharma Online EOOD **Bulgaria**	OOO Danapharm **Belarus**	OOO Galenapharm **Belarus**	ODO Medjel **Belarus**	ODO Alenpharm-plus **Belarus**	OOO Farmatea **Belarus**	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Transfer from associates	7,672	-	-	-	-	-	-	7,672
Transfer from available-for-sale investments	-	-	39	86	31	207	-	363
Interest by the acquisition of control date	4,545	-	-	-	-	1,545	-	6,090
Measurement to fair value of previous interest by the date of acquisition of control	(884)	-	21	51	27	(344)	-	(1,129)
Amounts paid in current period	10,839	420	761	1,686	620	2,396	755	17,477
Contingent payment	-	180	-	-	-	-	-	180
Share of the non-controlling interests in the investment on indirect acquisition	-	-	(386)	(857)	(318)	(2,040)	(256)	(3,857)
Total acquisition cost	**22,172**	**600**	**435**	**966**	**360**	**1,764**	**499**	**26,796**
Fair value of the acquired net assets	**(21,495)**	**(541)**	**(287)**	**(658)**	**(279)**	**(1,748)**	**(255)**	**(25,263)**
Goodwill	**677**	**59**	**148**	**308**	**81**	**16**	**244**	**1,533**

The cash outflows from acquisition of control were as follows:

In 2016:

Cash flows on acquisition of control

Aquisition cost	Veta Pharma AD **Bulgaria**	Mobil Line **Belarus**	SalusLine **Belarus**	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Consideration paid in cash	6,549	-	-	6,549
Cash and cash equivalents in the acquired companies	(400)	(21)	(18)	(439)
Cash outflow on acquisition of control, net	**6,149**	**(21)**	**(18)**	**6,110**

This is a translation from Bulgarian of the consolidated financial statements of Sopharma Group for year 2016.

In 2015:

Cash flows on acquisition of control

Aquisition cost	Medica AD, including Medica Zdrave EOOD **Bulgaria**	Pharma Online EOOD **Bulgaria**	OOO Danapharm **Belarus**	OOO Galenapharm **Belarus**	ODO Medjel **Belarus**	ODO Alenpharm-plus **Belarus**	OOO Farmatea **Belarus**	**Total**
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '00(***
Consideration paid in cash	10,839	420	726	1,608	592	2,396	755	17,336
Cash and cash equivalents in the acquired companies	(1,543)	(28)	(4)	(35)	(12)	(58)	(52)	(1,732)
Cash outflow on acquisition of control, net	**9,296**	**392**	**722**	**1,573**	**580**	**2,338**	**703**	**15,604**

44.2. Increasing interest (purchases from non-controlling interests)

The Group performed transactions for purchase of additional shares from non-controlling interests:

In **2016** the Group acquired the following shares:

Increases in interests (purchases from non-controlling interests)	**transaction date**	**% change in interest**	**acquired net assets**
			BGN '000
Pharmalogistica AD	08.12.2016	6.56%	293
Medica AD	30.06.2016	31.24%	10,348
Sopharma Trading AD	22.12.2016	0.46%	321
Momina Krepost AD	10.08.2016	0.76%	38
ODO Alenpharm-plus	02.06.2016	0.79%	8
OOO Mobil Line	02.06.2016	0.79%	11
ODO MEDJEL	02.06.2016	0.79%	3
OOO Galenapharm	02.06.2016	0.79%	8
OOO Danapharm	02.06.2016	0.79%	5
OOO Tabina	31.08.2016	3.97%	(10)
SOOO Brizpharm	24.02.2016	6.85%	36
SOOO Brititrade	02.06.2016	1.50%	(13)
ODO SalusLine	27.12.2016	4.89%	166
ODO BelAgroMed	13.10.2016	12.70%	29
ODO Vestpharm	10.11.2016	0.13%	1
Phyto Palauzovo AD	13.10.2016	45.01%	47
Unipharm AD	05.12.2016	26.00%	6,352
			17,643

In **2015** the Group acquired the following shares:

Increases in interests (purchases of non-controlling interests)	**transaction date**	**% change in interest**	**acquired net assets**
			BGN '000
Momina Krepost AD	31.10.2015	39.45%	1,883
Sopharma Trading AD	28.02.2015	0.30%	193
Pharmalogistica AD	31.12.2015	1.83%	79
OOO Farmacevt Plus	02.10.2015	9.25%	65
ODO Alean	16.04.2015	17.86%	37
Unipharm AD	31.12.2015	0.14%	32
ODO Vestpharm	23.03.2015	3.31%	24
Phyto Palauzovo AD	31.12.2015	47.51%	13
ODO BelAgroMed	13.03.2015	3.31%	9
SOOO Brizpharm	31.12.2015	0.39%	1
			2,336

The acquisition cost of the purchased additional shares in 2016, the effects and the cash outflows, relating to these transactions, were as follows:

Increases in interests (purchases of non-controlling interests)	**Total**
	BGN '000
Acquisition cost	
Consideration paid in cash	21,946
Indirect acquisition through a subsidiary	26
Share of the non-controlling interests on indirect acquisition	(2,557)
Total acquisition cost	**19,415**
Fair value of the acquired net assets	**(17,643)**
Effects assumed by the Group at the account of Group's 'retained earnings' reserve	**1,772**
Cash outflow on increases in interests (purchases of non-controlling interests)	**21,946**

The acquisition cost of the purchased additional shares in 2015, the effects and the cash outflows, relating to these transactions, were as follows:

Increases in interests (purchases of non-controlling interests)	**Total**
Acquisition cost	***BGN '000***
Consideration paid in cash	2,940
Indirect acquisition through a subsidiary	827
Share of the non-controlling interests on indirect acquisition	(233)
Total acquisition cost	**3,534**
Fair value of the acquired net assets	**(2,336)**
Effects assumed by the Group at the account of Group's 'retained earnings' reserve	**1,198**
Cash outflow on increases in interests (purchases of non-controlling interests)	**2,940**

45. DISPOSAL OF SUBSIDIARIES AND JOINT VENTURES AND DECREASING THE INTERESTS IN SUBSIDIARIES

45.1. Total disposal of subsidiaries and joint ventures

In 2016 the Group reported disposal of its interest in the following subsidiaries:

Company	**Date of sale**	**Effective interest % disposed**
Ivančić and Sinovi D.o.o	08.05.2016	51.00%
OOO NPK Biotest	05.12.2016	46.29%

On 24 March 2016, Medica Balkans S.R.L. – Romania was terminated by liquidation.

In 2015 the Group reported disposal of its interest in the following subsidiaries:

Company	**Date of sale**	**Effective interest % disposed**	**Effective interest % retained**
Extab Corporation, USA	14.05.2015	75.00%	5.00%
Extab Pharma Limited, United Kingdom	14.05.2015	75.00%	5.00%

The net assets of the disposed of company are presented as follows:

Disposal with loss of control		
Date of disposal of interest	**31.12.2016**	**31.12.2015**
	BGN '000	***BGN '000***
Property, plant and equipment *(Note 16)*	6,691	-
Intangible assets *(Note 17)*	564	-
Inventories	3,723	-
Other receivables and assets	2,022	96
Cash and cash equivalents	5,243	10
Deferred tax liabilities	(141)	
Trade payables	(4,259)	(21)
Other payables and liabilities	(1,973)	(571)
Net assets	**11,870**	**(486)**

The financial result from the disposal of the subsidiary is as follows:

	2016	***2015***
	BGN '000	***BGN '000***
Consideration received	25,717	3,285
NCI share in the recieved monetary assets	(1,610)	-
Receivable	-	3,258
Fair value of retained interest	-	290
	24,107	**6,833**
Less:		
Net assets written-off	(11,870)	(486)
Goodwill	(861)	-
Share of non-controlling interests	5,400	(97)
Transformation reserve	(2,157)	
Gain on disposal of a subsidiary	**14,619**	**7,222**
Net cash flows on disposal of a subsidiary		
Consideration received	25,717	3285
Less:		
Cash	(5,233)	(10)
Net cash flows on disposal of a subsidiary	**20,484**	**3,275**

45.2 Decreasing interests (sales of non-controlling interests)

In 2016:

Company	transaction date	% change in interest	net assets sold
ODO Alean	31.12.2016	1.85%	(9)
OOO Farmatea	31.12.2016	11.34%	(99)
			(108)

Decreases in interests (sales of non-controlling interests)	**Total** *BGN'000*
Proceeds from partial disposal of shares in Group's subsidiaries	188
Carrying amount of the net assets at the date of partial disposal of shares in subsidiaries	(108)
Effects for the Group	**80**
Cash inflow on partial disposal of shares in subsidiaries	**11**

In 2015:

Decreases in interests (sales of non-controlling interests)	**transaction date**	**% change in interest**	**net assets sold** *BGN '000*
Sopharma Trading AD	31.12.2015	0.06%	(39)
SOOO Brititrade	31.12.2015	13.23%	650
			611

Decreases in interests (sales of non-controlling interests)	**Total** *BGN '000*
Proceeds from partial disposal of shares in Group's subsidiaries	489
including advance paid in a prior period	325
Carrying amount of the net assets at the date of partial disposal of shares in subsidiaries	611
Effects for the Group	**1,100**
Cash inflow on partial disposal of shares in subsidiaries	**114**

46. RELATED PARTY TRANSACTIONS

Related parties	*Relation type*	*Relation period*	
Telecomplect Invest AD	Main shareholding company	2016	2015
Donev Investments AD	Main shareholding company	2016	2015
Sopharma Properties REIT	Company related through a main shareholder	2016	2015
Sofprint Group AD	Company related through a main shareholder	2016	2015
Elpharma AD	Company related through key management personnel	2016	2015
Telso AD	Company related through key management personnel	2016	2015
Telecomplect AD	Company related through key management personnel	2016	2015
DOH Group	Company related through key management personnel	up to 20/12/2016	2015

Related party transactions are as follows:

Supplies from related parties:	***2016***	***2015***
	BGN '000	***BGN '000***
Supply of inventories from:		
Companies related through a main shareholder	6,870	8,577
Associates	983	567
Companies under a common indirect control related through key management personnel	101	373
Total	**7,954**	**9,517**

Supply of services from:		
Companies under a common indirect control through key management personnel	3,368	3,349
Companies related through a main shareholder	2,656	2,619
Main shareholding companies	266	228
Associates	248	-
Joint ventures	143	-
	6,681	**6,196**

Supply of property, plant and equipment from:		
Companies under a common indirect control through key management personnel	74	20
Companies related through a main shareholder	2	-
Associates	1	-
	77	**20**
Supplies for acquisition of non-current assets:		
Companies under a common indirect control through key management personnel	4,869	7,000
	4,869	**7,000**
Investments acquired from:		
Companies related through key management personnel	**4,933**	**-**
Accrued dividends to:		
Main shareholding companies	4,227	**-**
Companies under a common indirect control through key management personnel	1,704	**-**
Key management personnel	15	**-**
	5,946	**-**
	30,460	**22,733**

Sales to related parties	***2016***	***2015***
	BGN '000	***BGN '000***
Sales of inventories to:		
Joint ventures	10,785	2,986
Associates	1,106	7,431
Companies related through a main shareholder	584	783
Companies under a common indirect control through key management personnel	-	6,601
	12,475	**17,801**
Sales of services to:		
Associates	277	21
Companies related through a main shareholder	196	42
Companies under a common indirect control through key management personnel	57	404
Companies under a common indirect control	-	133
	530	**600**

Other sales to:		
Associates	124	-
Companies related through a main shareholder	12	-
Companies under a common indirect control through key management personnel	-	2
	136	**2**
Dividend income from:		
Companies related through a main shareholder	12	-
	12	**-**
Interest on loans granted:		
Companies under a common indirect control through key management personnel	1,475	2,603
Associates	10	-
	1,485	**2,603**
	14,638	**21,006**

The accounts and balances with related parties are presented in *Notes 21and 25.*

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. Additionally, it includes the Executive Directors, the members of Boards of Directors and the General Managers of the subsidiaries in the Group.

Salaries and other short-term benefits of key management personnel amount to BGN 5,021 thousand (2015: BGN 4,771 thousand) and include:

- current wages and salaries – BGN 4,512 thousand (2015: BGN 4,300 thousand);
- tantieme – BGN 509 thousand (2015: BGN 471 thousand).

The remuneration and other income of the key management personnel of the parent company amounts to BGN 1,138 thousand. (2015 :BGN 1,154 thousand) including:

- current wages and salaries – BGN 884 thousand (2015: BGN 889 thousand);
- tantieme – BGN 254 thousand (2015: BGN 256 thousand).

47. SUMMARISED INFORMATION ON SUBSIDIARIES

The table below presents the groups of subsidiaries depending on the availability of lack of non-controlling interests (NCI):

	31.12.2016	**31.12.2015**
	number	**number**
Subsidiaries entirely owned by the Group	4	4
Subsidiaries with non-controlling interests material for the Group	7	10
Subsidiaries with non-controlling interests immaterial for the Group	28	23
	39	**37**

The table below presents information on the share held by the material non-controlling interests in the operations of the Group:

Country and subsidiary	***NCI share in ownership / Voting rights share held by NCI (if different from the share in ownership)***		***Profit / (loss) distributed to NCI***		***NCI at 31 December***	
	31.12.2016	**31.12.2015**	**2016**	**2015**	**31.12.2016**	**31.12.2015**
	%	%	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**
Bulgaria						
Sopharma Trading AD	27.42	27.87	2,983	3,190	18,032	18,132
Unipharm AD	22.11	47.94	(67)	193	5,400	11,384
Medica AD		33.28		97		10,793
Pharmalogistica AD		21.63		(39)		935
Momina Krepost AD		7.22		(12)		345
Veta Pharma AD	31.95	-	(17)	-	3,008	-
			2,899	3,429	26,440	41,589
Latvia						
SIA Briz	33.,87	33.87	330	300	13,131	12,829
Serbia						
Ivančić and Sinovi d.o.o.		49.00		1,384		5,280
Belarus						
ODO Alenpharm-plus		51.86		(328)		1,275
ODO SalusLine	51.26		11		1,738	
OOO Farmacevt Plus	57.,02		488		923	
OOO NPK Biotest		53.71		(55)		830
SOOO Brititrade	47.10	48.09	1,524	(2,969)	(665)	(2,367)
			2,023	(3,352)	1,996	(262)
Immaterial NCI			(1,317)	(812)	6,954	6,269
Total			3,935	949	48,521	65,705

The table below presents summarised financial information on subsidiaries having non-controlling interests material for the Group. The amounts, presented in the table, are before the elimination of intragroup balances and transactions and after adjustments made to reflect differences in the Group accounting policies and the accounting base, as well as the effects of valuation of assets and liabilities at fair value at the acquisition date.

Financial indicators	*Sopharma Trading AD*	*Unipharm AD*	*SIA Briz*	*Veta Pharma AD*	*OOO Farmacevt Plus*	*ODO SalusLine*	*SOOO Brititrade*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Summarised statement of financial position as at 31 December 2016							
Current assets	245,437	8,503	29,818	2,069	12,397	1,199	32,571
Non-current assets	34,419	19,376	33,770	9,996	2,286	3,953	14,329
Current liabilities	(210,757)	(1,826)	(24,425)	(1,450)	(12,953)	(1,064)	(47,167)
Non-current liabilities	(3,336)	(1,628)	(394)	(1,201)	(111)	(697)	(1,144)
Equity attributable to:	**65,763**	**24,425**	**38,769**	**9,414**	**1,619**	**3,391**	**(1,411)**
Equity holders of the parent	*47,731*	*19,025*	*25,638*	*6,406*	*696*	*1,653*	*(746)*
Non-controlling interests	*18,032*	*5,400*	*13,131*	*3,008*	*923*	*1,738*	*(665)*

Summarised statement of comprehensive income for the year ended 31 December 2016

Revenue	613,130	17,185	30,691	474	32,345	477	56,990
Net profit for the year attributable to:	**10,872**	**(301)**	**974**	**(54)**	**856**	**22**	**3,236**
Equity holders of the parent	*7,891*	*(234)*	*644*	*(37)*	*368*	*11*	*1,712*
Non-controlling interests	*2,981*	*(67)*	*330*	*(17)*	*488*	*11*	*1,524*
Total comprehensive income for the year attributable to:	**10,584**	**1,579**	**974**	**(54)**	**856**	**22**	**3,236**
Equity holders of the parent	*7,682*	*1,230*	*644*	*(37)*	*368*	*11*	*1,712*
Non-controlling interests	*2,902*	*349*	*330*	*(17)*	*488*	*11*	*1,524*
Dividends paid to non-controlling interests	(2,733)	(423)	(28)				

Summarised statement of cash flows for the year ended 31 December 2016

Net cash flows from/(used in) operating activities	(90,775)	2,546	(5,309)	(158)	(2,232)	184	(11,667)
Net cash flows from/(used in) investing activities	(5,292)	(1,557)	6,535	(25)	(1,004)	(2)	(5,262)
Net cash flows from/(used in) financing activities	93,621	(971)	(1,335)	136	3,550	(149)	17,365
Effects of restatements for foreign subsidiaries and hyperinflationary economies					21	2	34
Net increase/(decrease) in cash and cash equivalents	**(2,446)**	**18**	**(109)**	**(47)**	**335**	**35**	**470**

Summarised statement of cash flows for the year ended 31 December 2015

Financial indicators	***Sopharma Trading AD***	***Unipharm AD***	***SIA Briz***	***Veta Pharma AD***	***OOO Pharmacevt Plus***	***ODO Salusline***	***SOOO Brititrade***
Net cash flows from/(used in) operating activities	22,462	2,412	1,240		868		4,928
Net cash flows from/(used in) investing activities	(6,729)	(1,164)	(1,410)		(535)		(9,246)
Net cash flows from/(used in) financing activities	(13,576)	(1,196)	239		(611)		4,273
Effects of restatements for foreign subsidiaries and hyperinflationary economies	-	-	-		(200)		(29)
Net increase/(decrease) in cash and cash equivalents	**2,157**	**52**	**68**		**(478)**		**(74)**

48. EVENTS AFTER THE REPORTING PERIOD

On 5 January 2017, a merger agreement was announced in the USA between Achieve Life Science, Inc., a company in which Sopharma AD holds 4.7% of the capital *(Note 20)*, and OncoGenex Pharmaceuticals, Inc. The agreement has been submitted for consideration to the Securities and Exchange Commission (SEC). After the approval thereby, the name of the combined company will be renamed to Achieve Life Sciences Inc. and will be a public company and registered for trade in NASDAQ. Thus, it will have an easier access to capital, if additional capital is needed, for the purposes of obtaining an approval from the Food and Drug Administration (FDA) for selling Tabex in the USA. As a result of the above, Sopharma AD will hold 423,000 shares (3.525%) of the capital of Achieve Life Sciences Inc.

On 31 January 2017, an agreement for transformation through a merger was concluded between Sopharma AD (receiving company) and Medica AD (transforming company) laying down the way in which the transformation would be made. The fair value of the shares of the parties, involved in the transformation, has been determined on the basis of the generally accepted valuation methods resulting in an exchange ratio of 0.9486. On 24 March 2017, an additional agreement between Sopharma AD (receiving company) and Medica AD (transforming company) and updated justification of the fair prices of both companies, in line with the instruction of the Financial Supervision Commission (FSC), were submitted to the FSC for consideration. Pursuant to Art. 261b (1) of the Commercial Act, each shareholder of Medica AD shall acquire 0.8831 shares of the capital of Sopharma AD for one share of Medica AD. All other conditions concerning the merger procedure are laid down in the Transformation Agreement. At the date of issue of these financial statements, the FSC has not issued an approval of the transformation agreement under Art. 124 of the Public Offering of Securities Act (POSA). On April 25, 2017 the Financial Supervision Commission approves the merger between Medica AD and Sopharma AD. *(Note 16)*

On 22 February 2017, the deletion of the business entity Medica-Zdrave EOOD was entered in the Commercial Register at the Registry Agency.

On 15 March 2017 Sopharmacy 7 EOOD was entered in the Commercial Register under UIC 204501313. The capital of the company is BGN 5,000 and the sole owner of the capital is the subsidiary of Sopharma Trading AD – Sopharmacy EOOD. The principal activities of Sopharmacy 7 EOOD cover retail trade in medicinal products.

On April 04,2017 a contract was signed for the sale of the Group's participation, through the subsidiary SIA Briz, Latvia of 50%, in the joint venture OOO Vivaton plus, Belarus. Under the terms of the contract, the transaction should be finalized within 30 days from the date of its conclusion, thereby acquiring control of those companies.

On April 14, 2017 Sopharma AD aquired 51% of the capital of RAP PHARMA INTERNATIONAL OOO, Moldova.

On April 18, 2016 the Group aquired, through it’s subsidiary SOOO Brititrade, Belarus, an additional 50% of the shares of ZAO Interpharm, Belarus, thus gaining control over the entity.

On 24 April 2017, the Company's Board of Directors at its session decided to summon an Extraordinary General Meeting of Sopharma AD on 24 April 2017. Decisions are expected to be taken at that meeting for Company to become a co-debtor under: (a) investment loan contracts concluded between financial institutions and a subsidiary at the amount of EUR 12,000 thousand and BGN 16,000 thousand; and (b) turnover capital loan contract concluded between a financial institution and a subsidiary at the amount of BGN 14,000 thousand, and to provide its own assets as collateral in the form of mortgages of real estate (land and buildings) and special pledge on machinery and equipment.

On April 25, 2017 Sopharma AD submits a corrected draft of a tender offer based on Art. 149 para. 6 of the Public Offering of Securities Act for the purchase of all shares of Unipharm AD from the other shareholders.

MANAGEMENT REPORT

2016

SOPHARMA GROUP

27 April 2017

General information about Sopharma Group

1. Main activities

Sopharma Group (the Group) is a leading Bulgarian producer, exporter and local distributor of pharmaceutical products with a strong presence in Eastern and South-eastern Europe, offering a wide range of prescription medicines and OTC products.

The Group operates in the following areas:

- production of pharmaceutical products including medicines, primarily generics, herbal-based substances and food supplements, which is primarily done by Sopharma Group (the Group) and to a lesser extent by its production subsidiaries including Unipharm AD and Medika AD in Bulgaria, and PAT Vitamins in Ukraine;
- distribution of pharmaceuticals, medical supplies, sanitary materials, vitamins, food supplements and cosmetics, which is mainly performed by Sopharma Trading in Bulgaria, Briz SIA in the Baltic region, and Brititrade SOOO in Belarus;
- production and distribution of non-pharmaceutical products, primarily medical supplies such as syringes and other disposables used in medicine, which is mainly performed by Momina Krepost AD, and other complementary activities to the production of pharmaceutical products and distribution of pharmaceutical products.

2. Registration of the Group

Sopharma Group is a Group registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, 16Iliensko shose str.

Sopharma Group was established in 1933. The court registration of the Group is from 15.11.1991, decision №1 / 1991 of Sofia City Court. Sopharma Group is a public Group under the Public Offering of Securities Act.

The Group conducts the production and marketing of medicinal substances and dosage forms; research, engineering and implementation activities in the field of phytochemistry, chemistry and pharmacy. Sopharma Group provides services related to production, as well as to ancillary and supporting activities.

The Group has marketing authorizations under the Law on Medicines and Pharmacies in Human Medicine for all products of its manufacturing portfolio.

3. Controlled companies

Sopharma Group consists of Sopharma Group and 48 legal entities, including 39 subsidiaries, directly or indirectly controlled by the Group, 7 joint ventures, and 2 associated companies.

Group	Interest as at 31.12.2016 in %
Sopharma Trading AD, Sofia, Bulgaria	72.58
Biopharm Engineering AD, Sliven, Bulgaria	97.15
Pharmalogistica AD, Sofia, Bulgaria	84.93
Elektroncommerce EOOD, Sofia, Bulgaria	100.00
Sopharma Buildings REIT, Sofia, Bulgaria	40.39
Momina Krepost AD, Veliko Tarnovo, Bulgaria*	93.54
Unipharm AD, Sofia, Bulgaria	77.89
Phyto Palauzovo AD, Kazanluk, Bulgaria**	95.00
Sopharmacy EOOD, Sofia, Bulgaria**	72.58
Sopharmacy 2 EOOD, Sofia, Bulgaria**	72.58
Sopharmacy 3 EOOD, Sofia, Bulgaria**	72.58
Sopharmacy 4 EOOD, Sofia, Bulgaria**	72.58
Sopharmacy 5 EOOD, Sofia, Bulgaria**	72.58
Sopharmacy 6, EOOD, Sofia, Bulgaria**	72.58
Medica AD, Sofia, Bulgaria	97.96
Medica-Zdrave EOOD, Sofia, Bulgaria** (in process of liquidation)	97.96
Veta Pharma AD, Veliko Tarnovo, Bulgaria	68.05
PAO Vitamini, Uman, Ukraine	99.56
Sopharma Poland LLC, Warsaw, Poland in Liquidation	60.00
Sopharma Warsaw Sp. z. o. o, Warsaw, Poland	100.00
Sopharma Trading d.o.o. Belgrade	72.58
BRIZ ZAO, Riga, Latvia	66.13
Brititrade SOOO, Minsk, Belarus**	52.90
Tabina SOOO, Minsk, Belarus **	62.82
Brizpharm SOOO, Minsk, Belarus**	46.26
Alean ODO, Minsk, Belarus**	62.96
Sopharma Ukraine, Kiev, Ukraine	100.00
Vivaton OOO, Grodno, Belarus***	50.00
OOO Med-dent, Bobruisk, Belarus***	50.00
OOO Pharmacist Plus, Minsk, Belarus**	42.98
Vestpharm ODO, Grodno, Belarus **	62.96
NPK Biotest OOO, Grodno, Belarus **	-
BelAgroMed ODO, Grodno, Belarus **	62.96
BOOO SpetzApharmacia, Bobruisk, Belarus***	50.00
ZAO TBS Pharma, Vilnius, Lithuania**	33.73

Group	Interest as at 31.12.2016 in %
OOO Bellerofon, Minsk, Belarus***	50.00
TOO Sopharma Kazakhstan, Almaty, Kazakhstan	100.00
ZAO Interpharm, Vitebsk, Belarus***	50.00
OOO Ivem and K, Minsk, Belarus***	50.00
OOO Ariens, Polotzk, Belarus***	50.00
OOO Danapharm, Brest, Belarus**	48.94
OOO Galenapharm, Pinsk, Belarus**	48.94
ODO Medjel, Minsk, Belarus**	48.94
ODO Alenpharm-Plus, Belarus**	48.94
OOO Pharmateia, Minsk, Belarus***	22.39
OOO Mobil Line, Borisov, Belarus**	48.94
ODO Salius Line, Grodno, Belarus**	48.74

*effective interest in percent

**indirect interest

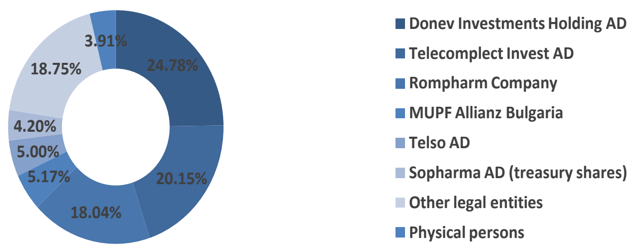
***joint venture

4. Management board

Sopharma Group has a one tier management system with a Board of Directors of five members as follows: Ognian Donev, PhD - Chairman and members Vessela Stoeva, Alexander Tchaushev, Andrey Breshkov and Ognian Palaveev. The Group is represented and managed by the Executive Director Ognian Donev, PhD.

Members of the key management personnel of the Group include the disclosed in Note №1 Executive Director and members of the Board of Directors of the Group. Additionally, it includes the executive directors, the board of directors and the managers of subsidiaries of the Group.

5. Shareholder structure as at 31 December 2016



II. Recent developments

1. Industrial activity

Sopharma Group has twelve manufacturing facilities, which are compliant with EU regulations and are located in Bulgaria and one facility in the Ukraine certified and acknowledged by the local authorities and all countries from the CIS. With the exception of the facility in the Ukraine all other facilities have been examined and certified according to the EU GMP.

The production activities of the Group are carried out and developed in the following areas:

- Production of pharmaceutical products;
- Substances and preparations based on vegetable raw materials (phytochemical production);
- Veterinary vaccines;
- Infusion solutions;
- Concentrates for hemodialysis;
- Medical disposable products for human and veterinary medicine;
- Injection molded products for the industry, agriculture and households.

2. Products

Sopharma AD

The Company has a portfolio of more than 210 products: mainly generics and 15 original products, of which 12 products are phyto-based. The original products of the Group (and in particular Carsil and

Tempalgin) are key contributors to its revenue from export markets, while for the domestic sales the most important products are generics, of which the leading drug is Analgin.

The product portfolio of the company is focused on the following therapeutic areas: cardiology, gastroenterology, pain management, cough and cold, immunology and dermatology, respiratory and asthma, neurology and psychiatry, urology and gynecology.

The most important pharmaceutical products in terms of their contribution to revenue are:

- Carsil - original plant-based product, used to treat gastroenterological disorders (liver disease);
- Tempalgin – original analgesic (painkiller);
- Tabex – original plant-based drug used for smoking secession;
- Tribestan – original plant-based drug used for stimulation of the male reproductive system;
- Broncholytin - original plant-based product used to suppress cough;
- Analgin – generic analgesic (painkiller);
- Nivalin – original plant-based product used for diseases of the peripheral nervous system;
- Methylprednisolone - generic medicine for cases of severe allergies and certain life-threatening conditions;

Unipharm

Unipharm is an established manufacturer of medicinal products meeting the highest standards of Good Manufacturing Practice. The mission of Unipharm is the production of medicines with care for people. The core operations of Unipharm AD are production of pharmaceuticals, research and experimentation in the production of pharmaceuticals, establishing quality of manufactured medicines, wholesale trading activities at home and abroad. The company strives to meet the requirements of the market and concentrates on finding new market niches to meet the growing needs of consumers. The company invests in production and scientific implementation mainly in the field of generic products.

Products

- **Solid dosage forms**
- **Concentrates for hemodialysis**
- **Liquid dosage forms**

The company's products are sold mainly on the Bulgarian market, but also in countries such as Russia, Ukraine, Georgia and other CIS nations, Tunisia, Lithuania, Latvia, Poland and others.

Biofarm engineering

Biopharm Engineering AD is a rapidly growing company. It has modern production units and constantly expand and modernize production facilities. The strategy of Biopharm Engineering AD is built on the market and technological advantages of the company. The company holds a certificate of good manufacturing practice (GMP). The company develops successfully in the following areas:

- production of infusion solutions;
- production of injection solutions;
- production of veterinary medicinal products and immunological preparations

Products

- infusion and injection solutions;
- veterinary medicinal products – vaccines and diagnostic kits.

Main markets
The manufactured infusion solutions are marketed through the parent company Sopharma AD both on the Bulgarian and the international market.

Medica

Medica AD is a Bulgarian manufacturer of high quality medical supplies and generic pharmaceutical products, with over 40 years of history. The manufacturing facilities of Medica meet all European standards of production and meet the requirements of good manufacturing practice (GMP). The company is ISO-certified and has implemented a system of quality management and employs 230 highly qualified employees.

Products

- **Medical supplies**
- **Pharmaceutical products**
- **Food supplements**
- **Cosmetic products**

Main foreign markets for Medica are **Ukraine**, **Moldova**, **Russia**, **Macedonia** and others, which comprise 26% of the company’s revenues.

PAT Vitaminy

PJSC "Vitamini" is producing and selling medicines in the form - tablets, powders, oily solutions, syrups and tinctures. Drugs production of PJSC "Vitamini" is highly efficient, with excellent quality, accessibility successfully sold not only in Ukraine and CIS countries.

Currently, the production is carried out in the following production sites:

- liquid dosage forms;
- two production sites for solid dosage forms;
- extracts production site;
- tinctures production site;
- solutions production site;
- powder production site.

3. Distribution

Sopharma Trading

The company is a leading distributor of pharmaceutical products and cosmetics in Bulgaria with a market share of pharmaceutical products of 21% (according to IMS). Sopharma Trading is the only distributor on the Bulgarian market of particular pharmaceutical products for several leading international pharmaceutical and other companies the field of healthcare such as Amgen, Astra Zeneca, GE Healthcare, Johnson and Johnson, Abbot Diagnostics, Hartmann, Novartis and Novo Nordisk.

The Group offers more than 10 000 products (particularly pharmaceutical products, medical equipment and devices, accessories, cosmetics, vitamins and food supplements) in its portfolio, including the brands of Sopharma, and holds exclusive rights for Bulgaria over brands of strategic partners such as Aboca, Colief, Jamieson, Planter's, Premax, Skincode, SVR Laboratories, US Pharmacia and Wyeth, specialized services (such as software solutions for pharmacies and advice and consulting services) and national logistics services. Sopharma Trading cooperates with more than 400 partners and over 3 000 clients.

BRIZ

The main directions of economic activity are:

1. Distribution of medicines and dietary supplements in the wholesale and retail segment;
2. Distribution of cosmetics and perfumery products in the wholesale and retail segment;
3. Registration of medicines in Latvia, Lithuania, Estonia, Belarus, Bulgaria
4. Launch of the medicines produced in third countries to the European Union;
5. Marketing support of the products on the mentioned markets.
6. Production.

The company is constantly evolving, having certificates of GMP, GDP, the license to import medicines produced in third countries into the EU, as well as psychotropic license. In 2015, the company successfully passed the next commission on the re-certification of GMP and GDP. The company's mission is to meet the needs of customers in the natural, effective and modern medicines and cosmetics, dietary supplements, that improve health and quality of life. Using the resources and capabilities, we will promptly provide our customers with quality medicines and essential goods. The main objective of the company is to increase the portfolio of SIA "BRIZ" products and Sopharma AD products on the markets of Latvia, Lithuania, Estonia and Belarus. Besides representative, sales and marketing services.

III. Information compliant with art. 39 of the Accounting Law

1. Revision of the activities of the Group and the main risks it faces (art. 39, item 1 of the Accounting Law)

Key financial indicators

Indicators	**1-12/2016** *BGN '000*	**1-12/2015** *BGN '000*	**change** %
Sales revenues	877 085	874 984	0,2%
EBITDA	73 656	62 766	17,4%
Operating profit	44 951	36 440	23,6%
Net profit	54 902	22 600	142,9%
CAPEX	26 418	33 284	-20,6%
	31.12.2016 *BGN '000*	**31.12.2015** *BGN '000*	
Non-current assets	416 599	401 484	3,8%
Current assets	442 622	434 143	2,0%
Owners' equity	491 223	457 640	7,3%
Non-current liabilities	53 842	62 492	-13,8%
Current liabilities	314 156	315 495	-0,4%

Ratios	**2016**	**2015**
EBITDA / Sales revenues	8,4%	7,2%
Operating profit/ Sales revenues	5,1%	4,2%
Net profit/ Sales revenues	6,3%	2,6%
Borrowed capital/Owners' equity	0,75	0,83
Net debt/ EBITDA	2,82x	3,57x

Risks relating to the Group’s business and the industry the Group operates in

- The Group faces significant competition.
- Reputation of the Group may be adversely affected by untrue or misleading information available on websites containing the name “Sopharma”, including www.sopharma.com, which have not been authorized by the Group.
- The Group is dependent on regulatory approvals.
- Government regulations affecting the Group's business may change, thus possibly increasing compliance costs or otherwise affecting its operations.
- Part of the Group’s revenues, in particular in Bulgaria, depend on the inclusion of the Group’s medicines on reimbursement lists.
- The Group’s production facilities and processes are subject to strict requirements and regulatory approvals that may delay or disrupt the Group’s operations.
- The Group’s ability to pay dividends depends on a number of factors and there can be no assurance that the Group will be able to pay dividends in accordance with its dividend policy or at all in any given year.
- The Group is subject to operational risk, which is inherent to its business activities.
- The Group is subject to numerous environmental and health and safety laws and regulations and is exposed to potential environmental liabilities.
- Litigation or other out-of-court proceedings or actions may adversely affect the Group’s business, financial condition and results of operations.

Risks relating to Bulgaria and other markets in which the Group operates

- The macroeconomic environment, particularly in Bulgaria, Russia and Ukraine, has a significant effect on the Group’s operations and position.
- The political environment in Bulgaria has a significant effect on the Group’s operations and financial condition.
- The political environment in the Group’s export markets, especially in Russia and Ukraine, has a significant effect on the Group’s operations and financial condition.
- Risks related to the Bulgarian legal system.
- Developing legal frameworks in some countries in which the Group sells its products, in particular Russia and Ukraine, may negatively impact the Group’s operations in such countries.
- Risks relating to exchange rates and the Bulgarian Currency Board.

- Interpretations of tax regulations may be unclear and tax laws and regulations applicable to the Group may change.

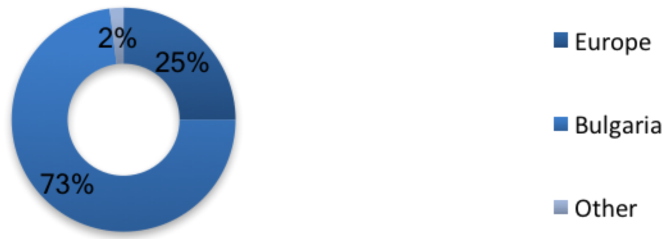
Currency risk

The Group performs its activities with an active exchange with foreign suppliers and clients. Therefore, it is exposed to currency risk mainly in respect of USD. The Group supplies part of its raw and other materials in USD. The currency risk is related with the adverse floating of the exchange rate of USD against BGN in future business transactions as to the recognized assets and liabilities denominated in foreign currency and as to the net investments in foreign companies. The remaining part of Group operations are usually denominated in BGN and/or EUR. The Group sells some of its finished products in Russia in euro and thus eliminates the currency risk associated with the depreciation of the Russian ruble in the recent months. The accounts with subsidiaries in Ukraine are also denominated in euro. However, in connection with the instability in the country and the continued depreciation of the Ukrainian hryvnia, in order to minimize currency risk, the Group conducts through its subsidiaries a currency policy, which includes the implementation of advance payments and shortening of the periods of delayed payments and immediate exchange of revenues in local currency in euros, as well as raising of the price mark-ups on products in order to compensate for possible future devaluation of the hryvnia. To control foreign currency risk, the Group has introduced a system for planning import supplies, sales in foreign currency as well as procedures for daily monitoring of US dollar exchange rate movements and control on pending payments.

2. Analysis of the main financial and non-financial indicators related to the activities of Sopharma Group (art. 39, item 2 of the Accounting Law)

Revenue from sales of the Group increase by BGN 2.1 million or 0.2%%, reaching BGN 877.1 million in 2016 compared to BGN 875 million in the first half of 2015. Sales of goods increased by BGN 17.3 million or 3%, reaching BGN 654.4 million in 2016 compared to BGN 628.1 million in the first half of 2015. Sales of finished products decreased by 15.2 million BGN, or 8%, to BGN 231.7 million in 2016 compared to BGN 246.9 million in 2015.

Distribution of sales revenues by geographic region



The contribution of sales in Bulgaria to the consolidated sales revenue in 2016 amounted to 73%, increasing by 3% compared to the same period of 2015. Sopharma has a 4% share of the Bulgarian pharmaceutical market in terms of value and a 14% share in terms of sold quantity (units). The positions of the main competitors of the Company in the country are as follows: Novartis – 7% (4% in units), Roche – 6% (0.3% in units), Actavis – 5% (11% in units), GlaxoSmithKline – 4% (2% in units), Sanofi-Aventis – 4% (3% in units), Astra Zeneca – 3% (1% in units), Bayer – 3% (2% in units).

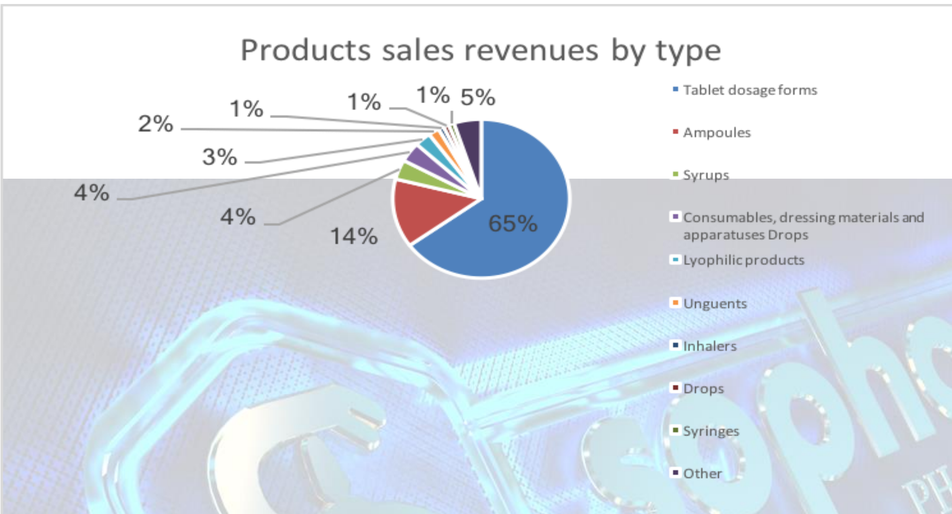
The Group's income from sales in Europe amounts to 25% of the total consolidated sales in 2016 and marks a decrease of 2% compared to the first half of 2015.

Sales by type of formulation

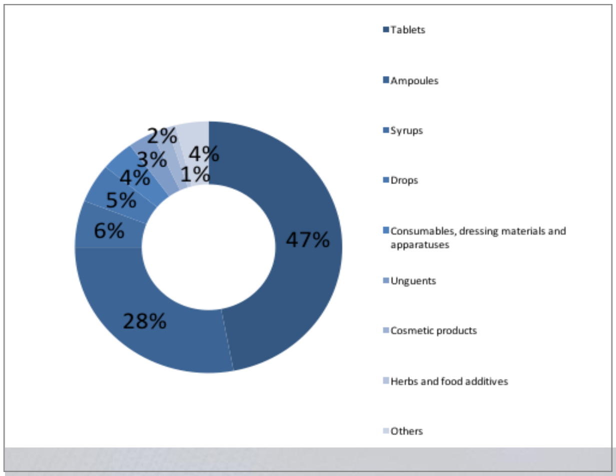
The types of formulation with the highest share in the volume of sales are tablet forms, followed by ampoules, syrups, unguents, lyophilic products and others.

Revenue earned from sale of finished products	**1-12/2016**	**1-12/2015**	**change**
	BGN '000	***BGN '000***	**%**
Tablet dosage forms	150 105	166 200	-10%
Ampoules	32 291	33 364	-3%
Syrups	9 734	11 097	-12%
Consumables, dressing materials and apparatuses Drops	8 949	-	
Lyophilic products	7 316	9 579	-24%
Unguents	6 220	8 015	-22%
Inhalers	2 546	3 433	-26%

Drops	1 496	1 185	26%
Syringes	1 128	2 242	-50%
Other	11 928	11 746	2%
Total	**231 713**	**246 861**	-6%



Revenue earned from sale of goods	**2016** *BGN '000*	**2015** *BGN '000*	**Change** **%**
Tablets	305,214	296,705	3%
Ampoules	179,055	179,330	0%
Syrups	40,051	35,902	12%
Drops	30,069	36,063	-17%
Consumables, dressing materials and apparatuses	23,833	21,133	13%
Unguents	18,379	18,549	-1%
Cosmetic products	9,900	9,307	6%
Herbs and food additives	7,983	3,191	150%
Others	30,888	27,943	11%
Total	645,372	628,123	3%



Other operating revenues

Other revenues	1-12/2016	1-12/2015	change	Relative
	BGN '000	***BGN '000***	**%**	**%**
Services rendered	4 823	7 160	-33%	51%
Financing from public institutions	1 187	1 037	14%	13%
Net profits(losses) from exchange rate differences under	297	(14 257)	-107%	11%
Services related to social activities and events	837	795	5%	9%
Rentals	792	942	-16%	8%
Income from sales of LTA	372	36	933%	4%
Written-off payables	222	11		2%
Other (see Notes to the financial statements)	953	1 598	-88%	2%
Total other operating income	**9 483**	**(2 678)**	454%	100%

Other operating income increase by BGN 12.2 million, reaching BGN 9.5 million in 2016, compared to BGN (2.7) million in the first half of 2015 due to a decrease in net losses from exchange rate differences under trade receivables and payables and current accounts by BGN 14.6 million and an increase in revenues from sales of LTA by BGN 0.3 million.

Operating expenses

Operating expenses	1-12/2016	1-12/2015	change	relative share of expenses in 2016
	BGN '000	***BGN '000***	**%**	**%**
Changes in inventories of finished goods and work in	994	(4 207)	124%	0%
Materials	82 906	86 396	-4%	10%

Hired services	56 408	65 661	-14%	7%
Personnel	87 159	81 501	7%	10%
Depreciation and amortization	28 705	26 326	9%	3%
Carrying amount of goods sold	571 132	568 590	0%	68%
Other operating expenses	14 313	11 599	23%	2%
Total	**841 617**	**835 866**	**1%**	**100%**

Operating expenses in 2016 increased by BGN 5.8 million or by 1% from BGN 835.9 million in 2015 to BGN 841.6 million in 2016. The change is a consequence of growth of sales and, respectively, of the carrying amount of goods sold by the group, an increase in personnel costs, depreciation and other costs.

The cost of materials (with a 10% share) is reduced by BGN 3.5 million or 4% to BGN 82.9 million in 2016 compared to BGN 86.4 million in 2015. The cost of basic materials Decreased by BGN 4.4 million or by 7%, the most significant impact being reported for the costs of substances, packaging materials, liquid and solid chemicals, which decrease by BGN 1 million, BGN 2.5 million ., BGN 1.3 million. The increase is reported for the costs of electricity and auxiliary materials, while the decrease is related to the costs of heating, fuels and lubricants and others.

Expenditures for external services account for 7% relative share of operating expenses and decrease by BGN 9.2 million or by 14% to BGN 56.4 million in 2016 compared to BGN 65.6 million in 2015 Mainly as a result of reduced advertising costs by BGN 6.1 million and consultancy services by BGN 1.5 million. Decrease is recorded in the costs of maintenance of buildings and equipment, forwarding, transport and logistics services, local taxes And fees, marketing services, and more. Increases include medication, rent and other costs.

Personnel costs (with a 10% share) increased by BGN 5.7 million or by 7% to BGN 87.2 million in 2016 compared to BGN 81.5 million in 2015. The overall growth of these Costs are due both to the increase in the remuneration of hired personnel and the increased staff in the Group as a result of the consolidation of new companies.

Other operating expenses (with a 2% share) increased by 2.7 million or 23% from BGN 11.6 million in 2015 to BGN 14.3 million in 2016. Increased impairment Of current assets net of BGN 1.4 million, marriage and lack of goods by BGN 1.4 million. Decrease of mission expenses, tax and tax payments, training, donations, etc.
Depreciation costs (with a 3% share) increased by BGN 2.4 million or 9% from BGN 26.3 million in 2015 to BGN 28.7 million in 2016.

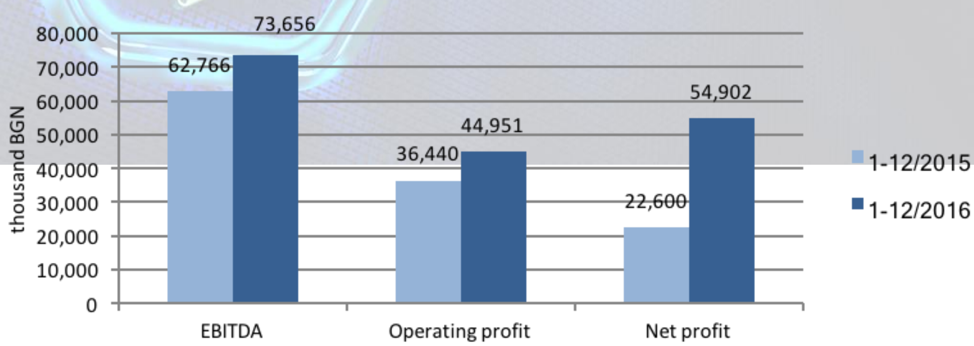
Financial income and expenses

Finance income	1-12/2016	1-12/2015	change	relative
	BGN '000	*BGN '000*	%	%
Interest income on overdue commercial receivables	4 702	3 801	24%	67%
Interest income on granted loans	1 792	2 766	-35%	26%

Net gain from operations with investments in securities	322	161	100%	5%
Dividends	178	6	2867%	3%
Interest income on bank deposits	20	94	-79%	0%
Total	**7 014**	**6 828**	3%	100%
Finance costs			**change**	**relative**
Interest expenses on loans	8 831	8 868	0%	69%
Bank fees on loans and guarantees	859	834	3%	7%
Net loss on exchange rate differences on loans in foreign	1 074	4 637	-77%	8%
Impairment on commercial loans granted	542	-	-	4%
Interest expense on finance lease	341	409	-17%	3%
Factoring interest costs	953	-	-	7%
Derivatives effects	109	-	-	1%
Impairment of cash in banks under special supervision	8	6 438	-100%	0%
Impairment of available and for sale investments	4	454	-99%	0%
Total	**12 721**	**21 640**	-41%	100%

Financial revenues increased by BGN 0.2 million to BGN 7 million in 2016 compared to BGN 6.8 million in 2015. There was an increase of interest receivable on arrears of trade receivables by 0.9 million BGN. The decrease recorded interest income on loans granted by BGN 1 million.
Financial expenses decreased by BGN 8.9 million from BGN 21.6 million in 2015 to BGN 12.7 million in 2016. The most significant decrease is recorded in the impairment of cash in banks under a special Oversight by BGN 6.4 million and a decrease in net foreign exchange losses on foreign currency loans of BGN 3.6 million.
Net financial revenues (expenditures) decreased by BGN 9.1 million to BGN (5.7) million as of 31.12.2016 compared to BGN (14.8) million at 31 December 2015

Financial result



Profit before interest, taxes and depreciation (EBITDA) increased by BGN 10.9 million or by 17%, reaching BGN 73.7 million in 2016 compared to BGN 62.8 million, In 2015
Profit from operating activities increased by BGN 8.5 million or 23% to BGN 44.9 million in 2016 compared to BGN 36.4 million in 2015.
Net profit increased by BGN 32.3 million or by 143% to BGN 54.9 million in 2016 compared to BGN 22.6 million in 2015.

Assets

	31.12.2016 BGN '000	31.12.2015 BGN '000	change %	2016 %
Non-current assets				
Property, plant and equipment	321 215	315 005	2%	77%
Intangible assets	34 601	24 127	43%	8%
Goodwill	9 885	11 375	-13%	2%
Investment property	9 483	10 562	-10%	2%
Investments in associated companies and joint ventures	18 715	5 224	258%	5%
Available-for-sale investments	5 721	7 424	-23%	1%
Long-term receivables from related parties	10 028	20 505	-51%	2%
Other long-term receivables	4 149	3 546	17%	1%
Deferred taxes	2 802	3 716	-25%	1%
	416 599	***401 484***	4%	49%
Current assets				
Inventories	171 791	163 129	5%	39%
Trade receivables	215 583	205 589	5%	49%
Receivables from related parties	14 982	27 434	-45%	3%
Other receivables and prepayments	17 727	14 505	22%	4%
Cash and cash equivalents	22 539	23 486	-4%	5%
	442 622	***434 143***	2.0%	51%
TOTAL ASSETS	***859 221***	***835 627***	3%	100%

The total assets increased by BGN 23.6 million or by 3% to BGN 859.2 million as of 31.12.2016 compared to BGN 835.6 million as of 31.12.2015. This is a consequence of an increase of both non-current and current assets.

Non-current assets increased by BGN 15.1 million or by 4%, mainly due to an increase in intangible assets and investments in associates and joint ventures. Assets in property, plant and equipment increased by BGN 6.2 million. Assets in land and buildings increased by BGN 8.5 million and machinery, equipment and equipment by BGN 9.7 million. Acquisition decreased by BGN 11.7 million.

Intangible assets increased by BGN 10.5 million, in the part of intellectual property rights by BGN 9.2 million and software products by BGN 4 million and decreased mainly in the part of intangible assets in the process of acquisition with BGN 2.1 million.

Investments in associates and joint ventures increased by BGN 13.5 million compared to 31.12.2015. Available-for-sale investments decreased by BGN 1.7 million.

Long-term receivables from related enterprises decreased by BGN 10.5 million, or by 51%, to BGN 10 million.

Other long-term receivables increased by BGN 0.6 million.

Current assets increased by BGN 8.5 million or 2% to BGN 442.6 million as of 31.12.2016 compared to BGN 434.1 million as of 31.12.2015.

Inventories accounted for 39% of current assets and increased by BGN 8.7 million compared to 31.12.2015, in the part of goods by 16.3 million BGN and semi-finished products by 5.1 million BGN, while Decreases in the part of finished goods stocks by BGN 10.7 million and stock of materials by BGN 2.2 million.

Trade receivables have a relative share of 49% of current assets and increased by BGN 10 million in the part of advances provided, net of BGN 1.9 million and receivables from customers, net of BGN 8.1 million.

Receivables from affiliated companies accounted for 3% of the current assets and decreased by BGN 12.5 million, mainly in claims on sales of production and materials by BGN 2.8 million and commercial loans granted by 9.7 million BGN.

Other short-term receivables and prepaid expenses accounted for 4% of current assets and increased by BGN 3.2 million as a result of tax refunds by BGN 1.5 million, other short-term receivables by BGN 1.5 million and Court and receivables, net of BGN 1.1 million. Cash and cash equivalents decreased by BGN 0.9 million as compared to 31 December 2015 and deposits of BGN 4 million were available at the end of the period.

Liabilities and owners' equity

EQUITY	31.12.2016	31.12.2015	change	From owners
Equity attributable to owners of the parent	**BGN '000**	**BGN '000**	**%**	**%**
Share capital	134 798	134 798	0%	27%
Reserves	62 708	48 855	28%	13%
Retained earnings	259 984	222 238	17%	53%
	457 490	***405 891***	13%	93%
NON-CONTROLLING INTEREST	33 733	51 749	-35%	7%
TOTAL EQUITY	***491 223***	***457 640***	7%	100%
	31.12.2016	**31.12.2015**	**change**	**% total**
LIABILITIES	**BGN '000**	**BGN '000**	**%**	
Non-current liabilities				
Long-term bank loans	25 924	38 876	-33%	7%
Deferred tax liabilities	11 752	7 952	48%	3%
Long-term liabilities to personnel	4 539	4 199	8%	1%
Finance lease liabilities	2 582	1 957	32%	1%
Government grants	8 373	9 343	-10%	2%
Other non-current liabilities	672	165	307%	0%
	53 842	***62 492***	-14%	15%
Current liabilities				
Short-term bank loans	170 842	190 785	-10%	46%
Current portion of long-term bank loans	20 033			5%
Trade payables	9 478	14 784	-36%	3%
Payables to related parties	92 053	87 440	5%	25%
Payables on contract for factoring	566	2 366	-76%	0%
Payables to the personnel and for social security	10 093	8 894	13%	3%
Tax payables	5 949	6 368	-7%	2%
Other current liabilities	5 142	4 858	6%	1%
	314 156	***315 495***	-0.4%	85%
TOTAL LIABILITIES	***367 998***	***377 987***	-3%	100%
TOTAL EQUITY AND LIABILITIES	***859 221***	***835 627***	2.9%	

The equity of Sopharma Group increased by BGN 33.6 million compared to 31.12.2015 mainly due to an increase in retained earnings. The non-controlling interest is decreased by BGN 18 million. The equity related to the equity holders of the Company holds 53% of total equity and liabilities, and there is some improvement in the financial autonomy of the Group. The same increased by 51.6 million. Lev mainly through retained earnings.

Non-current liabilities decreased by BGN 8.7 million or 14%, from BGN 62.5 million at the end of 2015 to BGN 53.8 million at the end of 2016 mainly due to a decrease in long-term bank loans 13 million. lev increase recorded deferred tax liabilities by BGN 3.8 million.

Current liabilities decreased by BGN 1.3 million or by 1% compared to the end of 2015, mainly due to a decrease in short-term loans by banks by BGN 20 million, short-term part of long-term bank loans by BGN 5.3 million , As well as liabilities to related enterprises by BGN 1.8 million. Increase in liabilities under factoring contract by BGN 20 million, trade payables by BGN 4.6 million and payables to staff and social security 1,2 BGN million. Total liabilities on bank loans, leasing and factoring of the Group decreased by BGN 17.5 million compared to the end of 2015, with the net debt after deducting cash and cash equivalents decreased by BGN 16.6 million.

Ratios

	31.12.2016	31.12.2015	Change
ROE	11,9%	5,3%	
ROA	6,0%	2,5%	
Asset turnover	1,05	1,04	
Current liquidity	1,41	1,38	
Quick ratio	0,86	0,86	
Cash/current liabilities	0,07	0,07	
Owners' equity/liabilities	1,33	1,21	

1 Net profit on an annual basis attributable to equity holders of the Company / arithmetic mean of non-minority interest for the last five quarters
2 Net profit on an annual basis attributable to equity holders of the Company / arithmetic mean of total assets for the last five quarters
3 Revenue from sales on an annual basis / arithmetic mean of total assets over the last five quarters
4 Current assets / current liabilities
5 Receivables + Cash / Current liabilities
6 Cash / Current liabilities
7 Own capital / Liabilities

Cash flow

	31.12.2016 BGN '000	31.12.2015 BGN '000
Net cash flow from/(used in) operations	(60 158)	67 310
Net cash flow used in investment activities	(6 862)	(32 899)
Net cash flow (used in)/from financial operations	66 245	(36 596)
Net increase/(decrease) of cash and cash equivalents	**(775)**	**(2 185)**
Cash and cash equivalents on 1 January	23 114	25 299
Cash and cash equivalents on 31 December	22 339	23 114

The net cash flows generated by operating activities in the year 2016 amounted to BGN 60.2 million outflow, from investment activity amounted to BGN 6.9 million outflow and from financial activity amounted to BGN 66.3 million inward flow. As a result of these activities, the cash and cash equivalents decreased net by BGN 0.8 million and by 31.12.2016 amounted to BGN 22.3 million compared to BGN 23.1 million at 01.01.2016
In 2016, companies from the Group have entered into factoring contracts, with the factoring receipts amounting to BGN 132.4 million being reported as cash flows from financial activities. As a consequence, there is a significant decrease compared to the previous year of the net cash flows from operating activities at the expense of an increase in net cash flows from financing activities.

Ecology and Environmental Protection
Sopharma upholds and respects its commitments in accordance with national legislation on environmental protection. The Group implement measures to:

- separate collection of waste, minimization, recovery and recycling of industrial and household waste;
- ensuring proper training of personnel on issues related to environmental protection and pollution prevention;
- responsibly fulfills the mandatory requirements of Decree 137 of Council of Ministers and Ordinance on packaging and packaging waste;
- annually measures the emission of waste gases into the air from factory Phytochemistry and the Plant for solid dosage forms;
- monthly Sofiyska Voda measures the emissions in wastewater from production sites A and B.

In 2016 the separately collected waste decreased by 2% compared to previous years. Production waste is transferred to licensed companies for recycling. The measured annual emission of waste gases in the air and emissions from wastewater are within the required norms. The conditions of the Permit for discharge are strictly kept. The Group prepares a monthly report on the imported and / or marketed packaging by type of material for which a monthly installment is payed to Ecobulpack under the contract for the recovery of packaging waste which Sofarma AD has.

Employees

By 31.12.2016, the average staffing of the Sopharma Group was 4 543 (compared to 4 258 in 2015). The average number of employees of Sopharma AD as at 31.12.2016 is 1873 (at 2 010 in 2015) and Sopharma Trading AD is 728 (compared to 730 in 2015)

The training programs offered to employees of the Company aim to develop employee competencies. The training policy is specifically aimed at providing high professional knowledge as well as in relation to the requirements for health and safety at work.

Employees are entitled to the higher additional remuneration required by applicable law on overtime, night shifts and work on Saturdays, Sundays and holidays. Employees who work under specific, harmful or dangerous conditions receive personal protective equipment and allowances.

3. Important events after the date of the annual financial statements (art. 39, item 3 of the Accounting Law)

- On 5 January 2017, in the US Achieve Life Science Inc. and OncoGenex Pharmaceuticals Inc. announced a merger agreement under which OncoGenex Pharmaceuticals Inc. will acquire Achieve Life Science Inc. through of all-stock. Upon completion of the proposed merger it is expected that the shareholders of Achieve Life Science Inc. will own 75% of the outstanding shares of the combined Group, while current shareholders of OncoGenex Pharmaceuticals Inc. will own the remaining 25% of the outstanding shares. The agreement is submitted for approval by the Securities and Exchange Commission (SEC). After its approval the combined Group will be renamed Achieve Life Sciences Inc. and will be recorded in the NASDAQ. As a result of the above - mentioned actions Sopharma will own 423 000 shares (3.525%) of the capital of Achieve Life Science Inc..
- On 31 January 2017 the Contract for merger, as well as reports of the management bodies of the companies involved in the transformation of the Group under art. 262i of the CA and the report of the examiner under art. 262m of the CA for transformation through merger between Sopharma Group, Sofia, UIC 831902088 and Medica AD, Sofia, UIC 000000993 were filed with the FSC for approval pursuant to art. 124, par. 1 of the Public Offering of Securities Act (POSA). As a result of the merger, all assets of Medica AD shall be transferred to Sopharma Group and the latter shall become its legal successor. Medica AD shall be terminated without liquidation. On 20 March 2017 Sopharma Group, Sofia, UIC 831902088 and Medica AD, Sofia, UIC 000000993 signed an annex to the Contract for transformation through merger reflecting the comments by the FSC. All documents will be filed with the FSC for approval pursuant to art. 124, par. 1 of the Public Offering of Securities Act (POSA) after an independent certified evaluator prepares a report. As a result of the merger, all shareholders of the transferring Group

Medica AD, with the exception of the receiving Group Sopharma Group, which is also a shareholder of the transferring Group, will receive shares of Sopharma Group and become shareholders of it. Against one share of Medica AD each shareholder pursuant to art. 261b, app. 1 of the CA shall receive 0.8831 treasury shares of the capital of Sopharma Group. All other conditions concerning the merger procedure are included in the Contract.

- On February 22, 2017, the deletion of Medica - Health Ltd in the Commercial Register of the Registry Agency
- On March 15, 2017Sopharma Trading AD entered in the Commercial Register a subsidiary under the name of Sofarmacy 7 EOOD, with headquarters in Sofia, Izgrev District, 5 Lachezar Stanchev Str., Sopharma Business Towers Building A, 12th floor. The company will operate under UIC 204501313 and its manager is Valeria Vidulova-Kaneva.
- On 05.04.2017 Sopharma AD received a decision of the CPC that the acquisition by Sopharma AD of shares of the capital of Doverie United Holding AD at this stage is not subject to prior notification under Art. 24, para. 2 of the LPC. Sopharma AD will take appropriate action in reaching the established thresholds requiring a tender offer to the other shareholders of Doverie United Holding AD.
- On April 14, 2016, Sopharma AD announced that the Company acquired 51% of the capital of the Moldovan distributor of medicinal products RAP Pharma International after obtaining permission from the Moldovan Competition Commission to realize the acquisition
- The Board of Directors, pursuant to art. 223 of the Commercial Act /CA/ and art. 115 of the Public Offering of Securities ACT /POSA/, convenes an Extraordinary Meeting of Shareholders of Sopharma Group, which shall be held on 24 April 2017 at 11:00 at the Group's headquarters in Sofia, at: 5 Lachezar Stanchev Str., Building B and in the absence of quorum on 8 May 2017 at the same place, the same time and with the same agenda:

1. Approval of Substantiated report by the Board of Directors for transactions under art. 114, par. 1 of POSA; Draft decision: EGM approves the Substantiated report, prepared by the Board of Directors, for transactions under art. 114, par. 1 of POSA, with the participation of the public Group SOPHARMA GROUP.

2. Authorization of the Board of Directors of the Group to conclude a contract for provisioning of collateral in the form of a corporate guarantee in the form of a mortgage on a real estate owned by Sopharma Group and a special pledge on machines and equipment, as a collateral under a contract with a Financial Institution (Raiffeisenbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1 of POSA, according to Chapter One of the Substantiated report; Draft decision: EGM authorizes the Board of Directors of the Group to conclude a contract for provisioning of

collateral in the form of a corporate guarantee according to the terms and conditions, listed in Chapter One of the Substantiated report, i.e. conclude a contract for provisioning of collateral in the form of a corporate guarantee in the form of a mortgage on a real estate owned by Sopharma Group and a special pledge on machines and equipment, as a collateral under a contract with a Financial Institution (Raiffeisenbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD.

3. Authorization of the Board of Directors of the Group to conclude a contract as a co-debtor for a contract between a Financial Institution (Raiffeisenbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1, item 2 of POSA, according to Chapter Two of the Substantiated report; Draft decision: EGM authorizes the Board of Directors of the Group to conclude a contract as a co-debtor for a contract between a Financial Institution (Raiffeisenbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1, item 2 of POSA, according to Chapter Two of the Substantiated report.

4. Authorization of the Board of Directors of the Group to conclude a contract as a co-debtor with a Financial Institution (DSK Bank Bulgaria) for an overdraft credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1, item 2 of POSA, according to Chapter Three of the Substantiated report; Draft decision: EGM authorizes the Board of Directors of the Group to conclude a contract as a co-debtor with a Financial Institution (DSK Bank Bulgaria) for an overdraft credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1, item 2 of POSA, according to Chapter Three of the Substantiated report.

5. Authorization of the Board of Directors of the Group to conclude a contract as a co-debtor with a Financial Institution (Societe Generale Expressbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1 of POSA, according to Chapter Four of the Substantiated report; Draft decision: EGM authorizes the Board of Directors of the Group to conclude a contract as a co-debtor with a Financial Institution (Societe Generale Expressbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1 of POSA, according to Chapter Four of the Substantiated report.

6. Authorization of the Board of Directors of the Group to conclude a contract for rent of real estate as a tenant with Sopharam Properties REIT as a renter – a transaction within the scope of art. 114, par. 1 of POSA, according to Chapter Five of the Substantiated report; Draft decision: EGM authorizes the Board of Directors of the Group to conclude a contract for rent of real

estate as a tenant with Sopharam Properties REIT as a renter – a transaction within the scope of art. 114, par. 1 of POSA, according to Chapter Five of the Substantiated report.

7. Authorization of the Board of Directors of the Group to conclude a contract for trade of medicinal products with the subsidiary Sopharma Kazakhstan AD – a transaction within the scope of art. 114, par. 1 of POSA, according to Chapter Six of the Substantiated report; Draft decision: EGM authorizes the Board of Directors of the Group to conclude a contract for trade of medicinal products with the subsidiary Sopharma Kazakhstan AD – a transaction within the scope of art. 114, par. 1 of POSA, according to Chapter Six of the Substantiated report.

- Sopharma Trading AD has reached agreement and agreement to acquire PharmaStor pharmacies with the intention of their subsequent joining Sopharmacy's family. The merger of SOpharmacy and PharmaStor will provide a stronger market position for the two chains so that they can meet the increasing needs of Bulgarian patients for quality health services. The merger will also bring a larger scale for the operations of Sopharma Trading AD in the retail segment of the pharmacy market. The acquisition is subject to prior approval by the Commission for the Protection of Competition.

- On April 24, 2017, an Extraordinary General Meeting of Shareholders of Sopharma Trading AD took place, where decisions were taken to empower the Board of Directors of the Company to conclude the transaction from the scope of Art. 114, para. 1, item 2 of the Public Offering of Securities Act, under the conditions and within the terms, according to Section I, II and III of the Motivated Report, prepared by the Board of Directors, as well as approval of the Motivated Report of the Board of Directors under Art. 114a, para. 1 of the Public Offering of Securities Act regarding the expediency and conditions of transactions from the scope of Art. 114, para. 1 of POSA.

- The Group acquires an additional 50% of the shares in ZAO Interfarm, acquiring control of these companies.

- The Group sold its share in OOO Vivaton Plus.

- Pursuant to Art. 100k., Para. 1 of the Public Offering of Securities Act, please be informed that on 25.04.2017 Sopharma AD received approval of the Financial Supervision Commission of the Contract for transformation by merger and an additional agreement with it from 20.03.2017, signed on 31.01.2017 between "SOPHARMA" AD, hereinafter referred to as "Receiving Company" and "MEDICA" AD, hereinafter referred to as "Transforming Company", in accordance with the requirements of Art. 262e and ff of the Commercial Law as a result of which all the assets of Medica JSC will be transferred to Sopharma AD and the latter will become its successor. Medica AD will cease without liquidation. The Financial Supervision Commission also approved the reports of the management bodies of the two companies prepared in accordance with the provisions of Art. 262 and of the Commerce Act and the record of the appointed examiners of the participants in the transformation under Art. 262m of the Commercial Law. As a result of the merger, all shareholders of the transforming Medica AD, with the exception of the receiving company Sopharma AD, which is also a shareholder in the transforming company, will acquire shares in the capital of Sopharma AD and become shareholders in it . Against each of its shares by Medica AD each shareholder of the company on the grounds of Art. 261b, ap. 1 of the Commercial Code will acquire 0.8831 of the repurchased shares of the capital of Sopharma AD. A vote on the transformation of the GMS of the two companies is forthcoming. Please, on the grounds of Art. 100k, para. 1 of the Public Offering of Securities Act to make the above information public.

- On 25 April 2017 Sopharma AD presented an adjusted tender offer under Art. 149, para. 6 of the Public Offering of Securities Act for the purchase of the shares of the remaining shareholders of Unipharm AD at a price of BGN 4,350 per share. . The Financial Supervision Commission (FSC) has not taken any interest in the submitted draft tender offer.

4. Planned development of Sopharma Group (art. 39, item 4 from the Accounting Law/ planned economic policy for the next year (art. 247, para 3 from the Commercial Code)

- On the local market the Group aims to make treatment more accessible to patients through the faster development and registration of generic products.

- With regard to foreign markets, the efforts are focused on retaining and increasing the share of the Group on the main markets (Russia, Ukraine and Poland) as well as establishing and extending presence in other countries (USA, Central and East European countries, and the Caucasian region).

- The Group continues the policy of active partnership with recognized international pharmaceutical companies, with new companies as well as broadening the product range of already established collaborations.

- The planned investment program of the Group for 2017 includes investments amounting to BGN 9 million for acquisition of buildings, machines, equipment and software. These assets will be used for renovation of the current production facilities.

5. Research and development (art. 39, item 5 of the Accounting Law)

Sopharma Group focuses its R&D mainly on generics. The R&D projects are focused on finding and developing new formulas and compositions or physical properties (such as formulation or tablets) of the products in order to adapt them to current market needs. Strategic goal of Sopharma Group in the future is to achieve a stable result in developing eight to ten new products annually.

The Group mainly submits applications for marketing authorizations of new products, including new forms of products in Bulgaria and / or export markets and for existing products in new markets.

Intellectual property

Although oriented towards generic pharmaceuticals, Sopharma Group is known for many years with its traditional production of several unique products based on plant extracts obtained by in-house-developed extraction technologies. In addition to trademark these products are protected with patent or corporate know-how.

For the distinguishing of the manufactured generic products Sopharma Group relies on brand names, all of which are registered trademarks of the Group.

In all the years of its existence, Sopharma Group generates and protects its intellectual property. As a result, the Group owns a large number of intellectual property assets, the majority being registered rights (trademarks, patents, designs) and few of which are unregistered items - mainly technologies.

These assets are the result of the policy of the Group towards product and technological improvement, and innovation in particular.

New developments and products

- New products with marketing authorizations in the period January – December 2016:

Authorizations were received for the bringing to 6 destination for marketing of the new products for the Group – Desloratadin film tablets, Ibandron film tablets and Amlodipin tablest and Videral drops, Deavit drops and Tuspan syrup have been implemented.

- Expected in 2017

Three to five new products are expected to be introduced by the end of 2017.

- Developments

Around 15 production processes and technologies are in the process of transfer, validation and optimization. Pharmaceutical development is carried out of over 10 new products for the Group.

6. Information for treasury shares required under art. 187d of the Commercial Code (art. 39, item 6 of the Accounting Law)

In 2016 the Group bought back 554 158 shares (2015: 153 342 shares) and sold 221 723 shares (2015: 1 350 shares). The shares bought back during the year represent 0.25% of the capital of the Group and the average purchase price is 2.72 BGN.

	Shares	Capital, net from treasury shares
	amount	*BGN '000*
Outstanding shares on 1 January 2016	129 316 754	116 185
Sold treasury shares	221 723	324
Treasury shares acquired	(554 158)	(1 212)
Outstanding shares on 31 December 2016	128 984 319	115 297

The Board of directors is authorized under certain conditions in accordance with decisions of the General Meeting of Shareholders as of 23 June 2010, 30 November 2011, 1 November 2012 and 28 February 2013.

Number and nominal value of the treasury shares and the % of capital they represent

Sopharma Group owns 5 813 582 treasury shares representing 4.31% of the capital of the Group.

7. Branches of the Group (art. 39, item 7 of the Accounting Law)

Sopharma Group does not have branches.

8. Used financial instruments (art. 39, item 8 of the Accounting Law)

The general risk management is focused on the difficulty of forecasting the financial markets and aims at minimizing the potential negative effects that could affect the financial results and position of the Group. The financial risks are identified, measured and monitored through various control mechanisms in order to establish adequate prices for the products and services of the Group and the borrowed thereby capital and to assess adequately the market circumstance of it investments and forms for maintenance of free liquid funds through preventing undue concentration of a risk.

Risk management is carried out by the management of the Group under the policies adopted by the Board of Directors. The latter has approved the basic principles of general financial risk management, based on which are developed specific procedures for the management of individual specific risks such as currency, interest rate, credit and liquidity risk and the use of derivative instruments.

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

The Group has developed policies and procedures for assessing the creditworthiness of its counterparties and setting credit rating and credit limits by group of clients.

The Group's cash and payments operations are concentrated in various premium banks. In the distribution of cash flows between them, the management of the Company and the subsidiaries take into account a number of factors, including the capital, security, liquidity, credit potential and rating of the bank, etc.

Liquidity risk

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 sufficient volume of liquid funds. An internal source of liquid funds for the Group is its main economic activity generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. To isolate any possible liquidity risk, the 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 complemented by the monitoring of due dates and maturity of assets and liabilities as well as control of cash outflows.

Risk of interest-bearing cash flows

The assets structure represents the interest baring assets as cash, negotiated with a floating interest rate and loans granted, with fixed interest rate. On the other hand, Group's borrowings in the form of long-term and short-term loans are usually with a floating interest rate. This circumstance makes the cash flows of the Group partially dependent on interest risk. This risk is covered in two ways:

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

The Group's management currently monitors and analyses its exposure to changes in interest rates. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the impact of a defined interest rate shift, expressed in points or percentage, on the financial result and equity is calculated. 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.

Information under Annex 10 to Article 32, paragraph 1, point 2 of Ordinance 2 to the Public Offering of Securities Act

1. **The information given in terms of value and quantity regarding the main categories of goods, products and / or services provided, indicating their share in the Group's sales revenue as a whole and the changes occurring during the accounting financial year**

The information is included in Section III, point 2 of this Statement. The Group does not publish information in quantitative terms due to the specificity of the production produced.

2. Information on revenue broken down by category of activity, internal and external markets as well as information on the sources of supply of materials necessary for the production of goods or the provision of services reflecting the degree of dependence on each individual seller or buyer / User, in case the relative share of one of them exceeds 10 per cent of the costs or revenues from sales, information is provided for each person individually about his share in the sales or purchases and the links With the issuer

Information on revenue broken down by category of activity, internal and external markets is set out in Section III.2 of this Report.

For 2016 there are no clients whose relative share exceeds 10% of the total costs of services and materials provided.

The raw materials used exceed 3,500 nomenclature numbers, which have a dynamic structure and a variety of origins (synthetic, plant), aggregate (liquid, solid, gaseous).
The bulk of raw materials and materials are secured by imports. Sources of supply are validated manufacturers, which is in line with regulatory requirements and aims to maintain quality persistence and traceability. The respective contractors operate according to GMP, GDP and other industry standards. Sopharma JSC works with a number of Bulgarian and foreign suppliers and their selection is carried out according to an elaborated in-house procedure and aims to provide both alternative provisioning in the supply process and competitive flexibility in the trade relations.
The starting conditions of Sopharma AD in the negotiation process are: quality consistency, competitive prices, attractive payment terms, rhythmic and timely deliveries, preventing the accumulation of inventories on the one hand and at the same time ensuring the regularity of the production process.
For 2016, there are no suppliers whose relative share exceeds 10% of total costs of services and materials.

3. Information on significant transactions concluded

The Group has adopted that significant transactions are those that result or may be reasonably assumed that will lead to favorable or unfavorable change in the amounts of 5 or more percent of sales revenues or net profit.

On May 9, 2016 in Belgrade, Serbia a transaction for the sale of the shareholding of Sopharma Group in the capital of Ivanchich and Sons doo, Serbia was concluded.

The value of the transaction is subject to a confidentiality clause. The net profit of the transaction for the Group reflected in the financial statements amounted to BGN 12.7 million.

4. Information regarding transactions between the issuer and related parties during the reporting period, proposals for concluding such transactions as well as transactions that are outside its usual activity or substantially deviate from market conditions when, the issuer or its subsidiary is party, indicating the value of the transactions, the nature of relatedness and any information necessary to assess the impact on the financial position of the issuer

Information regarding the transactions between Sopharma Group and related parties during the period is specified in Notes to the Financial Statements "Related Party Transactions". Sopharma Group has not entered into transactions that are outside its usual activity or substantially deviate from market conditions.

5. Information about events and indicators unusual for the issuer that have a significant impact on its activity and realized income and expenses; assessment of their impact on the current year results

In 2016 no events and indicators of unusual nature.

6. Information on off-balance sheet transactions - nature and business purpose, the financial impact of transactions on the activity, if the risks and benefits of these transactions are material to the issuer and the disclosure of this information is essential for assessing the financial position of the issuer

The off-balance transactions as at December 31, 2016 are listed in the annual report in the “Contingent liabilities and commitments” section.

7. Information on shares of the issuer, its major investments in the country and abroad (in securities, financial instruments, intangible assets and real estate), as well as investments in equity securities outside its group of companies under Accounting Law and the sources / methods of financing

Information on shareholdings and major investments, domestic and foreign, of Sopharma Group are listed in the Notes to the annual financial statements - "Investments in subsidiaries", "Investments available for sale" and "Investments in associates". Information regarding investments in intangible assets and real estate is presented in the Notes “Intangible assets”, “Property, plant and equipment” and “Investment property”.

8. Information about the concluded by the issuer, its subsidiary or parent Group in their capacity as borrowers, loan contracts specifying the terms and conditions, including the deadlines for repayment as well as information about guarantees and commitments

Information on concluded by Sopharma loan agreements are listed in the annual report in an Notes to the annual financial report "Long-term bank loans" and "Short-term bank loans." Information on the loans of subsidiaries will be available in the consolidated financial statements.

9. Information about the concluded by the issuer, its subsidiary or parent Group in their capacity of lenders, loan agreements, including the provision of guarantees of any kind, including related parties, and the specific terms, including the deadlines for payment and the purpose for which they were granted

Long-term loans granted to related parties are given to companies related to key management personnel:

- Contractual amount 16 177 thousand EUR; interest rate - 5%; maturity – 1 December 2018; balance at 31 December 2016 - 9797 thousand BGN

Long-term loans to related parties were granted to assist in financing the activities of these Companies for strategic purposes. They are secured by pledges of securities (shares).

Provided current loans by Sopharma Group to related companies:

Companies related through key management:

- Contract amount EUR 8 133 thousand; Interest rate - 4.10%; Maturity - 31.12.2017; Balance as at 31 December 2016 - BGN 6 292 thousand;
- Contract amount 6 000 thousand BGN; Interest rate - 3.50%; Maturity - 31.12.2017; Balance as at 31 December 2016 - BGN 4 472 thousand;
- Contract amount 12 731 thousand euro .; Interest rate - 3.05%; Maturity - 31.12.2017; Balance at 31.12.2016 - BGN 560 thousand;
- Contractual amount of BGN 190 thousand; Interest rate - 3.50%; Maturity - 31.12.2017; Balance at 31.12.2016 - BGN 96 thousand;
- Contractual amount of BGN 1 300 thousand; Interest rate - 5.50%; Maturity - 31.12.2017; Balance at 31.12.2016 - 0.

Companies under common indirect control:

- Agreed amount 186 thousand euro; Interest rate - 27.50%; Maturity - 30.06.2017; Balance at 31 December 2016 - BGN 157 thousand;
- Agreed amount 122 thousand Belgian rubles; Interest rate - 27.50%; Maturity - 28.01.2018; Balance at 31 December 2016 - BGN 109 thousand;
- Agreed amount 70 thousand euro; Interest rate - 20.00%; Maturity - 24.03.2017; Balance at 31 December 2016 - BGN 67 thousand;
- Agreed amount 126 thousand euro; Interest rate - 27.50%; Maturity - 30.06.2017; Balance at 31 December 2016 - BGN 63 thousand;
- Contractual amount 23 thousand euro; Interest rate - 20.00%; Maturity - 28.02.2017; Balance at 31 December 2016 - BGN 23 thousand;

10. Information on the use of funds from the issuance of new securities during the reporting period

During the reporting period, the Group did not issue securities.

11. Analysis of the relationship between the financial results reflected in the financial statements for the financial year and earlier published forecasts for these results

There are no published forecasts of financial results.

12. Analysis and evaluation of the policy on the management of financial resources, including the ability to meet its obligations, possible threats and measures that the issuer has taken or will take to resolve them

The Group's management currently controls the collection of receivables, the implementation of financial ratios of bank contracts concluded and regularly services its obligations. Financial risk management is fully disclosed in the "Financial Risk Management" as part of the individual financial statements of the Group.

13. Assessment of the feasibility of investment intentions, indicating the amount of available funds and possible changes in the financing structure of this activity

The planned investment program for 2017 includes investments of EUR 9 million BGN for the acquisition of buildings, machinery, equipment and software. Sources of funding are its own funds from regular business. The Group is not experiencing difficulties in carrying out its investment intentions and payments for operating activity thanks to the generated positive thanks to cash flow and good liquidity.

14. Information about changes in the reporting period in the basic principles of management of the issuer and its group of companies under accounting the Law

During the reporting period there were no changes in the basic management principles of Sopharma AD and its economic group.

15. Information about the main characteristics applied by the issuer in the process of preparing the financial statements, internal control system and risk management

The information is provided in item 3 of the Corporate Governance Declaration pursuant to Art. 100m para. 8 of POSA published together with the management report.

16. Information about changes in management and supervisory boards during the accounting year

In 2016 there is no change in the governing bodies of Sopharma Group.

17. Information on the amount of remuneration, rewards and / or benefits of each of the members of the management and supervisory bodies for the financial year, paid by the issuer and its subsidiaries, regardless of whether they have been included in the expenses of the issuer, or arising from profit distribution, including:

The amount of accrued and paid by the Group remuneration of the Board of Directors and the Procurator

	Remuneration BGN	Tantiems BGN	Total
Ognian Ivanov Donev	360 200	253 539	613 739
Vesela Lyubenova Stoeva	120 000	-	120 000
Andrey Lyudmilov Breshkov	125 847	-	125 847
Ognian Kirilov Palaveev	120 200	-	120 200
Alexander Victorov Tchaushev	120 200	-	120 200
Ivan Venetzkov Badinski - Procurator	38 400	-	38 400

Remuneration and other income of key management personnel amounted to BGN 1,138 thousand. (2015: BGN 1,154 thousand) and are:

- Current remunerations - 884 thousand BGN (2015: BGN 889 thousand);
- Premiums - BGN 254 thousand (2015: 265 thousand BGN).

Remuneration and other income of key management personnel of all companies in the Group amounted to BGN 5,021 thousand. (2015: BGN 4,771 thousand) and are:

- Current remunerations - 4,512 thousand BGN (2015: BGN 4,300 thousand);
- Premiums - BGN 509 thousand (2015: 471 thousand BGN).

Contingent or deferred wages arising during the year, even if the remuneration is due at a later date

On the grounds of Art. 24 para. 3, part B of the Articles of Incorporation of the Group to the CEO of the Group is entitled to an additional remuneration of 1% of the profit realized in 2015 according to the adopted Annual Financial Report by the General Meeting of Shareholders. According to Article 7.2, para. 3 of the Remuneration policy, 40% of the additional remuneration to the CEO amounting to 101 415.43 BGN matures in 2019.

The amount of accrued and paid remunerations to the members of the Audit Committee

Members of the Audit Commitee	Remuneration BGN
Tzvetanka Zlateva	12 000
Vasil Naidenov	12 000
Vasil Piralkov	12 000

18. Information on held by members of management and supervisory bodies, the procurators and the senior management of the issuer shares, including the shares held by each of them individually and as a percentage of shares of each class and provided by the issuer options on its securities - type and amount of securities on which options have been set, exercise price of the options, purchase price, if any, and the term of the options.

The acquired, held and transferred by the members of the Board of Directors in 2016 shares of the company are as follows:

Members of the Board of Directors	31.12.2016		31.12.2015		Acquired shares in 2016	Transferred shares in 2016	change
	Number of shares	% of the capital	Number of shares	% of the capital			
Ognian Ivanov Donev	246 600	0,18%	0	0%	246 600	-	246 600
Vesela Lyubenova Stoeva	0	0%	0	0%	-	-	0
Andrey Lyudmilov Breshkov	0	0%	0	0%	-	-	0
Ognian Kirilov Palaveev	120 430	0,09%	102 585	0,08%	17 845	-	17 845
Alexander Victorov Tchaushev Чаушев	59 462	0,04%	97 976	0,07%	-	38 514	-38 514

The company has no issued bonds.

Members of the Audit Commitee	31.12.2016		31.12.2015		
	Number of shares	% of the capital	Number of shares	% of the capital	change
Tzvetanka Zlateva	0	0%	0	0%	0
Vasil Naidenov	100	0,00007%	100	0,00007%	0
Vasil Piralkov	0	0%	0	0%	0

19. Arrangements (including after the end of the financial year) as a result of which future changes may occur in the holding of shares or bonds by current shareholders or bondholders

No such arrangements.

20. Information about pending legal, administrative or arbitration proceedings relating to liabilities or receivables of the issuer of at least 10 percent of its equity; if total liabilities or receivables of the issuer in all proceedings exceeds 10 per cent of its equity, provide information about each case separately

There are no pending legal, administrative or arbitration proceedings relating to liabilities or receivables.

21. Information about the Investor Relations Director, including telephone number and mailing address

Director of Investor Relations is Pelagiya Viyacheva, tel. +359 2 8134 523, correspondence address - Sofia, 5 Lachezar Stanchev str., Building A, et. 11.

Information about the shares of Sopharma AD

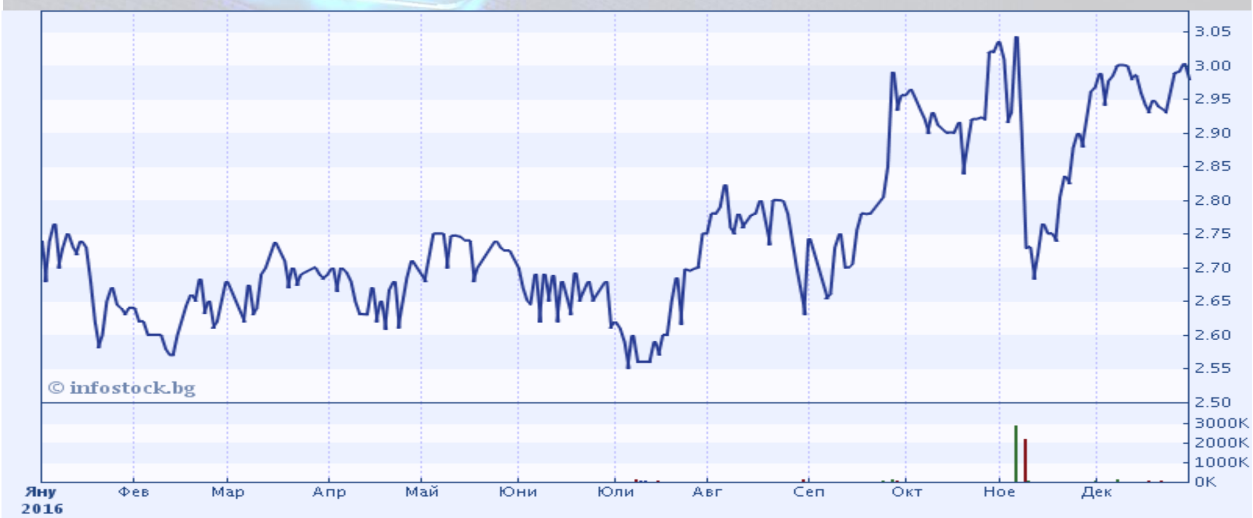
The total number of shares issued by Sopharma, issued on 31.12.2016, is 134 797 899 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, ordinary and indivisible, according to the Articles of Association of the Company. All issued shares are of one class. Each share gives equal rights to its holder in proportion to the nominal value of the share. The shares of Sopharma AD are traded on the official market of BSE - Sofia AD and on the official market of the Warsaw Stock Exchange. The shares participate in the formation of the SOFIX, BGBX40 and BGTR30 indices of BSE - Sofia AD.
The company's shares are included in the Dow Jones STOXX EU Enlarged Total Market Index with a weight of 0.11%, with a weight of 5% in Erste Bank Bulgaria Basket, in the Raiffeisen

Bank's Raiffeisen Osteuropa Fonds certificate as well as in the new Dow blue-chip index Jones STOXX Balkan 50 Equal Weighted Index.
Sopharma AD is one of the three Bulgarian companies included in the Central and Eastern Europe (CEE) Index, which the Warsaw Stock Exchange began to calculate as of May 30, 2012. The index is called WIG-CEE and is the third after WIG-Poland and WIG-Ukraine, which is based on the country's country of origin. WIG-CEE is calculated on a common yield basis and includes dividend yield and share subscription rights.

Key indicators of the shares of Sopharma Group

	31.12.2016	**31.12.2015**
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the last four quarters	129 081 505	129 155 015
Number of shares outstanding at the end of the period	128 984 319	129 316 754
Earnings per share in BGN	0,39	0,17
Price per share at the end of the period in BGN	2,992	2,72
Price/Earnings ratio (P/E)	7,67	16,00
Book value per share in BGN	3,55	3,14
Price/Book value ratio (P/B)	0,84	0,87
Sales per share in BGN	6,80	6, 77
Price per share / Sales per share(P/S)	0,44	0,40
Market capitalization in BGN	403 315 314	366 650 285

Trade with shares of Sopharma Group on Bulgarian Stock Exchange – Sofia AD for the period 01 January 2016 – 31 December 2016



Information under Article 247 and Art. 240b of the Commercial Code

Restrictions on transfer of securities, such as restrictions for possession of securities or the need to obtain approval of the Group or another shareholder:

Information under Art. 247 of the Commercial Code

Information on the Company's operations and status and explanations regarding the annual financial statements

Section II, item 2 describes the activity and the state of the Company and clarifies the annual financial statement

There is no restriction on the ownership of shares or need to obtain approval from Sopharma Group or another shareholder. No information has been received by the Group, which gives reason to believe that there are any restrictions on the transfer of shares.

Remuneration received during the year by the members of the boards

In Section IV, item 17, the remuneration and other earnings of key management personnel are stated.

Acquired, held and transferred by the members of the boards during the year shares and bonds of the company

The Articles of Association of Sopharma AD do not provide for restrictions on the right of the members of the Board of Directors to acquire shares and bonds of the company.

Participation of board members in commercial companies as unlimited liability partners, the holding of more than 25 percent of the capital of another company, as well as their participation in the management of other companies or co-operatives, such as procurators, managers or board members

Participation of the members of the Board of Directors by more than 25 per cent of the capital of other companies:

Ognyan Ivanov Donev controls or holds directly / indirectly a significant share (over 25%) of the capital of the following companies:

- Donev Investments Holding AD, UIC 831915121, with registered office in Sofia, 12 Pozitano Str.
- Telecomplect Invest AD, UIC 201653294, Sofia, 9, Slaveykov Square.
- Telekomplect AD, UIC 831643753, with address of management in Sofia, 5 Lachezar Stanchev str., Building A
- Sopharma Buildings REIT, UIC 175346309, with address of management in Sofia, 5, Lachezar Stanchev Str.
- Sopharma Real Estate REIT, UIC 175059266, with address of management in Sofia, 5 Lachezar Stanchev Str., Building A.
- SOFPRINT GROUP AD, UIC 175413277, with headquarters and address of management: Sofia, 12 Pozitano Str.
- Sofconsult group AD, UIC 175413245, with headquarters and address of management: Sofia, 12 Pozitano Str.
- Sofia Inform AD, UIC 121303553, with address of management in Sofia, 12 Pozitano str.
- Elfarma AD, UIC 130299513, with headquarters and address of management: Sofia, 16, Iliensko shose Str.
- Sopharma Trading AD, UIC 103267194, with headquarters and address of management: Sofia, 5, Lachezar Stanchev Str.Sopharma AD, UIC: 831902088, with registered office in Sofia, 16, Iliensko shose Str

Vessela Lyubenova Stoeva controls or holds directly / indirectly a significant proportion (over 25%) of the capital of the following companies:

- VES Elektroinvest Systems EOOD, UIC 201712700, with headquarters and address of management: Sofia, 9, PR Slaveykov Square.

- Eco Solar Invest Ltd., UIC 201634905, with headquarters and address of management: 48, Alabin str., Sofia.
- Aquitatics Ltd., UIC: 203934379, with headquarters and address of management: Sofia, 9 PRSlaveikov Square.

Alexander Viktorov Tchaushev controls or holds directly / indirectly a significant share (over 25%) of the capital of the following companies:

- Sofservis Ltd., UIC 131407109, with registered office in Sofia, Tsar Boris III-th Blvd No 339
- Alfa In EOOD, UIC: 131156322, with management address: Sofia, Dimcho Debelyanov 1B.

Andrey Ludmilov Breshkov controls or holds directly / indirectly a significant share (over 25%) of the capital of the following companies:

- Breshkov & Sons Ltd., UIC 115114555, with headquarters in Plovdiv, 36 Gladstone Street
- SIF Ltd, UIC 131304899, with registered address in Sofia, Nikolay Haytov Str.

Ognian Kirilov Palaveev controls or holds directly / indirectly a significant share (over 25%) of the capital of the following companies:

- Melnitsa village of Stefanovo Ltd., UIC 201045146, with management address in the village of Stefanovo, Lovech region.
- Sirius Ltd., UIC 110543305, with management address in the village of Stefanovo, Lovech region, Apriltsi Str.
- OKP Investments Ltd., UIC: 204361991, with registered address at 15 Krushova gradina Str., Sofia.

Participation of the members of the Board of Directors in the management of other companies or co-operatives, such as procurators, managers or councilors:

Ognian Ivanov Donev participates in a management / controlling body in the following companies:

- Elpharma AD, UIC 130299513, with address of management in Sofia, 16, Iliensko shose Str. - Member of the Board of Directors and Executive Director.

- Sopharma Trading AD, UIC 103267194 with headquarters in Sofia, 5 Lachezar Stanchev Str. - Chairman of the Board of Directors.
- Donev Investments Holding AD, UIC 831915121, with registered office in Sofia, 12 Positano Str. - Chairman of the National Assembly.
- Unipharm AD, UIC 831537465, with headquarters in Sofia, 3 Trayko Stanoev Str. - Chairman of the National Assembly.
- Kaliman - PT, UIC 121120513, with address of management in Sofia, 5 Lachezar Stanchev Str. - Chairman of the Board of Directors.
- Telecomplect AD, UIC 831643753, with address of management in Sofia, 5 Lachezar Stanchev str., Building A- Chairman of the National Assembly.
- Doverie United Holding AD, UIC 121575489, with registered office in Sofia, 82 Knyaz Dondukov Blvd. - Member of the National Assembly, Deputy Chairperson.
- Doverie Capital AD, UIC 130362127, with registered office in Sofia, 82 Knyaz Dondukov Blvd. - Member of the National Assembly.
- Medica AD, UIC: 000000993, with head office in Sofia, 82 Knyaz Dondukov Blvd. - member of the Board of Directors.
- Riton P AD, UIC: 822106398, with address of management in Panagyurishte, 30 Krastyo Geshanov Str. - member of the Board of Directors.
- Sopharma AD, UIC: 831902088, with address of management in Sofia, 16, Iliensko Shose Str. - Member of the Board of Directors and Executive Director.

Vessela Lyubenova Stoeva participates in a management / controlling body in the following companies:

- Elfarma AD, UIC 130299513, with address of management in Sofia, 16 Iliensko shose Str. - Member of the Board of Directors.
- VLS AD, UIC 175082980, with headquarters in Sofia, 9 PRSlaveykov Square - Member of the Board of Directors.
- VES Elektroinvest Systems EOOD, UIC 201712700, with headquarters and address of management: Sofia, 9 Slaveikov Square - Manager.

- Sopharma AD, UIC: 831902088, with address of management in Sofia, 16, Iliensko Shose Str. Chairman of the Board of Directors.

Alexandar Viktorov Tchaushev participates in a management / controlling body in the following companies:

- Monbat AD, UIC 111028849 with registered office in Sofia, Lozenets, 4, Golo Bardo Str. - Member of the Board of Directors.

- DK-Domostroene AD, UIC 102148397 with registered office in the town of Bourgas, PC 8000, Pobeda - Member of the Board of Directors.

- Agency for Management and Advertising in Sport EAD, UIC 130969084 with headquarters in Sofia, Vazrazhdane district, 42, Todor Alexandrov Blvd. - Member of the Board of Directors.

- Sopharma AD, UIC: 831902088, with headquarters in Sofia, 16, Iliensko Shose Str. - Member of the Board of Directors.

Andrey Lyudmilov Breshkov participates in a management / controlling body in the following companies:

- Simol EAD, UIC 101795403, with headquarters and address of management in Blagoevgrad, 3, Georgi Izmirliev Sq. - Chairman of the Board of Directors.

- Visaton Ltd, UIC 202235166, with headquarters and address of management: Sofia, Sredets, Tsar Boris III Blvd №225A - President of the Board of Directors.

- ZAD Energia, UIC 831040933, with headquarters and address of management: Sofia, 33, Knyaz Dondukov Blvd. - Member of the Board of Directors.

- Sopharma AD, UIC: 831902088, with headquarters and registered office in Sofia, 16, Iliensko shose Str. - Member of the Board of Directors.

- Expat Beta REIT, UIC: 200059488, with headquarters and management address in Sofia, GS Blvd. Rakovski №96A - Member of the Board of Directors.

Ognian Kirilov Palaveev participates in a management / controlling body in the following companies:

- Sirius Ltd., UIC 110543305, with headquarters and business address in Lovech Municipality, Stefanovo, 7, Apriltsi Str. - Member of the Management Board.
- Sopharma AD, UIC: 831902088, with headquarters in Sofia, 16, Iliensko Shose Str. - Member of the Board of Directors.
- Unipharm AD UIC: 831537465, with headquarters in Sofia, 3, Trayko Stanoev Str. - Member of the Board of Directors.
- Melnitsa village of Stefanovo Ltd., UIC 201045146, with management address in the village of Stefanovo, Lovech region.
- OKP Investments Ltd., UIC: 204361991, with management address in Sofia, 15, Krushova gradina Str. – Manager

Planned economic policy in the next year (Article 247 (3) of the Commercial Code)

The information is reflected in Section III, Item 4 of this Report - Future Development of the Enterprise (Art. 39, Item 4 of the Accountancy Act).

Information under Article 240b of the CA on the obligation of board members to notify in writing the board of directors or the board of directors when they or their affiliates conclude contracts with the company that go beyond its normal business or materially deviate from the market conditions

In 2016, there are no contracts that go beyond the company's usual business or substantially deviate from market conditions.

Ognian Donev, PhD
/Executive Director/

Corporate Governance
DECLARATION
under Article 40 of the Accounting Act and article 100n, paragraph 8 of the Public Offering of Securities Act
SOPARMA GROUP

The undersigned Ognyan Ivanov Donev, in his capacity as CEO of Sopharma AD, declare the following:

I. Information regarding compliance where appropriate:

a) the Corporate Governance Code approved by the deputy chairman of the Financial Supervision Commission, or

b) other Corporate Governance Code;

c) information on corporate governance practices that are applied by Sopharma AD (the Company) in addition to the code under letter "a" or "b".

The public companies in Sopharma Group (the Group) have adopted and continue to respect the established in October 2007, with subsequent amendments in 2012 and 2016, National Corporate Governance Code / NCGC /, approved by the deputy chairman of the Financial Supervision Commission. The good corporate governance is a set of well-balanced relationships between management bodies of the public companies in the Group, their shareholders and all stakeholders - employees, business partners, creditors of the company, and potential future investors and the general public.

The Management of the public companies in the Group adhere to the Good Corporate Governance Program, which is consistent with the effective regulation, the internationally recognized standards of good corporate governance and the Bulgarian National Corporate Governance Code.

Along with the principles bearing recommendatory nature, Sopharma Group establishes a set of corporate governance requirements, compliance with which is mandatory for the management bodies of the public Companies, namely:

- Protecting the rights of shareholders;
- Ensuring fair treatment of all shareholders, regardless of the number of shares held by them;
- Recognition of the rights of interested parties and promote cooperation between the public company and stakeholders;
- Providing timely and accurate disclosure of information on all matters related to the public companies in the Group, including financial position, performance, ownership and the management;
- Supporting the strategic management of the companies control over the activities of the Management and their accountability to the public companies in the Group and shareholders.

The Corporate Governance Code applies the principle **"comply and explain"**, which means that its recommendations are followed and whether there is a deviation from them or not, the management of the public companies in the Group periodically disclose information on corporate governance to the type and extent, provided in NCGC, namely:

The actions of the Management of the public companies in the Group are in the direction of strengthening the principles of good corporate governance, enhancing the confidence of shareholders, investors and those interested in the management and operations of the public companies in the Group.

The Management of the public companies in the Group complies with the Good corporate governance program, which is consistent with existing regulations, internationally recognized standards of good corporate governance and the National Corporate Governance Code.

The Management of the public companies in the Group approves Policy on disclosure of information in accordance with legal requirements and regulations.

Sopharma AD is involved in the formation of the Association "National Committee on Corporate Governance."

1. Parent Company management /SOPHARMA AD/- BOARD OF DIRECTORS

1.1. Functions and duties

The Board of Directors of Sopharma AD manages independently and responsibly the Company in accordance with the established vision, goals and strategies of the Company and shareholders' interests. The Members of the Board of Directors give guarantee for their management in the amount of their quarterly gross remuneration, determined by the General Meeting of Shareholders.

During its mandate the Board of Directors shall be guided in its activities by the generally accepted principles of integrity, management and professional competence. The Board of Directors observe the Code of Ethics of the Company adopted by a protocol of the Board of Directors of 26.03.2007.

The management of Sopharma AD, represented by Board of Directors also:

• monitors the results of the Parent Company‘s the Group activities and, if necessary, initiate changes in the management;

• treats equally all shareholders, acts in their own interest and with due diligence;

• provides and controls the integrated functioning of the accounting and financial reporting;

• is responsible for the establishment and proper functioning of the financial information system of the Parent Company and the companies in the Group.

• gives guidelines, approves and controls the implementation of the business plan of the Parent Company and the companies in the Group, material transactions and other activities set out in the statutes of the Company.

• reports on its activities to the General Meeting of Shareholders, by preparing an Annual report on its activities and submitting it for adoption by the General Meeting.

1.2. Appointment and dismissal of members of the Board of Directors

General Meeting of Shareholders elects and dismisses members of the Board of Directors of Sopharma AD, according to the law and the statutes of the Company, subject to the principles of continuity and sustainability of the work of the Board of Directors. All members meet the legal requirements for taking up their duties.

By proposals for election of new members of the Board of Directors, they shall comply with the principles of compliance competence of candidates to the character of the Parent Company's activities and companies in the Group activities.

Their duties and tasks, the criteria for their remuneration, their duties of loyalty to the Company and grounds for dismissal are determined In the contracts for management, concluded with the Board members. Management contracts with the Board of Directors or with the Executive Director comply with the Statue of the Parent Company and with the prepared by the Board of Directors Policy for the remuneration of the Board of Directors, which is approved by the General Meeting of Shareholders on June 21, 2013 .

1.3. Structure and competence

The number of members and the structure of the Board of Directors are set out in the Articles of Association. The Parent Company is managed and represented by a Board of Directors, which consists of five individuals, meeting the requirements of Article 234 of the Commercial Code and Article 116a, paragraph 2 of the Public Offering of Securities Act.

The members chosen by the General Assembly Board of Directors is structured in a way that ensures professionalism, impartiality and independence of decisions and actions of its members in the management of the Parent Company.

The Board ensures proper division of tasks and responsibilities among its members. The main function of independent directors is to control the actions of the executive management and to participate effectively in the work of the Company in accordance with the interests and rights of the shareholders. The main functions of the Board of Directors and the number of independent members enshrined in the Article of Association of the Company. At the Board of Directors of Sopharma AD there are two independent members.

The Members of the Board of Directors of Sopharma AD have appropriate knowledge and experience required for the position they take. After their election, the new members of the Board of Directors are introduced to fundamental legal and financial issues related to the Company. The company promotes training of members of the Board of Directors.

Members of the Board of Directors has sufficient time to perform their tasks and duties. The Parent Company’s Article of Association determined the number of companies in which members of the Board of Directors can occupy managerial positions, because the activities of the Board members cannot be restricted.

The election of the Board of Directors of the Parent Company is through a transparent procedure which should ensure timely and sufficient information on the personal and professional qualities of the candidates. The number of consecutive mandates of the Board of Directors ensures efficient operation of the Parent Company and compliance with the legal requirements. According to the Articles of Association of the Parent Company, the members of the Board of Directors may be re-elected without limitation.

1.4. Remuneration of the Board of Directors

The Board of Directors of Sopharma AD has developed and implemented Policies for the formation of the remuneration of the Board of Directors, adopted by the General Meeting of Shareholders on June 21, 2013. The remuneration policy was developed in accordance with Decree № 48 of March 20, 2013 of the financial supervision Commission and with the Public offering of securities Act. The size and structure of remuneration are determined by the General Meeting of the Parent Company.

In accordance with legal requirements and best practice of corporate governance, the size and structure of the remuneration account:

• responsibilities and contributions of each member of the Board of Directors on the activities and results of the Parent Company. Members of the Board of Directors receive a fixed remuneration as determined by the General Meeting of Shareholders amount paid under the terms and conditions of agreements concluded between them and the Company management contracts.

• The ability to select and retain qualified and loyal members of the Board of Directors of Sopharma AD. These requirements are implemented through policy formation of the remuneration of the Board of Directors adopted by the General Meeting of Shareholders on June 21, 2013

• The need for conformity to the interests of the members of the Board of Directors and long-term interests of the Parent Company. The remuneration of the members of the Board of Directors are formed based on the results of the Parent Company and are consistent with the business strategy, objectives, values and long-term interests of the Parent Company.

• The Executive member of the Board of Directors receives fixed remuneration as determined by the General Meeting of Shareholders, amount paid under the terms and conditions of, the signed between him and the Parent Company, management contract. According to the Statute of the Parent Company, when there is positive financial result /profit/ to the Parent Company and a decision of the General Assembly, the Executive Director is entitled to receive a one-time remuneration of up to one percent of the net profit of the Parent Company.

• Salaries and bonuses of the members of the Board of Directors and the Executive Director of the Parent Company must be approved by the General Meeting of Shareholders.

Until now, the Executive Board member have not been provided with shares or other financial instruments.

Members of the Board of Directors receive a fixed remuneration as determined by the General Meeting of Shareholders amount paid under the terms and conditions of agreements concluded between them and the Parent Company management contracts.

With the qualified majority, the Board of Directors may take a decision to determine the circle of employees, among which may be distributed as bonus cash amount to 2% of the profit of the Parent Company for each financial year. The same is possible only if there is a decision of the General Meeting of Shareholders to determine the specific amount of the bonus amount taken at a meeting, which approved the corresponding audited annual financial statements and there is a positive financial result / profit /.

The disclosure of the information about the remuneration of the Board of Directors is in accordance with legal regulations and the Statues of the Parent Company.

The remuneration of the members of the Board is presented in the financial statements, the Report on the implementation of the remuneration policy of the Board of Directors and published on the website.

1.5. Conflict of interests

Members of the Board of Directors shall endeavor to avoid and prevent real or potential conflict of interest.

Procedures for preventing and disclosing conflicts of interest are regulated by the Statute of Sopharma AD, the Code of Ethics of the Company, as well as instructions and explanations about the duties and responsibilities of insiders possessing inside information in Sopharma AD in connection with the requirements of the Law of enforcement measures against market abuse with financial instruments.

Members of the Board of Directors shall endeavor to disclose immediately conflicts of interest and provide shareholders access to information about transactions between the Company and members of the Board of Directors or related parties.

Any conflict of interests in the Parent Company shall be disclosed to the Board of Directors.

Potential conflict of interest exists when the Parent Company intends to carry out a transaction with a legal entity in which the member of the Board of Directors or related (interested) parties thereto have a financial interest.

1.6. Committees

The work of the Board of Directors is assisted by committees and The Board of Directors determines the need for setting up according to the specifics of the Parent Company.

In accordance with the requirements of applicable law, the Board of Directors proposes to the General Meeting of Shareholders to elect an audit committee that complies with the legal requirements and the particular needs of the Parent Company.

The Committees are created based on the written terms of reference, scope of tasks, operation and reporting procedures. The Audit Committee of Sopharma AD consists of three people with three-year mandate determined by the General Meeting of Shareholders. The members of the Audit Committee meet the requirements of Article 40, paragraph 3 and 4 of the Independent financial audit Act.

2. INDEPENDENT FINANCIAL AUDIT AND INTERNAL CONTROL

The Audit Committee of Sopharma AD and its members, in their capacity as persons charged with governance, oversee the internal audit activities and monitor the overall relationship with the external auditor, including the nature of the non-audit services provided by the Group Auditor.

The management of Sopharma AD, assisted by the Audit Committee, sets out their motives, in writing, to the General Assembly, for their proposal and choice of auditor, guided by the established professionalism requirements.

The Management of the companies in the Group ensures compliance with the applicable to the independent financial audit law.

By selecting and appointing an external auditor, a rotation principle applies. The auditors are elected by the General Meeting of Shareholders for each financial year.

The Group has established an internal control system that identifies risks associated with the operation of the Companies and supports their effective management. It ensures the effective functioning of the reporting and disclosure of information.

3. PROTECTION OF SHAREHOLDERS

The Management of the public companies in the Group, ensures equal treatment of all shareholders, including minority and foreign shareholders and protects their rights and facilitates them within the limits permitted by applicable law and in accordance with the Statutes of the public companies in the Group. The Managements provide information regarding their rights to all shareholders.

3.1. General Meeting of Shareholders

All shareholders are informed of the rules under which shall be convened and held General meetings of shareholders, including voting procedures. The Managements of the public companies in the Group provide sufficient and timely information concerning the date and venue of the meeting, as well as full information on the matters to be discussed and decided at the meeting.

During the General Assembly, the Managements of the public companies in the Group, provide the right of all shareholders to express their opinions and ask questions.

All shareholders are entitled to participate in the General Meeting of Shareholders and to express their views:

- Shareholders entitled to vote are eligible to exercise their right at the General Meeting of the public companies in person or by proxy, as well as by correspondence or by electronic means.
- The Managements of the public companies in the Group exercises effective control, establish the necessary organization to vote on the authorized persons in accordance with the instructions of the shareholder or authorized by the law.
- The Managements of the public companies in the Group organize and conduct regular and extraordinary General meetings of shareholders of the public companies in accordance with statutory procedures to ensure equal treatment of all shareholders and the right of each shareholder to express its views on the items on the agenda of the General Assembly.
- The Managements of the public companies in the Group organize the procedures and conditions for holding the General Meeting of Shareholders in a manner that does not impede or unnecessarily expensive vote.
- The Managements take action to encourage the participation of shareholders at the General Meeting of shareholders, incl. by providing opportunities for telepresence by technical means (incl. Internet) where this is possible and necessary, and does not contradict the NCGC.

All members of the managements are trying to attend the General Meetings of Shareholders.

3.2. Materials of the General Meeting of Shareholders

Documentation and materials related to the agenda of the General Assembly are concrete and clear and do not mislead shareholders. Any suggestions on major corporate events are presented as separate items on the agenda of the General Assembly, including proposal for profit distribution.

The public companies in Group maintain on their website a special section on the rights of shareholders and their participation in the General Meeting of Shareholders.

The Managements of the public companies in the Group assist shareholders, entitled under current law to include additional items and propose decisions on already included in the agenda of the General Assembly.

3.3. The Managements of the public companies in the Group guarantee the right of shareholders to be informed about the decisions of the General Meeting of Shareholders.

3.4. Uniform treatment of the shareholders of one class

All shareholders of the same class are treated equally.

All shares within a class give equal rights to the shareholders of the same class.

3.5. The Managements of the public companies in the Group ensure that sufficient information to investors about the rights attaching to the shares of each class prior to their acquisition.

3.6. Consultations on shareholders on major shareholder rights

Within the limits permitted by applicable law and in accordance with the Statutes of the companies in the Group, corporate governance does not preclude shareholders, including institutional ones, to consult each other on matters relating to their basic shareholder rights in a way that does not admit committing abuses.

3.7. Transactions of shareholders with control rights and transactions of abuse

The Managements of the public companies in the Group do not allow carrying out transactions with shareholders with control rights that violate the rights and / or legitimate interests of other shareholders, including the terms negotiated with itself.

4. DISCLOSURE OF INFORMATION

The Managements of the public companies in the Group approved Policy on disclosure of information in accordance with legal requirements and regulations.

In accordance with the adopted Policy of disclosure the Managements establish and maintain a system of disclosure.

The system of disclosure ensures equal access to information (shareholders, stakeholders, Investment Community) and prevents misuse of inside information.

The Managements of the public companies in the Group also:

• ensure that the system of disclosure provides complete, timely, accurate and understandable information that enables objective and informed decisions and assessments.

• timely disclose capital structure of the companies and the agreements that lead to scrutiny under its rules on disclosure of information

• in accordance with the current legislation and the Statutes of the Companies, ensure that the rules and procedures under which the acquisition of corporate control and extraordinary transactions such as mergers and sales of substantial portions of the assets are made, are clearly and timely disclosed.

• approve and monitor compliance with internal rules for the preparation of annual and interim reports and procedures for disclosure

• have adopted internal rules that provide timely disclosure of any significant periodic and occasional information about the public companies, their management, corporate manuals, operational activity, shareholding structure.

As part of the disclosure, Sopharma Group maintains a website of the company with established content, scope and frequency of information disclosed. The website of the Company is: www.sopharmagroup.com

The information disclosed by the company web site includes:

- basic identifying the Group's commercial and corporate information;
- up-to-date information on shareholding structure;
- Statutes of the Group and adopted policies related to the activities and functioning of the Group
- information on the structure and composition of the management bodies of the companies in the Group, as well as basic information about their members, including information about committees;
- financial statements for the last 10 years;
- materials for the upcoming General Meetings of Shareholders, as well as additional ones received by law;
- information on decisions of General meetings of shareholders at least the last three years incl. information on dividends distributed by the Group for that period;
- information about the auditors;
- information about upcoming events;
- information on issued shares and other financial instruments;
- important information related to the Group;
- information about shareholder rights including sufficient information on the right of shareholders to request inclusion of items and propose decisions on already included in the Agenda of the General Assembly under article 223a of the Commercial Code.
- information contact about the Director of Investor Relations of Sopharma AD.

The Group maintains also an English version of the corporate website with similar content.

The Group periodically discloses information relating to Corporate governance. Disclosure of Corporate governance is carried out in accordance with the principle "comply and explain".

The Managements of the public companies in the Group provide disclosure of any significant periodic and occasional information about the Group, through channels that provides equal and timely access to relevant information by users.

5. STAKEHOLDERS

The Managements of the Companies in the Group provide effective interaction with stakeholders. This category includes certain groups of persons who directly affect the Companies in the Group and which in turn could affect their activities, including suppliers, customers, employees, creditors, civil society groups and others. The companie in the Group identify who are the stakeholders with respect to their activities based on their degree of influence, role and relationship to sustainable development.

In their Policy towards stakeholders, the Managements complies with legal requirements and principles of transparency, accountability and business ethics.

In accordance with this policy, the Managements of the Companies in the Group have developed specific rules for addressing stakeholder interests, тhat rules should ensure their involvement in solving specific issues, that require their input. These rules ensure balance between the development of the Group's economic, social and ecological environment in which it operates.

The managements maintain effective relationships with stakeholders. Periodically, in accordance with legal norms and international best practice for disclosure of non-financial information, the Group informs the stakeholders about the economic, social and environmental related issues, such as combating corruption; working with employees, suppliers and customers; corporate social responsibility; environmental Protection.

The Managements guarantee the right for timely access to relevant, sufficient and reliable information on the companies in the Group when stakeholders involved in corporate governance.

The Managements maintain effective relationships with stakeholders.

Disclosure

The Managements of the public companies in the Group approved Policy on disclosure of information in accordance with legal requirements and regulations. The system of disclosure ensures equal access to information (shareholders, stakeholders, Investment Community) and prevents dealing with inside information and market manipulation in financial instruments. Sopharma Group ensures that the system of disclosure provides complete, timely, accurate and understandable information that enables objective and informed decisions and assessments.

The Group maintains also an English version of the corporate website with similar content.

In 2016 the Managements of the public companies in the Group disclosed publicly regulated information through its provision of the Financial Supervision Commission and the public. Regulated information shall be disclosed to the public in a way that ensures it reaches the widest possible audience simultaneously and in a way that does not discriminate them.

Sopharma AD uses X3NEWS information system, based on the contract with Service Financial Markets Ltd., which can ensure effective dissemination of regulated information to the public in all Member States.

The Managements of the public companies in the Group prepare a Report on the Implementation of the remuneration policy of the members of the Board of Directors in 2016. The report reveals how the remuneration policy is being applied, paying special attention to avoid creating incentives for excessive risk taking, conflict of interest or other conduct leading to adverse effects. The size and structure of remuneration are determined by the General Meeting of the public company.

General Meeting of Shareholders

The Managements of the public companies in the Group take action to encourage the participation of shareholders at the General Meeting of shareholders, incl. by providing opportunities for telepresence by technical means (incl. Internet) where this is possible and necessary, and does not make the voting more difficult or unnecessary expensive.

Processes and procedures for holding General Meetings of Shareholders ensure equal treatment of all shareholders, including minority and foreign, and protect their interests.

Materials related to the General Meeting of Shareholders are available to the shareholders on the day of the announcement of the invitation for it at the Financial Supervision Commission, on the company's website and for Sopharma AD at: www.sopharmagroup.com at least 30 days before the date of holding the General Meeting and, upon request, provided free of charge to shareholders.

Shareholders entitled to vote, may exercise their right at the General Meeting of Shareholders in person or by proxy, as well as by correspondence or by electronic means. The order of participation of shareholders at the General Meeting is announced in the invitation.

The public companies in the Group submit the Protocol from the General Assembly in three days from holding of, to the Financial Supervision Commission, Bulgarian Stock Exchange-Sofia, the public and at the company's website and for Sopharma AD at: www.sopharmagroup.com.

In 2016 Sopharma AD held one General Meeting of Shareholders.

The Managements of the Companies in the Group believe that they have created prerequisites for sufficient transparency in relationships with investors, financial analysts, media and the capital market.

II. Explaination which parts of the Code of Corporate Governance under p. 1, letter "a" or "b" of art. 100 "H" par. 8 are not complied with and the reasons for it accordingly when the issuer has decided not to invoke any of the rules of Corporate governance code - warranted

The public companies in the Group comply with all parts of the corporate governance code under p. 1, letter "a"

III. Description of the main features of the internal control and risk management of the issuer in relation to the financial reporting process

The internal control system of financial reporting and accounting of the Companies in the Group was developed as a result of studies of good reporting and control practices in Bulgaria and major pharmaceutical groups, and subject to national legal requirements, incl. for listed companies on regulated markets and groups. It is in a constant process of monitoring by the Managements and further development and improvement.

The internal control systems of financial reporting and accounting of the Companies in the Group are a complex of behavioral and technical principles, rules, procedures and control activities, which are specially developed and adapted to the specifics of the Companies, their activities and reporting system. They are aimed at:

• providing ongoing monitoring and reporting activities targeted towards their goals and expectations of its various users and achieve the necessary efficiency and effectiveness, incl. the use of resources employed; and

• ensuring adequate and timely address the identified business risks that have an impact on the financial, managerial and operational reporting.

In particular, they are developed in a way that create comfort leadership that:

• The Companies comply with applicable legal requirements in accounting, reporting and other directly related fields, particularly the requirements of the Accounting Act and International Financial Reporting Standards;

• the Companies comply with the instructions and guidance to senior management regarding the reporting and documentation;

• there is the required effectiveness and efficiency of the financial accounting process, incl. consolidation and documentary justification;

• there is a high degree of security protection and maintenance of the company's assets, incl. and prevention of fraud and error; and

• there is provision of reliable, quality and timely financial and operational information for internal and external users.

The main components of the internal control system on financial reporting and accountability include:

a) acceptance and observance of ethical principles and rules of conduct, adopted in a Code of Ethics for the employees, and in terms of financial reporting and accounting and all related processes, procedures and actions of all personnel of the Companies in the Group;

b) developing and defining the optimal structure of the units involved in the processes related to financial reporting, with clearly defined responsibilities and delegation powers and duties, incl. by developing written internal documents;

c) developing policies for recruitment, training and development of personnel in the processes of accounting and financial reporting;

d) developing, implementing and maintaining control procedures and rules for each stage of the process relating to accounting, financial reporting and accountability priority gradual introduction of formalized written procedures;

e) developing procedures for identifying, monitoring and managing risks relating to accounting, financial reporting and accountability, incl. development of adequate measures and actions for their minimization; and

f) developing and maintaining adequate organization of information system incl. access controls, input, processing and retrieval of data, system changes, allocation of responsibilities of employees in her party, as well as storage and preservation of the integrity and authenticity of data in the system.

Control environment

Ethical principles and rules related to the processes of accounting, financial reporting and accountability

The Managements of different levels of the companies in Sopharma Group have implemented and continuously monitor compliance with ethical values such as integrity, independence and objectivity as foundations of professional conduct of all persons involved in the processes related to accounting and financial reporting in the Companies. It is the framework against which the control environment was built, and which have influenced the effectiveness of the design model, administration and ongoing monitoring of other components of internal control in the field of accounting and financial reporting. Integrity and ethical behavior are the product of established common ethical and behavioral standards of the Companies in the Group. They are clearly communicated to the entire financial accounting and control staff and they constantly affirm in practice.

Ethical principles governing the professional conduct that should be observed by all persons involved directly or indirectly in accounting and business processes and related financial reporting are: objectivity; impartiality; independence; conservatism; transparency; methodological soundness; sequence and the use of independent experts. These principles apply to all stages of financial reporting in: accounting policy choice; closing of accounts; design and implementation of accounting estimates and develop public and government financial statements of other public reports and documents containing financial information.

Management bodies responsible for different components of the overall process of accounting and financial reporting

Management bodies which carry certain responsibilities and powers regarding the financial reporting process and respectively other related process are different in the different companies in the Group: For the whole Group they are: Board of Directors, Audit Committee, Chief Financial Officer, Chief Accountant, Head of "Reporting" and Head of "Internal Audit"- for the Parent Company.

Their functions and responsibilities can be summarized as follows:

• The Board of Directors accepts and affirms accounting policies and changes thereto for each reporting period, developing accounting estimates at the date of each reporting period, incl. methodologies; financial statements and reports and other public documents containing financial information; functions, organization and responsibilities of all departments and their leaders involved in processes and associated financial reporting; development, deployment and ongoing monitoring functioning of the various components of the internal control system, incl. activities of the department "Internal Audit";

• The Audit Committee independently monitors the implementation of the financial reporting processes, accounting policies and the effectiveness of the internal control system of the company, incl. risk management, as well as the implementation and results of the external and internal audit;

• The CFO is responsible for the overall organization, operation and monitoring of accounting and financial reporting. He directly manages the entire process takes all key decisions related to the financial statements and other public documents with financial information. He also approves the first level accounting policy, the main accounting methods and evaluates and approves the reports of independent experts (appraisers, actuaries, consultants and others) involved in the financial reporting process. He currently monitores, along with the chief accountant and head of the department "Reporting" effects and risks on the financial statements of the identified business risks for the Company;

• The chief accountant organizes and manages the accounting and reporting of the Company - controls and methodological manages current accounting, manages the preparation of financial and management reports; is responsible for development and implementation of accounting and reporting methods and techniques; is responsible for the process of closing of accounts and preparation of all accounting estimates, offers and develops accounting policies and changes in them, monitors ongoing changes to IFRS. He is the direct contact with internal and external experts for financial reporting purposes;

• The department "Reporting" and its head carries overall organization, providing methodological and implementation process related to the preparation of the consolidated financial statements of the Company, incl. current control, instruction, monitoring and analysis of financial statements for purposes of consolidation of group companies Sopharma;

• "Internal audit" performs subsequent control over the operations and activities related to the preparation of the financial statements of the Company and compliance with the internal controls put in place by individual routine and non-routine processes.

Policies and practices related to human resources in financial and accounting departments

The Companies in the Group have established policies and rules relating to the Management of human resources in the financial reporting process and other processes associated with it. These include enforced and implemented policies and procedures for the selection and appointment of such staff aimed at education and work experience, computer literacy and possession of languages of candidates when selecting leading requirements set out in the job descriptions of individual positions.

To the policies for personnel management are included those related to continuous further professional training, upgrading and expansion of knowledge and skills of employed specialists. In case of changes in the regulations, IFRS, tax and other laws affecting their work directly, the employees must attend different kind of trainings. The purpose of this policy is to achieve an increase in their expertise and improve their skills to increase efficiency in the performance of their duties.

Procedure of the Group to assess the risk associated with financial reporting

The Board of Directors, Audit Committee, Finance Director and Chief Accountant of the Parent Company have a key role in permanently identify, monitor and control business risks, incl. to identify and control the effects of those that have a direct impact on individual processes and areas of accounting, financial reporting and accounting of the companies. They, together, provide overall monitoring of the process of risk management.

Risk factors related to reliable financial reporting include external and internal events, transactions or circumstances that may arise and reflect negatively on the entity's ability to create, maintain and process accounting and operational data in a way that ensures reliable financial reporting, records and reports. The Group has defined as essential following factors:

a) as external risks are determined: change in the business environment and market environment of the companies and their major products; the activities of competitors; changes in legal and regulatory framework; changes in key suppliers or customers; fraudulent or malicious actions by outsiders; rapid corporate growth and growth of the group; development of the companies in which they hold significant investments in the form of shares and / or loans.

b) to internal risks are assigned: change the technological base of the companies in the Group, the manner and intensity of use of their assets and resources; new products and activities; new accounting policies and IFRS; changes in the staff of the departments responsible for and / or financial reporting; changes in information systems; mistakes at work and / or insufficient knowledge or skills of staff rapidly expanding business abroad; administration of multiple estimates - especially use of fair values and calculating the recoverable amount of certain non-current assets, with the participation of outside experts.

Risk factors that are repetitive and / or are related to the application of accounting policies and estimates, are currently monitored by the chief accountant of the Group, who offers solutions for the management and proper coverage of their effects in the financial statements. New risk factors are identified by the CFO of the Parent Company, and are evaluated and developed together with the chief accountant and head of the department "Reporting." If necessary, technical assistance of independent consultants is used, incl. and implementation of new IFRS. The general supervision of the process of managing the risks associated with financial reporting is carried out by the Audit Committee of the Companies in the Group.

Information system of the companies in the Group. Department "Accounting" - organization of the accounting function in the company and the financial reporting process

Information System

The information system of the companies in Sopharma Group includes infrastructure (physical and hardware components), software, people, procedures and data. In 2013 Sopharma AD has implements ERP system Microsoft Dynamics AX. It covers all processes in sales, warehouse, mainly planning, production and accounting. The system was adapted and implemented not only taking into account the specifics of the company itself but also are borrowed best practices from the pharmaceutical sector and other manufacturing industries.

Besides the main information system, Sopharma AD uses the following systems: Hermes - a system of human resource management that covers the entire management cycle associated with the planning, evaluation, remuneration and human capital development in Sopharma AD. The relationship between them is that they enter data from Hermes into Microsoft Dynamics AX. The quality of information generated by the system Microsoft Dynamics AX and other products provide significant opportunities for management to take adequate, reasonable and timely decisions in managing and controlling activities on the preparation of various financial and management reports and other public documents with financial information.

The information system of Sopharma Trading AD includes infrastructure (physical and hardware components), software, people, procedures and data. The company started in 2014 the phased implementation of SAP ERP system. It covers all major transaction processes in the company. The system is adapted and implemented, taking into account the specifics of the company itself, but also good practices from the pharmaceutical sector and other production branches are borrowed.

In addition to the main information system, the following systems are also used in the company: FM + Transportation Planning and Management, Mobile Driving Management Application (on SAP Mobile Platform), KNAPP WMS and SAP WMS Warehouse Management, SAP Hybris - Online Sales Management , Hermes - HR management. The relationship between them is accomplished through interfaces. The quality of information generated by the SAP ERP system and other products provides significant opportunities for management to make adequate, timely and timely decisions in managing and controlling the preparation of various financial and management reports as well as other public documents with financial information.

Given the smaller scale of operations of the other companies in the Group, each of them uses software that is in line with its needs.

The information system, relevant to the purpose and process of the financial reporting, includes, methods and documentation, which:

• identifies and records all valid transactions;

• timely describes the transactions in sufficient detail to allow their appropriate classification for financial reporting purposes;

• evaluates transactions in a way that allows to reflect their appropriate value in the financial statements;

• determines the time period in which transactions arise, to enable their recording in the appropriate accounting period;

• present transactions and related disclosures appropriately in the financial statements in accordance with the accounting framework.

The "Information Technology" Department is responsible for the risk-free functioning of the information system in the Parent Company, and in Sopharma Trading AD - Business and Technological Development. In each of the companies in the Group in which the IT department is established, it is responsible for the smooth operation of different types of software.

"Accounting" Departments - Implementation of the accounting policy and a key role in financial reporting

The accounting department of the Parent company is directly subordinate to the Executive Director. It is headed by the Chief accountant. The following positions are subordinate to the Chief accountant: Deputy chief accountant and heads of sectors and operational accountants. Structurally, the Department consists of the following sectors: fixed assets, materials, expenses, implementation, foreign currency transactions, local currency transactions, salaries. According to their functional characteristics they cover and fully realize the accounting and reporting function in the company's internal accounting controls and the preparation of financial statements. The Department's responsibilities include the correct and consistent application of the developed accounting policies, the development and application of internal chart of accounts; reporting methodologies, current bookkeeping; current accounting analysis and control of accounting data and documentation; addition of and classification of accounting data for financial reporting purposes; preparation and / or processing of incoming data for approximate accounting estimates with the involved experts and reporting of identified deviations to the Financial Director; and compliance with regulatory requirements in the field of accounting, taxation and other related areas.

The accounting department of Sopharma Trading AD is directly subordinated to the Financial Director. It is headed by a Chief Accountant and a Deputy Chief Accountant. Structurally, the accounting department consists of a Chief Accountant, Deputy Chief Accountant and 8 Operating Accountants.

In each of the companies in the Group there are corresponding structures that ensure the proper functioning of both- the company itself and the control of its financial and accounting activities.

The accounting policy of the Parent Company and the Group, respectively, for the purpose of preparing the consolidated financial reports is subject to annual approval at two levels by the Financial director and the Board of Directors of the Parent Company. The most important aspects necessary for a proper understanding of the financial statements must be disclosed.

Choosing the reporting framework is defined based on the requirements of the Accounting Act. The Company applies International Financial Reporting Standards (IFRS) as adopted by the European Union. The current control for the proper application of IFRS is performed by the chief accountant, finance director and audit committee. Further confirmation of the correctness of the application is received by the external auditors.

The preparation of financial statements of the Parent Company for public use is the result of a comprehensive process of closing an accounting period. This process is formalized through rules and instructions adopted by the management. They are linked to the performance of certain actions and procedures, respectively preparation of certain documents by persons from the "Accounting" Departments or other officials and those actions and procedures are directed to: carrying out inventories; analysis of accounts; sending confirmation letters; determining the best estimates as amortization, revaluations and impairment charges, which are based on reasonable assumptions and classification of accounting data; research and analysis of certain legal documents (contracts, litigation, opinions of legal advisors); research and evaluation reports of experts (appraisers, actuaries, internal auditors, other domestic experts and officials); preparing reports and financial packages for consolidation; preparation, analysis and discussion of draft financial statements.

The process of closure of accounts is managed directly by the Chief Accountants and the Head of Reporting department, while the Financial Director monitors and takes the final decisions on key issues related to the recognition, classification, evaluation, presentation and disclosure concerning certain objects, operations and events as well as overall performance financial statements- individual and consolidated financial statement of the Parent Company.

Control activities

Control activities in the developed and implemented internal control processes include: reviewing the implementation and results of operations; information processing; physical controls and segregation of duties and responsibilities.

General controls that relate to financial reporting can be categorized as procedures relating to current and periodic reviews and analysis of financial indicators and the input data used for their calculation represented in the financial to show the results of the companies in Sopharma Group.

Controls on the parent company's information systems encompass both application program controls and common IT controls, which are policies and procedures that help ensure the continuous functioning of information systems. Typical application controls that are set are: verification of mathematical accuracy of records, maintenance and review of accounts and workflows, automated controls such as input checks and sequencing checks, and non-automated tracking of exception reports. Common IT controls include: program change controls, controls that restrict access to programs or data, controls on the implementation of new editions of bundled software application programs, and system software controls that restrict access or ongoing monitoring of the use of system support functions could change financial data or records without leaving a trace of follow-up.

In Sopharma Trading AD, the general controls relevant to financial reporting can be categorized as procedures related to current and periodic reviews and analyzes of the financial indicators and their inputs, through which the performance and results of the company’s activity are presented in the financial statements. In turn, they include such reviews and analyzes of factual reported results against budget, forecast, prior periods and industry segments. Such financial analyzes are done through the SAP ERP and SAP Bl. For the purposes of management, separate forms are approved and approved according to the monthly reports. The reports contain factual and budget figures, analysis of deviations. Comparison of current with previous period. Typically, they may also contain suggestions for optimizations or review of certain budgets.

The IT Department is responsible for the implementation of the control activities in each company in the Group where it exists.

Applied physical controls in the companies in the Group include:

a) measures for the physical security of assets - safe equipment and facilities, and special conditions of access to assets and documents;

b) a specific procedure for approval of access to computer programs and data files;

c) periodic inventories - procedures for organizing and holding inventory through physical counting / weighing of stocks / sending appropriate written confirmation and comparing the amounts reflected in inventory control and accounting records / registers. Procedures are also introduced to ensure the timely analysis of the results of the inventories and developing solutions for their accounting and respectively approval by the Executive Director.

Internal controls are provided for the developed and implemented management procedures, organization and execution of the main routine processes (supply and sales) as well as the processes of preparation and adoption of complex estimates (amortization, impairment, revaluation actuarial calculations and long-term provisions). They include: authorization of individual transactions and issuance of primary documents; review and verification of documents issued and involved in the operation assets; subsequent restatement and comparisons with other documents (contracts, orders, confirmations, price lists, etc.) and persons, as well as segregation of duties and responsibilities of participating officials on each step of the process to ensure checks and balances between them and to reduce the possibilities that any person is in a position both to make and to conceal errors or fraud in the normal course of performing his/her duties.

The companies in the Group are in constant expansion of formalized control procedures and activities.

Monitoring of controls

An important objective with high priority for the managements and particularly the Financial Directors is to establish and maintain continuous and effective internal controls. Monitoring of controls by the managements includes considering whether they are working as intended and whether they are modified appropriately to reflect changing conditions. The ongoing monitoring of controls may include activities such as a review by the management of the Company as to whether internal management reports are timely and whether key data are consistent with third party endorsement and assumptions by internal auditors of compliance with policies and the procedures for the implementation of the routine processes (sales and deliveries) by the personnel employed in them, incl. Internal controls, including when comparing contracts with counterparties, as well as oversight of ethics or business practice by the legal department of companies and the investor relations division of public companies. Ongoing monitoring is done to ensure that controls continue to operate effectively in time.

Internal auditors, as well as other personnel performing supervisory, monitoring or control functions, incl. The Company's accounting departments and the Reporting Division also contribute to the ongoing monitoring of the entity's internal control over its processes through its assessments of individual controls or control groups. Normally, they periodically provide such information in the course of performing their duties and functions, and their judgments about the operation of certain internal controls, focusing significantly on the assessment of their effectiveness, communicate with the relevant persons the information on the strengths and weaknesses of internal controls and make recommendations for their improvement.

Activities include monitoring the use of information from external parties that indicate problems or identifying areas in need of improvement. Such parties are customers, suppliers and servicing banks. In addition, the regulatory authority in the face of the FSC can also communicate with management on matters affecting the functioning of the internal control, for example, exchange of information directly monitored by the Commission related to the implementation of specific activities or transactions of the companies or revisions by the FSC itself. Also when implementing the activities on current monitoring management always takes into account the communication with external auditors related to internal control and the weaknesses discovered by them and the recommendations made.

IV. Information in accordance with Article 10, paragraph 1, letter "c", "d", "e", "h" and "i" of Directive 2004/25 /EC of the European Parliament and of the Council as of 21 April 2004 on proposals for takeover;

1. Significant direct or indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Article 85 of Directive 2001/34/EC;

There is no reaching, exceeding or falling below one of the thresholds of 10%, 20%, 1/3, 50% and 2/3 of the share capital of Sopharma AD during the year.

2. Holders of all securities with special control rights and description of these rights;

For the Parent Company, there are no securities with special rights issued. According to the Articles of Incorporation of Sopharma, all shares issued by the Companies in the Group are of the same class, registered, common and indivisible. Each share entitles to one vote at the General Meeting of Shareholders, to dividends and liquidation part, in proportion to the nominal value of the share.

3. All restrictions on the voting rights, such as restrictions on the voting rights of holders of a given percentage or number of votes, deadlines for exercising the voting rights or systems through which through cooperation with the company the financial rights attached to the securities are separated from the holding of the securities;

There are no restrictions on the voting rights.

4. The rules which regulate the appointment and replacement of Board members and amendments to its Articles of Incorporation.

The Board of Directors proposes to the General Meeting amendments and / or supplements to the Articles of Incorporation, changes in the constitution of the Board of Directors release and election of new Board Members.

Members of the Board of Directors may be physical or legal persons meeting the requirements of Article 234 of the Commercial Code and Article 116a, paragraph 2 of the Public Offering of Securities.

When a member of the Board of Directors is a legal entity, it shall designate a representative / and / for the performance of duties in the Board. The legal entity is jointly and unlimitedly liable with the other members of the Council for the obligations arising from the actions of his representative.

Natural persons who are legal persons - members of the Board of Directors must meet the requirements of Art. 234, paragraph 2 of the CA.

They can not be members of the Board of Directors of persons who were members of management or supervisory body of a company terminated due to bankruptcy in the last two years preceding the date of the declaration of insolvency, if unsatisfied creditors.

You can not be a member of the Board a person who has been governor, member of the management or supervisory body of the company, which was established by an effective penalty decree defaulting on creation and preservation of its defined levels of stocks under the stocks of oil and oil products.

At least one third of members of the Board of Directors must be independent entities. The independent member of the Board can not be:

• employee of the public company;

• shareholder who owns directly or through related parties, at least 25 percent of the votes in the General Assembly or related company;

• a person who is in permanent trade relations with the public company;

• member of the management or supervisory body, procurator or employee of a company or other entity.

• a person connected with another member of management or supervisory body of a public company.

Members of the Board of Directors can be reelected without limitation.

With changes in legislation, the next General Meeting of Shareholders shall decide on amending the Constitution in order to align its provisions with those of existing regulations. By making this decision, the affected versions of the Charter shall be interpreted in accordance with the Constitution and laws of the country.

The Articles of Association shall be amended by the General Meeting of Shareholders with a majority of 2/3 / two thirds / of the represented at the General Meeting capital. The current Constitution was entered in the Commercial Register under number № 20,150,226,134,200.

5. The powers of board members, and in particular the right to issue or buy back shares.

The powers of the Board of Directors are regulated in the Articles of Incorporation. A decision to issue bonds can be taken by the Board of Directors with a qualified majority of two thirds of its members.

The Board of Directors is authorized to buy back shares under certain conditions, according to the decisions of the General Meeting held on 23.06.2010, EGM of 30.11.2011 on the EGM of 01.11.2012 and EGM of 28.02.2013.

V. Composition and functioning of the administrative, management and supervisory bodies and their committees

1. Composition of the Board of Directors:

Sopharma AD is managed and represented by a Board of Directors, which consists of five physical persons meeting the requirements of Article 234 of the Commercial Code and Article 116a, paragraph 2 of the Public Offering of Securities. The composition of the Board of Directors can be changed by the General Meeting at any time.

The composition of the Board of Directors is described in section I. Overview of Sopharma in the Management report.

According to Article 116 Paragraph 2 of the Law on Public Offering of Securities at least one third of the members of the Board of Directors must be independent. In this case, these are:

- Andrei Lyudmilov Breshkov
- Alexander Viktorov Tchaoushev

Members of the Board of Directors are aware of their rights and duties associated with the position they take.

2. Rules of the Board of Directors

Sopharma AD has developed Rules of the Board of Directors that match and are an addition to the principles enshrined in the Good Corporate Governance Program. The Articles of Incorporation are prepared in accordance with the requirements of POSA and include provisions on the right of shareholders to timely notification on various issues.

The Board of Directors shall hold regular meetings at least once a month.

3. Minutes of meetings

All members present at a Board meeting signs minutes of meeting with the Protocol.

Minutes of meetings are kept by the Investor Relations Director of the Company;

The minutes of meetings are trade secret. Facts and circumstances that are included therein can be published, disclosed or brought to the attention of third parties only by a decision of the Board of Directors or when it is required by law.

4. Responsibility

Members of the Board of Directors must give a guarantee for their management in an amount determined by the General Meeting, but not less than three times their monthly gross salary.

Members of the Board of Directors are jointly liable for the damages caused to the Company.

Each member of the Board of Directors may be released from liability if it is established that they have no fault for a damage. The General Meeting can discharge the Board of Directors on the Annual General Meeting in the presence of audited annual financial statements for the previous year and interim financial statements for the period from the beginning of the current year to the date of the general meeting.

The Board of Directors reports for its activities to the General Meeting of Shareholders.

5. Role of the Board of Directors to implement the principles of good corporate governance

The Board of Directors decides on all matters relating to the Parent Company, except those under current law and the Statute of the Company are of the exclusive competence of the General Assembly. According to the structure and composition of the management bodies of each of the Group's companies, their functions are allocated to the departments that exist in them. The functioning of the management and supervisory bodies is aimed at bringing the management of each company in line with the strategic objectives of both- those of the company itself and those of the Group.

Assigns its decisions and functions under the operational management of the Company to one of its members /CEO/. The Executive Director may be changed at any time.

Members of the Board of Directors shall submit a declaration to the Financial Supervision Commission / FSC / to BSE - Sofia and the company itself in case of their participation as members of management and supervisory bodies of other companies, as well as information on legal entities, who they hold directly or indirectly more than 25% of the capital or which they control, as well as a present or future transactions which consider that they can be recognized as stakeholders. This circumstance is declared and updated within seven days of its occurrence.

In carrying out its activities the Board of Directors comply with the accepted principles of Corporate governance of the Company;

The Board of Directors shall make best efforts to ensure easy and timely access to public information for an informed exercise of shareholders' rights, respectively making an informed investment decision of investors.

6. Due diligence. Avoiding conflict of interest

Members of the Board of Directors are required to:

• carry out their duties with due diligence, to be loyal to the Company and act in the best interest of its shareholders;

• perform their duties with the inherent professional skill, diligence and responsibility in a way that they reasonably believe is in the interest of all shareholders of the Company, by using only information that they reasonably believe to be reliable, complete and timely;

• to the interest of the Company and the investors in the Company before their own interest and not used for the benefit of themselves or others at the expense of the Company and shareholders facts and circumstances that are learned in the course of their professional duties;

• avoid direct or indirect conflicts between their interests and the interests of the Company, and if such conflicts arise - to disclose promptly and fully and do not participate and do not affect the other members of the council in making decisions in such cases;

• not to disclose information about the deliberations and decisions of the meetings of the Board of Directors, as well as other non-public information about the Company, even after they cease to be members of the Board of Directors until the public disclosure of the circumstances of the Company;

• provide and disclose information to shareholders and investors in accordance with regulations and internal acts of the Company.

The Board of Directors assisted by an Audit Committee, which under the Independent Financial Audit and International Standards on Auditing, performs the following functions:

• monitors the financial reporting processes in the Company;

• monitors the effectiveness of the internal control;

• monitors the effectiveness of risk management in the Company;

• monitors the independent financial audit in the enterprise;

• reviews the independence of the auditor of the Company in accordance with the law and the Code of Ethics for Professional Accountants, including monitoring the provision of ancillary services by the auditor to the audited entity.

At an extraordinary General Meeting of Shareholders of Sopharma AD held on 20.11.2008 was elected an Audit Committee composed of three people: Tsvetanka Zlateva Vasil Piralkov and Vasil Naydenov , elected for a 3-year mandate, which has been re-elected two consecutive times.

VI. Description of the diversity policy, applied to administrative, management and supervisory bodies of the issuer in relation to aspects such as age, sex or education and professional experience, the objectives of this policy of diversity, the manner of its implementation and results during the reporting period.

Sopharma Group is making every effort to ensure equal opportunities in recruitment and compliance in form and substance of the whole range of laws pertaining to fair employment practices and prevent discrimination.

Discrimination, whether based on race, sex, or expression of gender, color, creed, religion, national origin, nationality, citizenship, age, disability, genetic information, marital status (including domestic partnerships and civil unions as defined and recognized by applicable law), sexual orientation, culture, ancestry, veteran's status, socioeconomic status or other legally protected personal characteristic, are unacceptable and completely not consistent with the traditions of the Company Group, for providing a respectful, professional and dignified workplace. Retaliation against individuals for raising claims of discrimination or harassment is also prohibited.

The main objectives that the Company Group set itself in the implementation of diversity policies are:

• Attracting, hiring and holding on of people with a wide range of professional skills. The diverse capabilities of management and staff open new opportunities for innovative and creative solutions increase creativity and innovation. This in turn would lead to more efficient adaptation to the impact of globalization and technological change. A diverse workforce can increase companies effectiveness to achieve its objectives. It can lift morale, giving access to new market segments and increase productivity.

• Fostering a working environment that accepts ethno-cultural diversity and in which individual differences are valued and respected

• Solve one of the most important issues for the employer - that of labor shortages and problems relating to the recruitment and retention of highly skilled workers.

• Improving the reputation and overall performance of the companies in the group to external stakeholders and society

• Creating opportunities for disadvantaged groups and building the unity of society.

Sopharma Group strives to achieve targets as approved and put into practice important for company types manifolds. By adopting best practices from other companies and institutions, the managements of the companies in the Group want to make diversity management a functioning part of the company. Sopharma endeavor employees, consumers, customers and investors to be informed about the importance of diversity to them and their work, aiming to build their confidence and willingness to support.

Diversity policy provides a variety of board members, ensuring reliable system management and control, and good corporate governance is an essential element of safe and stable operation of Sopharma Group. They meet the highest standards applied by the Company in order to realize its objectives and strategies.

The composition of the Management of the companies in the Group and the number of people involved in it, is consistent with the size, complexity and scope of the operations of the companies and ensure sufficient level of general expertise.

Members of the Board of the Management of the companies in the Group have extensive experience as a theoretical gained through education, training and qualifications and practical acquired during previous positions occupied. They are persons of good repute and managerial capabilities, with high professional and moral qualities.

Compliance with the principle of gender equality, as witnessed by the many women occupying senior positions in the companies in the Group

Diversity policy with respect to the management authorities do not allow a limitation of age composition.

In the companies in the Group there are representatives from various minority ethnic groups- ethnicities. The companies in Sopharma Group employ people from disadvantaged backgrounds. The aim is to provide young people with opportunities for professional and personal development.

Male to female ratio is in favor of women and required by the nature of the production process.

The policy of diversity in terms of personnel (directors of departments, heads of departments, employees) does not allow restriction of age composition.

As Sopharma Group companies have no discrimination on any grounds.

Section V of the Rules of Internal labor order of Sopharma AD regulates the rights and protection of employees when it comes to any discriminatory action by the employer.

On the basis of Ordinance on labor readjustment / SG, issue 7/1987, issue 7/1987, amended. and supplemented. Issue 111 of 28.12.2001, amend. Issue 78 of 30.09.2005 which entered into force on 01.10.2005 /, Ordinance № 8 for determination of jobs suitable for labor readjustment of disabled performance / SG issue 52 / 1987. SG issue 47 / 1990 / Ordinance amending and supplementing Ordinance № 8 for determination of jobs suitable for labor readjustment of persons with disabilities / SG. 44/1993. / and according to Art. 27 of the integration of people with disabilities, each year a special Committee on labor readjustment meets in Sopharma AD. It develops a list of suitable locations and positions for labor readjustment of disabled workers with permanent disabilities in accordance with the percentage allocated to the sector in accordance with Art. 315 of the Labor Code and of pregnant workers and workers who are breastfeeding. Commission shall examine specific cases for labor readjustment and indicates appropriate places according to the approved list.

Ognian Donev, PhD
Executive Director

27.04.2017